Rural Works: A Rural Policy Think Tank Event

Rethinking the Value of Rural

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November 6, 2014
Manitoba Economic Highlights, October 14, 2014

![Real GDP (% Change)](image)

Manitoba Economic Highlights include:

Growth in real Gross Domestic Product
Employment
Population
Consumer price index
Average weekly wages
Sales (retail & manufacturing)
Building permits, housing starts and investment

But what about wealth, sustainability, quality of life?
“Gross National Happiness is more important than Gross National Product.”

By: H.M. Jigme Singye Wangchuk.
Time to leave GDP behind

Gross domestic product is a misleading measure of national success. Countries should act now to embrace new metrics, urge Robert Costanza and colleagues.
We Value What We Measure

Our most common measures of performance are

- Gross Domestic Product
- Unemployment rate
- Employment growth
- Population growth
Five Reasons for Abandoning these as Indicators of Economic Performance

5. **Population growth** tells us nothing directly about the changing prosperity of residents;

4. **Employment growth** does not consider the quality of jobs and ignores the role of capital income;

3. The **unemployment rate** ignores those who drop out of the labor force or migrate during economic downturns (a particularly big issue for rural areas);

2. **GDP** ignores the depreciation and degradation of our productive capital; and

1. **GDP** ignores most intangible and non-market costs and benefits.
Recent focus on wealth

Wealth Accounting and Valuation of Ecosystem Services (WAVES)

Valuing the environment. Making better decisions.
Especially Rural Wealth
Characteristics of Comprehensive Wealth

Comprehensive wealth and multiple forms of capital

1. Financial capital
   - Cash, deposits, stocks, bonds, futures contracts
   - Claims on assets held by others

2. Built capital
   - Buildings, machines, roads, bridges, parks, dams, transmission lines,
Characteristics of Comprehensive Wealth

*Comprehensive wealth* and *multiple forms of capital*

3. **Natural capital**
   Air, water, soil, forests, animals, minerals, etc.

4. **Human capital**
   Education, health, skills, experience, etc.

5. **Social capital**
   Social organization, networks, trust, markets, etc.
Characteristics of Comprehensive Wealth

*Comprehensive wealth and multiple forms of capital*

6. *Intellectual capital*
   - Knowledge, books, patents, music, etc.

7. *Political capital*
   - Political networks, and trust and access in these networks, etc.
Five Reasons for Measuring Performance with Wealth

5. **Wealth** overcomes each of the shortcomings of indicators such as GDP;

4. **Wealth** is a long term indicator that provides a better indicator of our performance over time;

3. **Aggregate wealth** indicates our ability to produce income in the future;

2. **Comprehensive wealth** includes intangible capital such as human, social, environmental, and cultural capital; and

1. Rising **comprehensive wealth** is an indicator of sustainability.
Why is this Important for Rural Regions?

1. The wealth of rural regions are skewed in favor of natural capital, and forms of capital that are not valorized;
2. Rural wealth is often owned and controlled by non-residents;
3. Rural areas produce the foundations of urban wealth (water, food, energy);
4. Rural investments in human capital often become part of urban wealth;
5. Rural to urban migration is not only a gift of human capital, financial capital, and intellectual capital to urban areas, but it also involves the weakening of rural social capital.
Is Comprehensive Wealth Accounting Feasible at the Provincial Level?

- Complete accounting of wealth may never be fully achieved
- Wealth accounting may never be precise—some forms of capital defy measurement
- Wealth accounting will be controversial

But

- Approximate accounting of wealth is feasible
- Even imprecise and incomplete accounting will improve decisions
- And if we measure it, we will value it
Advances in Comprehensive Wealth Accounting
How Might we Measure Rural Wealth?

“With the wealth of economic, environmental, social, quality of life indicator data in Canada, we believe there [sic] a relevant and comprehensive account or “portrait” of sustainability would emerge that would guide decision makers to assess and debate the “conditions of well-being” that contribute to not only sustainability outcomes but quality of life.”

Canada’s Wealth Accounting System

2003
The National Round Table on the Environment and the Economy called for the development of a *Environment and Sustainability Development Index.*
Canada’s Wealth Accounting System

Canadian Financial Flow Accounts (FFA)

Quarterly estimates of the acquisition of financial assets and the incurrence of financial liabilities by major sector (household, governments, etc.)
Canada’s Wealth Accounting System

National Balance Sheet Accounts (NBSA)

The market value of all assets and liabilities

Catalogue no. 13-214-XIE

National Balance Sheet Accounts

Quarterly estimates
Third quarter 2006
Canada’s Wealth Accounting System

Together these accounts indicate the level and rate of change in aggregate financial wealth of Canadians (both place and people-based)
Canada’s Wealth Accounting System

- Statistics Canada also includes estimates of natural capital in the NBSA.
- The Canadian System of Environmental and Resource Accounts (CSERA) links physical and monetary estimates of natural resources and environmental protection investments to the system of national accounts.
Canada’s Wealth Accounting System

• Canada is also committed to developing human capital, and social capital accounts and to generating a comprehensive national wealth indicator.

Estimates of Human Capital in Canada: The Lifetime Income Approach

by Wulong Gu and Ambrose Wong

Economic Analysis Division
18-F, R.H. Coats Building, 100 Tunney’s Pasture Driveway
Telephone: 1-800-263-1136
Canada’s Wealth Accounting System

• These accounts are not disaggregated to the regional or provincial level, but they could be with modest additional investments.
Canada’s Wealth Accounting System

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An Example of Wealth-Based Analysis

Wealth Effects of Non-Renewable Energy Development

Generates flows of income, savings and investments to residents and non-residents

Generates local tax revenues to fund public services and investments in stocks of infrastructure

Reduces the stocks of non-renewable resources

May increase or decrease the value of social, political, natural, human, intellectual, financial and other capitals
Policy Relevance

Comprehensive wealth accounting:

- Measures the return on investment in the environment, education, health, intellectual property and social capital
- Clarifies and quantifies the concept of sustainability
- Recognizes the complementarity among environment and health capital, natural capital and intellectual capital, etc.
Policy Implications

• Wealth accounting quantifies the returns to
  – Research
  – Saving
  – Investment

• Suggests rural development strategies based on local assets

• Draws attention to the returns to investment in public assets
  – Relationship between public investment and private wealth creation
Policy Implications

- Provincial and regional level wealth accounting will:
  - demonstrate the degree to which urban residents and businesses depend on rural wealth for their wealth and prosperity
  - Indicate the return on investment in rural people and place enjoyed by all residents of the province and nation.
  - This is especially true of rural investments on human capital which are frequently lost to urban areas when rural youth migrate to the city.
Final Thoughts

Rather than valuing rural by the annual flow of raw materials, energy and food products, we should *measure*, and thus *value*, the changing wealth of rural people and places.

We should ask, ‘is rural wealth rising and thus promising a *sustainable and prosperous* future?’

‘Do the people that live and work in rural places benefit from the wealth that they are expected to *conserve and nurture*?’
Rural Works
Thank You