Introduction to Wealth Accounting

Presented by: Esther Naikal, World Bank
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Outline

Why should we measure and track wealth?
How do these measures relate to the SNA and SEEA?
What is the World Bank’s approach to wealth accounting?
Overview of first two days of training
“What we measure affects what we do; and if our measurements are flawed, decisions may be distorted.”

Stiglitz, Sen and Fitoussi (2009)
GDP and Wealth

Gross Domestic Product (GDP) – an important macroeconomic indicator for a country’s health and economic performance

“GDP tells you nothing about sustainability. […] No one would look just at a firm's revenues to assess how well it was doing. Far more relevant is the balance sheet, which shows assets and liability. That is also true for a country.”

• Joseph Stiglitz, “Good Numbers Gone Bad”, October 2006

GDP growth is not necessarily correlated to wealth creation

Rapid GDP growth could be driven by the depletion of non-renewable resources
Why Measure Wealth?

Change in GDP tells us if growth is occurring, changes in wealth tell us if growth is sustainable—that is, whether this is long-term growth.

Economic development is a process of building wealth and managing this portfolio of assets.

Only a small number of countries compile wealth accounts, and even fewer include natural capital.

Wealth

- Manufactured capital
- Natural capital
- Human and social capital
Wealth: A Global Perspective

Shares by country income class, 2005

Intangible wealth—human and social capital—dominates in all countries

...but

Natural capital is especially important in low income countries—averaging 36%, and in some countries more than 50% of wealth

SNA and SEEA

System of National Accounts (SNA) is framework for the measurement of economic activity, economic wealth, and the general structure of the economy.

System of Environmental-Economic Accounting (SEEA) Central Framework describes interactions between the economy and the environment, and the stocks and changes in stocks of environmental assets.

- SEEA-CF applies the accounting concepts, structure, rules, and principles of the SNA to environmental information.
A Historical Perspective

**YESTERDAY**

The System of National Accounts was embraced in 1950s because of the confluence of three elements:

- A sound theory: Keynesian macroeconomics
- A clear methodology: the SNA framework
- Willingness by policy-makers to pursue a policy goal: economic growth and full employment

**TODAY**

In order to successfully develop an Environmental Accounting practice we will need the same:

- A sound theory: Capital approach to sustainable development
- A clear methodology: the SEEA framework
- Willingness by policy-makers to pursue a policy goal: sustainable development
Wealth Accounting at the World Bank

Comprehensive wealth accounts
• 1995, 2000, 2005 for more than 120 countries
• Update forthcoming, annual series 1995-2012

Total Wealth:
• Manufactured + Natural + Human & Social Capital

Changes in wealth—Adjusted Net Saving, calculated annually

Provide better indicators for monitoring sustainable development and prospects for long-term growth
Indicators of sustainability: Changes in wealth per capita

Calculating changes in total wealth per capita in Columbia, 2010

- Gross Saving
- Net Saving
- Net Saving plus Educational Expenditures
- Depletion-Adjusted Saving
- Change in Wealth

Net result = wealth depletion

* per capita savings, diluted by annual population growth

USD per capita

- 1,200.0
- 1,000.0
- 800.0
- 600.0
- 400.0
- 200.0
- 0.0
- -200.0
- -400.0
- -600.0

less depreciation of physical capital

plus spending on education

dedication of natural resources

less adjustment for population growth*
Indicators of sustainability: Policy implications

1. Increase the level of savings
2. Improve the quality of physical/built capital
3. Increase spending on education and innovation
4a. Invest in the quantity of natural capital (some new resources, e.g. minerals and fossil fuels, can be discovered and the stock expanded)
4b. Invest in the quality of natural resources (such as land)
5. Higher population growth rates dilute a country’s total wealth.
6. Increase total factor productivity
WB Wealth Accounting: Applications

World Bank indicator

Sustainability indicator in WBG Corporate Scorecard
IDA-17 Results Measurement Framework

Inputs in Systematic Country Diagnostic (SCD)

Underpins Country Partnership Framework
(WB’s new country engagement model)

Country analytical work

Morocco, Mauritania, Guinea-Bissau, etc.

Wealth Accounting and Valuation of Ecosystem Services (WAVES) Global Partnership

Natural capital accounting
WB Wealth Accounting: Benchmarking

Ongoing scoping studies to benchmark wealth estimates:

• Subsoil assets
• Agricultural land
• Forest resources
• Air pollution damages
• Physical capital

Work in other areas:

• Fisheries
• Human capital
• Review of general assumptions (e.g., time horizon)
Overview of Training (Day 1 and 2)

Construct Adjusted Net National Income

Start with indicator within SNA boundaries:

Construct Adjusted Net Saving

Where some components are not within SNA boundaries

Construct Comprehensive Wealth Accounts

Start with SNA and SEEA concepts

Consider other components beyond SNA/SEAA (e.g., human capital, ecosystem services)
Overview of Training (Day 1 and 2)

Review basic concepts and calculations for each indicator – so take note of:

- Data sources/availability
- Assumptions in methodology
- What is relevant/important for the Philippines?
- Remaining questions and challenges

Note: World Bank methodology as illustration

Day 3 will provide specific country examples, as well as policy applications