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Aligning the UK's Economic Goals with Sustainability

The wealth economy approach

The widespread and preeminent use of GDP as a measure of economic success in post-war western economies (and others) has resulted on a focus on growth in the consumption of goods and services from the current use of resources. The costs and limitations of our GDP-centric approach to measurement are becoming clear. The future has zero statistical weight.

The wealth economy approach

An alternative measurement framework is based on the '[wealth economy](#)'. This seeks to measure and monitor access to the range of economic assets people need to fulfil their economic potential and lead a meaningful life as they conceive it. This ambitious framework requires measurement of access to six types of economic assets that add up to what is known as [comprehensive wealth](#):

- Physical assets and produced capital, including access to infrastructure, and to new technologies
- Net financial capital
- Natural capital, the resources and services provided by nature
- Intangible assets such as knowledge, intellectual property and data
- Human capital, the accumulated skills, and the physical and mental health, of individuals
- Social and institutional capital: trust, social norms, community cohesiveness and governance

Access by individuals or groups to these different assets determines their ability to earn, to spend, and to engage in any other activities needed to lead the kind of lives they want. This is why, motivated by the sense of social fracture in so many places, our Cambridge project has also been exploring social capital. The World Bank Comprehensive Wealth of Nations report, 'Moving beyond GDP: Sustainability, resilience, and inclusiveness for economic development', includes [a chapter](#) co-authored by Matthew Agarwala and Dimitri Zenghelis on the importance of defining and measuring Social Capital. This is at its core a measure of the accumulated trust within communities and institutions and the ability of a community to be more than the sum of its individual actions.

We chose to focus on the wealth economy as [a guide](#) to whether or not there is any increase in prosperity, because it measures the long-term capacity of the economy to deliver sustained growth and improving living standards. Without measuring changes in assets there is little prospect of delivering sustainability in its broadest sense, in terms of the economy and society as well as the natural environment.

Forward-looking economic policy manages a portfolio of assets that a country possesses, or can access, to ensure that citizens enjoy a sustainable flow of benefits into the indefinite future. The

Wealth Economy project asks how we can move to a world beyond GDP, where our measurements of economic success evolves to include diverse critical assets. The aim is to develop a replacement of GDP with a small dashboard recording access to these six key assets.

Investing in and managing complementary diverse assets

The chief advantage of the Wealth Economy approach is to recognise the mutually reinforcing nature of society's assets. Investment in one component of wealth influences the returns to all other investments. Because assets complement each other, the returns to any single element will be higher if they are treated as a portfolio.

Physical infrastructure, habits, and behaviours complement each other in ways which can be [locked-in for decades](#). For example, people usually rely on cars to travel around sprawling cities so citizens value investment in roads, whereas dense cities rely on public transport, so their citizens value pedestrianisation and cycle facilities. Measuring assets properly provides an opportunity to demonstrate the potential future benefits that can be generated from today's broad range of potential investments.

The result is a strategy that increases the returns to all investments (public and private) by recognising the importance of complementary assets (such as air quality and health or local infrastructure and community cohesion).

The wealth economy helps decision-makers - in government at any level, advisory bodies, civil society organisations, or businesses - steer a complex path. It waymarks the route to reducing risks of stranded and devalued assets while taking advantages of the productivity and competitiveness gains associated with the investing in the technologies, infrastructure and behaviours of the twenty first century economy.

The Wealth Economy approach is grounded in economic analysis and consistent with formal procedures such as those set out in the UK Government's Green and Magenta books, or with formal value-for-money requirements.

It is wider in scope than alternatives that focus on environmental assets; our approach takes the whole 'portfolio' of assets into account, as they affect each other in important ways. It is a holistic approach because the future benefit of any asset, depend on the presence of other, complementary assets.

The wealth economy began by focussing on two of the six: social and natural capital. There has been little research progress on measuring (or even defining) social capital, despite a range of types of evidence (not to mention experience) for its importance in economic outcomes. Natural capital, by contrast, has an international definition (in the System of Environmental Economic Accounts), and a few statistical agencies including the UK's ONS have begun developing natural capital estimates – although they are partial, with data gaps, and some difficult conceptual challenges because of the inter-connections, non-linearities and potential irreversible thresholds in natural systems.

Natural capital

More broadly, it is impossible to look at many environmental indicators without worrying that the economy is on borrowed time. This is why we chose to focus on natural capital, the resources, systems and services nature provides for human economic activity, such as food, air purification, nutrient cycling, materials and minerals. Poorly managed natural capital is [a liability in any economy](#).

For example, when we invest in nature, we are enhancing productivity of a range of core assets including physical and human capital, thereby pushing forward the productivity potential of the economy. Investment in urban trees and woodlands promotes outdoor recreation, with positive effects on physical and mental health, reducing burdens on health systems while increasing the returns to housing investments. It also helps to lower carbon emissions, absorb harmful particulate pollution, increase water retention, provide cooling and shading services as well as promote healthy and happy workers, who are more productive and require fewer days off work. Indeed, Covid-19 has reminded the world of the urgent need to strengthen the quality and [resilience of natural assets](#).

The Office for National Statistics (ONS) [estimates](#) that being within 500 metres of green space adds £78 billion to the value of UK homes). They also trap and absorb air pollution, saving around £1 billion annually in avoided health costs. They sequester carbon – an estimated 18.1 million tonnes each year (about 4% of UK emissions) with a value of £1.2 billion. Across just 11 city regions, a value of £229 million has been placed on the shade and cooling services of trees for their benefit to labour productivity (human capital) in hot weather. If we only considered the market impacts of trees and woodlands (i.e., timber production) we would find they have an asset value of around £8.9 billion. But if we incorporated this wider suite of benefits, the UK's trees and woodlands have an asset value of over £130 billion. The Wealth Economy framework helps demonstrate true public value by acknowledging the connection between natural, human, and physical capital.

Great progress has been made in recent years in measuring natural capital, at least at the aggregate level. The [UN System of Environmental Economic Accounts \(SEEA\) Central Framework](#) is an international statistical standard for measuring the environment and its relationship with the economy.

The framework covers measurement of:

- **Environmental flows.** These are the flows of natural inputs, products, and residuals between the environment and the economy, and within the economy, during a period of time both in physical and monetary terms.
- **Stocks of environmental assets.** These are the stocks of individual assets, such as water or energy assets, and how they change over an accounting period due to economic activity and natural processes, both in physical and monetary terms.
- **Economic activity associated with the environment.** This refers to the monetary flows associated with economic activities related to the environment, including spending on

environmental protection and resource management, and the production of environmental goods and services.

Researchers from the [Bennett Institute for Public Policy](#) have contributed directly to the United Nations' efforts to measure natural capital. For the UK, the [Office for National Statistics](#) is at the forefront globally of natural capital measurement.

The fundamentally important point is the recognition that nature is part of the economy, as emphasised by our colleague Professor Sir Partha Dasgupta in his [biodiversity review](#). Any economic assessment that excludes the environment is incomplete.

However, there is further to go particularly in terms of granular measurement of specific natural assets at regional or local scales sufficient to provide standardised and comparable metrics to challenge the pre-eminence of GDP.

Building forward

The world has been transformed by the Covid-19 crisis and society is facing up to [profound challenges](#). These include the real near-term risk of a protracted depression, a secular decline in productivity growth and mounting challenges associated with climate change and depleted natural capital. At the same time, the pandemic has exacerbated growing inequalities in income, wealth and access to public services like health, education, housing and transport.

In our report, [Building Forward: Investing in a Resilient Recovery](#), we highlight the urgent need to invest in a broad range of productive complementary assets - human and social capital, natural capital and infrastructure - necessary to secure sustained future prosperity. These investments in society's inclusive wealth will utilise a [surplus of desired global savings](#), which has pushed global real risk free interest rates below zero, seriously [testing the efficacy of monetary policy](#) while helping to inflate the price of assets [held mostly by the wealthiest](#). This can only exacerbate inequality over a period in which earnings growth for the majority stagnated.

Better use of [public](#) and private resources to future-proof the economy and invest in the technologies and institutions of the twenty first century can boost efficiency, [drive innovation](#) and restore productivity growth. At the same time, it can [build competitive advantage](#), bolster resilience to shocks and [promote financial market stability](#) by limiting exposure to stranded and devalued resource extensive high carbon assets, supply chains, skills and institutions.

Changing the lens on the economy in public debate from short-term aggregate growth in GDP to the long-term, sustainable wealth of different communities is an ambitious task. Our team is one of a number of groups of researchers and practitioners around the world considering new approaches to measurement and, consequently, to public policy and individual behaviour. It could be a daunting task were it not for the fact that there is such a widespread sense that the time is ripe for a significant change of perspective.

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