

Comprehensive wealth – Putting natural capital in the broader context

Rob Smith, Principal
Midsummer Analytics
rob@midsummer.ca

**Training on application of UNFC
for sustainable resources
management**

19–20 June, 2019

Nur-Sultan, Kazakhstan

midsummer.ca





Overview

- The concept of comprehensive wealth and why it matters
- Measuring comprehensive wealth for Canada – what can be learned?

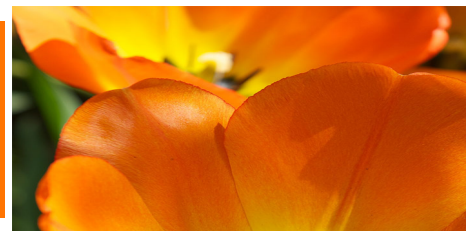
What is wealth?

(And how is it different from GDP?)



- Think of ***wealth*** as what the country ***possesses***...
 - Machinery and buildings
 - Financial assets
- Think of ***GDP*** (or income) as what we ***earn*** using our possessions...
 - Wages and salaries
 - Corporate profits
 - Rent on resources
 - Return on investments

Why does wealth matter?



Wealth is the ***basis*** for ***GDP***

It is what matters in the ***long run***

Both wealth and GDP are important

But only wealth helps us
understand prospects for the future

What is comprehensive wealth?



- Wealth comes in many forms
- Those we've always measured, like...
 - Buildings, roads and factories
 - Financial assets like stocks and bonds
- ...and those that are less commonly recognized
 - Abundant resources and healthy ecosystems
 - Productive, well-educated citizens
 - Co-operative relationships built on trust

← **Financial** capital
← **Produced** capital

← **Natural** capital
← **Human** capital
← **Social** capital

Together, these make up
the **comprehensive wealth** portfolio

Why measure comprehensive wealth?



Growing calls to move **beyond GDP** to measure national progress

- **G7 2018**: GDP “alone is insufficient for measuring success”... we need “other indicators that measure prosperity and well-being”¹
- **World Bank**: The Changing Wealth of Nations²
- **World Economic Forum**: Shaping the Future of Economic Progress³
- **OECD**: Measuring What Counts⁴
- **UN**: Inclusive Wealth Report⁵
- **CD Howe**: Never mind the flows, look at the stocks⁶

Decision makers need to pay attention to
what matters in the long run

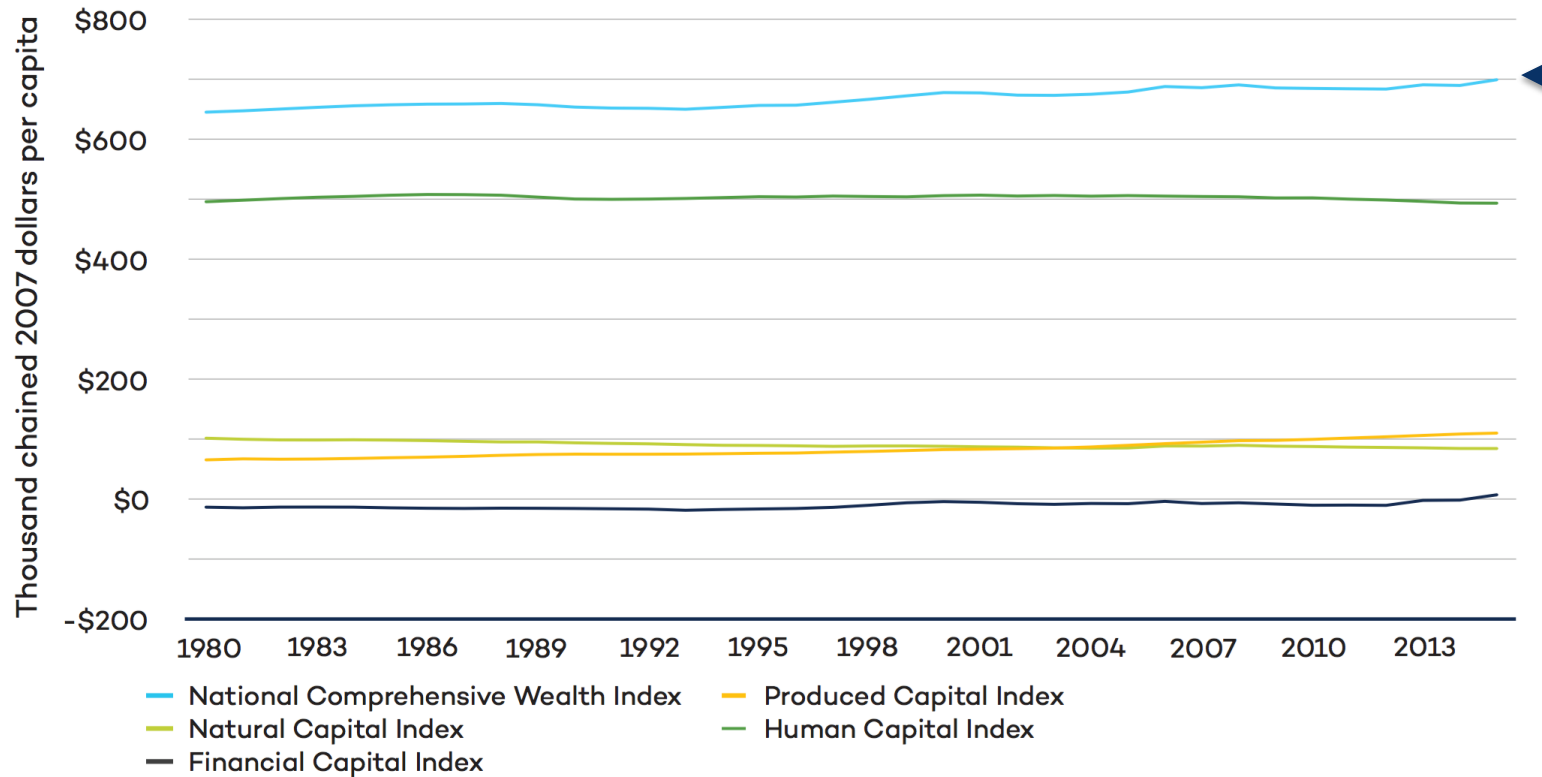
GDP and other short-term measures attract
more than their fair share of attention

1. <https://g7.gc.ca/en/official-documents/charlevoix-g7-summit-communique/>
2. <https://www.worldbank.org/en/news/infographic/2018/01/30/the-changing-wealth-of-nations>
3. <https://www.weforum.org/system-initiatives/shaping-the-future-of-economic-growth>
4. <http://www.oecd.org/publications/beyond-gdp-9789264307292-en.htm>
5. https://wedocs.unep.org/bitstream/handle/20.500.11822/26776/Inclusive_Wealth_ES.pdf?isAllowed=y&sequence=1
6. <https://nationalpost.com/opinion/william-robson-never-mind-the-flows-look-at-the-stocks>

Measuring comprehensive wealth in Canada



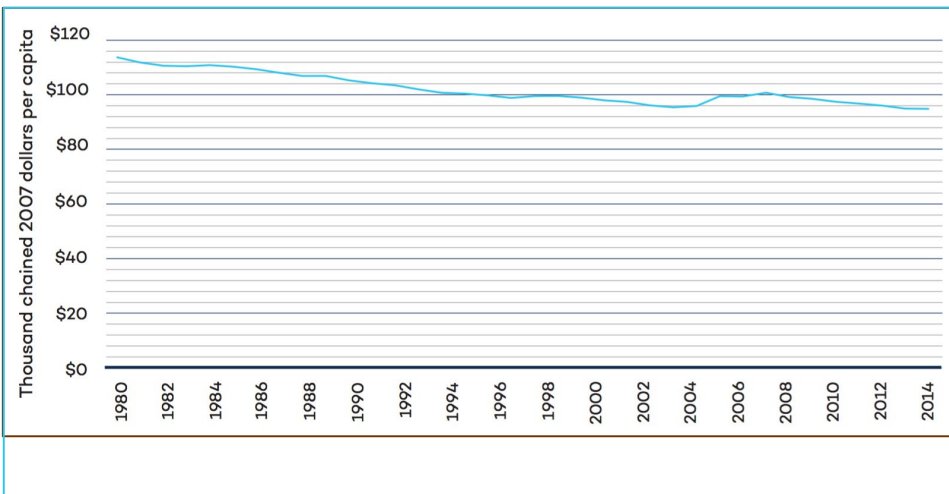
How is Canada doing?



Comprehensive wealth ***hardly grew*** in Canada between 1980 and 2015 (0.23% annually)

Market natural capital declined by about 17% from 1980 to 2015

Declining reserves of many major minerals and energy resources drove market natural capital down

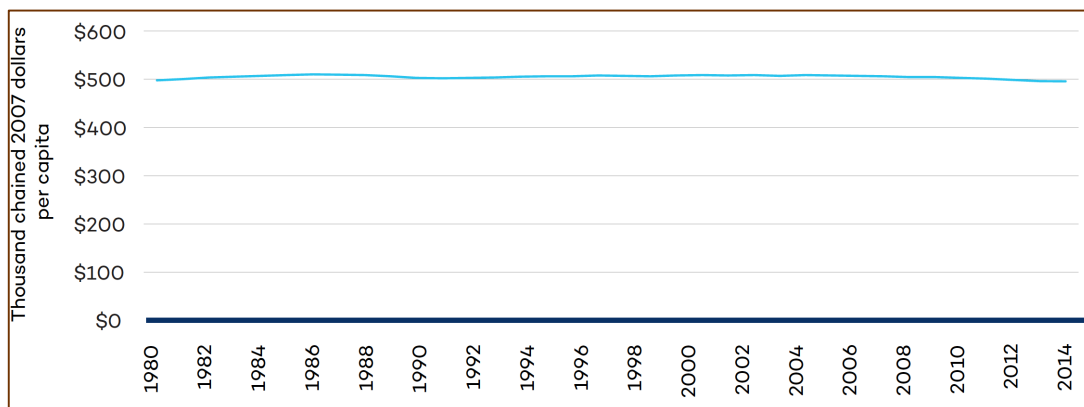


Market Natural Capital Index, 1980-2015

Lead	0.6
Zinc	7.4
Silver	10.8
Molybdenum	12.5
Nickel	23.3
Copper	40.4
Natural gas liquids	42
Uranium	48.5
Conventional crude oil	49.5
Commercial timber	59.4
Natural gas	59.5
Agricultural land	65.4
Iron	68.4
Sub-bituminous coal and lignite*	70.9
Built-up land	92.2
Gold	164.3
Bituminous coal	122.7
Potash	294.7
Crude bitumen (oil sand)	782.7

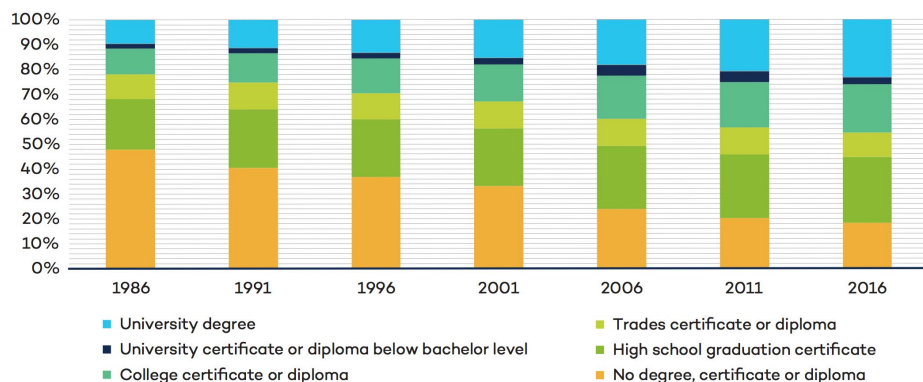
Natural Resource Reserve Index, 1980=100

Human capital is stagnant

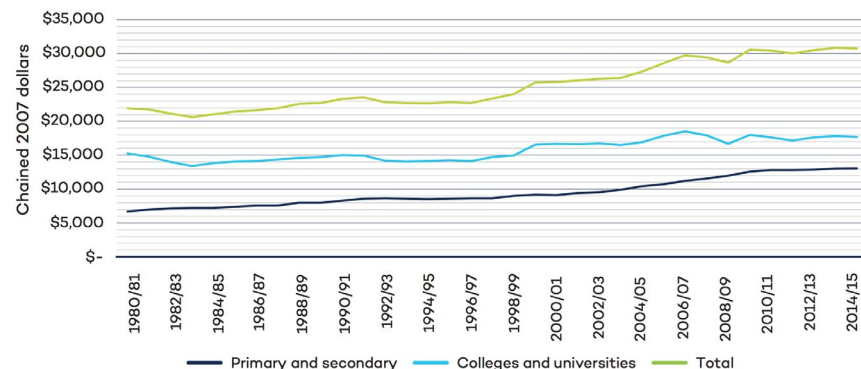


Human Capital Index, 1980-2015

In spite of increased **educational attainment** and **spending**, the average Canadian's lifetime earning prospects were the **same in 2015 as in 1980**



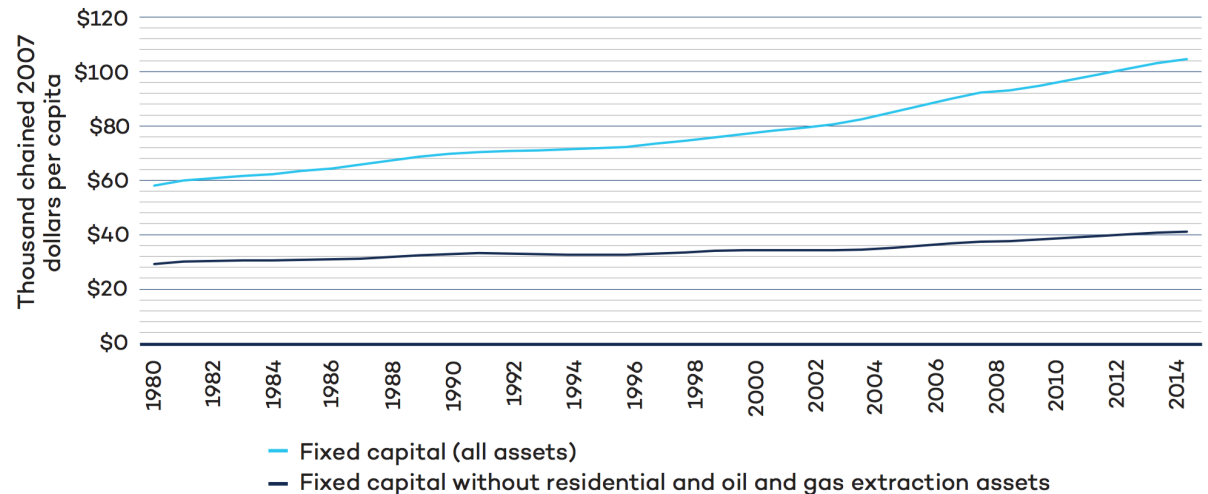
Share of the population holding degrees, 1986-2016



Educational spending index, 1980/81-2014/15

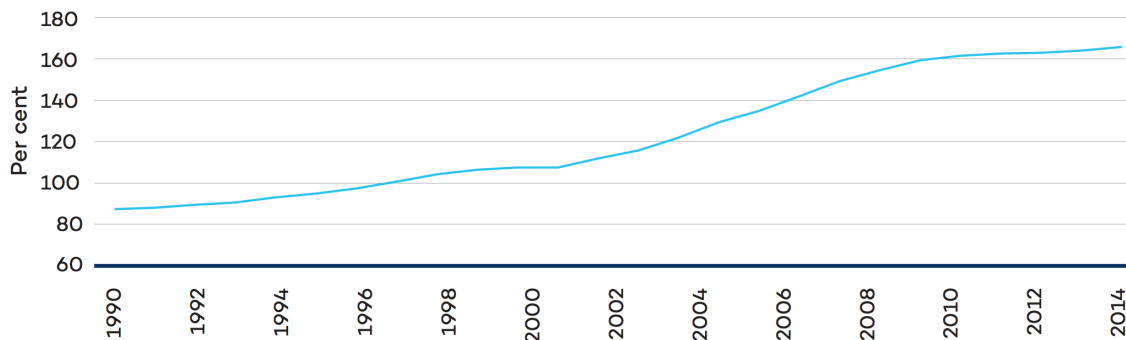
Produced capital has become heavily weighted toward housing and oil/gas...

- Growth in produced capital was much less robust without housing and oil and gas investment included
- More than **three-quarters** of the growth in the index was due to just these two assets



Fixed Capital Index with and without oil and gas extraction and residential building assets, 1980-2015

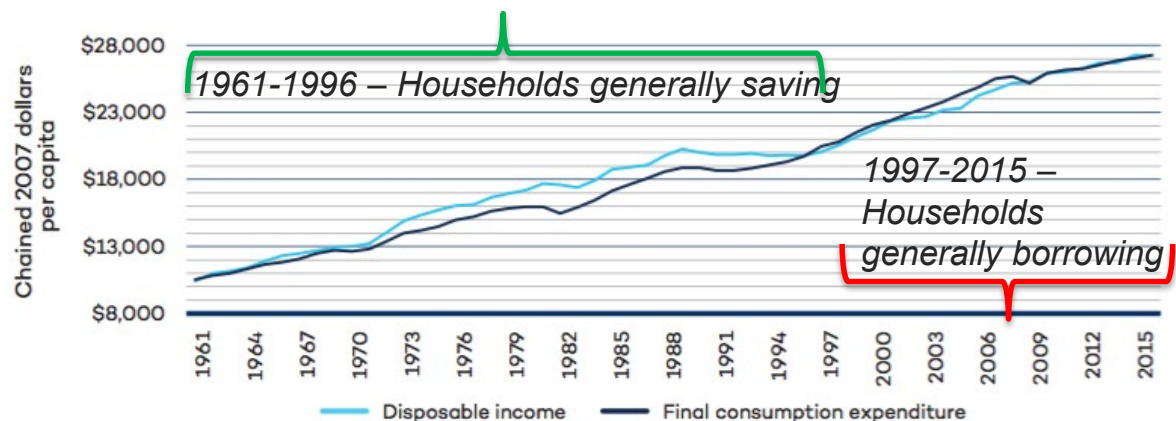
Financial capital is weighed down by household debt and weak savings



Household debt-to-disposable income ratio, 1990-2015

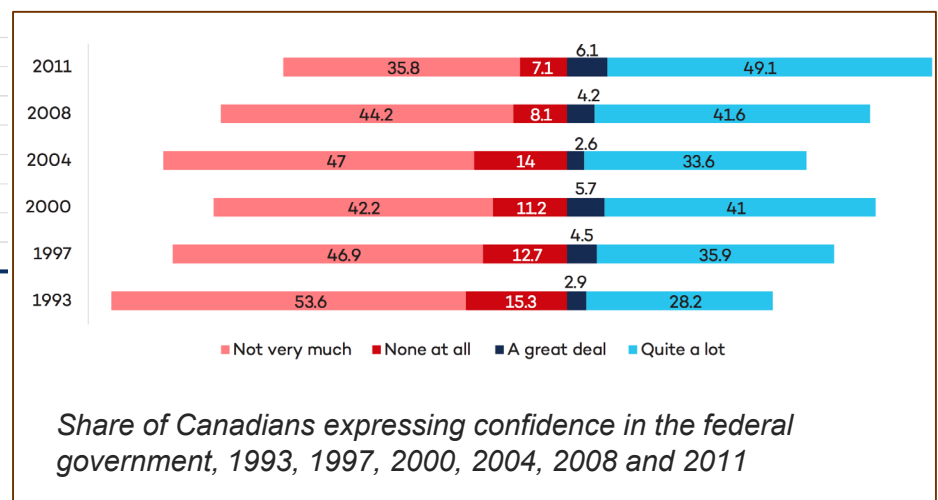
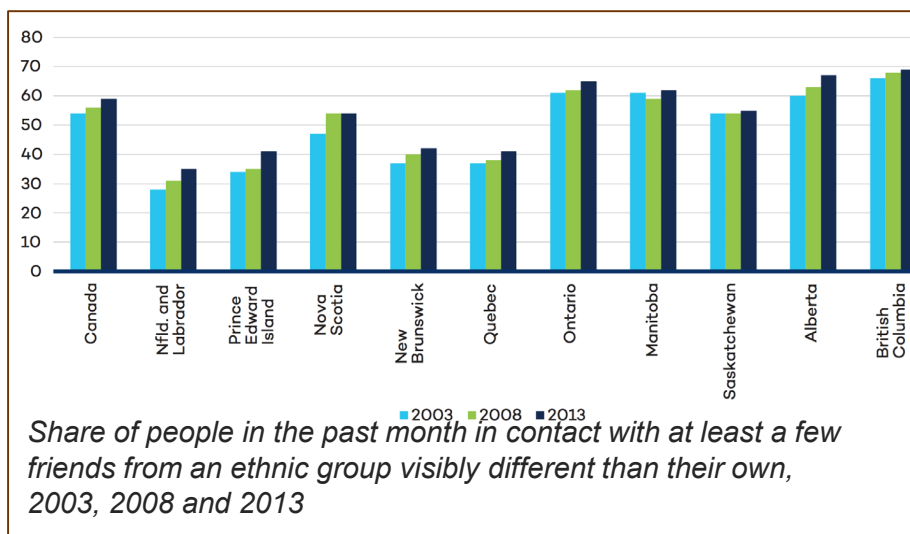
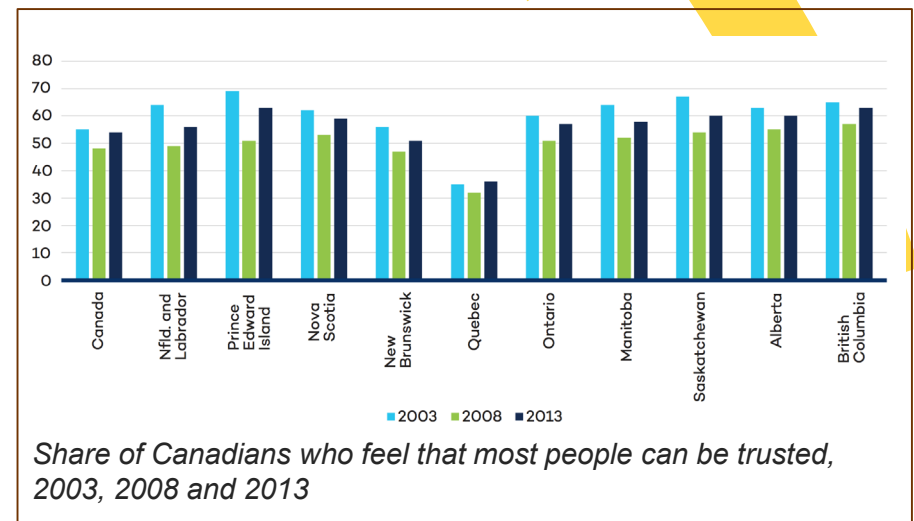
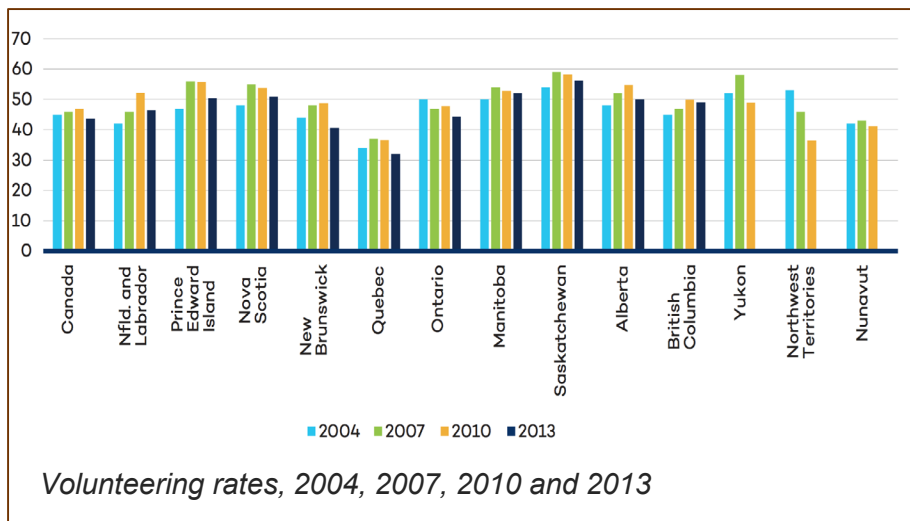
- As a share of disposable income, household debt has never been higher in Canada

- Since 1997, households have routinely spent more than their disposable income, breaking a trend of net saving that goes back to the early 1960s



Household disposable income and consumption, 1961-2015

Social capital is difficult to evaluate, but appears steady



UN data show that other G7 countries are doing better

Country	Real comprehensive wealth per capita*							Annual growth rate 1990–2014	
	1990	1995	2000	2005	2010	2014	Rank (2014)	Per cent	Rank (2014)
Canada	348	342	343	346	351	328	{ 1 }	-0.25%	{ 7 }
France	161	174	186	199	213	222	5	1.35%	2
Germany	225	237	251	261	274	285	2	0.99%	5
Italy	147	159	171	185	195	196	7	1.21%	4
Japan	212	236	255	267	277	284	3	1.23%	3
United Kingdom	145	155	170	183	194	201	6	1.37%	1
United States	219	225	240	257	270	276	4	0.97%	6

*All values expressed in thousand constant 2005 U.S. dollars.

Source: Managi, S. & P. Kumar (Eds). 2018. *Inclusive Wealth Report 2018*. London: Routledge.

Canadians are currently **the wealthiest** in the G7, but that likely **won't last** because...

...we're the **worst** at **managing** our wealth – it has actually been falling, according to the UN

...Canada' risks losing its advantageous G7 position as a result



- At current rates of growth, Canada will fall to second place (behind Japan) as the wealthiest country in the G7 in just 6 years (2024)
- In less than a generation (2039), we will have fallen to fifth place

**There is much at stake and
*trends are not in Canada's favour***

For more information



- <https://www.iisd.org/library/comprehensive-wealth-canada-2018-measuring-what-matters-long-term>
- @CompWealth
- #beyondGDP

Thank you

Rob Smith, Principal
Midsummer Analytics
Ottawa, Canada

rob@midsummer.ca

Skype: smitrob1965
+1-613-716-5230

