

Changing Wealth of Nations 2021: Priorities for Policy Action

The COVID-19 pandemic and the increasingly severe impacts of climate change provide stark reminders of how vulnerable human prosperity can be to forces outside of economies. They highlight how our relationship to the natural environment can exacerbate the many other risks we face. We need an expanded economic toolkit, including broader measures of economic progress to secure our collective prosperity. Wealth accounting captures the value of all the assets that generate income and, eventually, human well-being. Gross domestic product (GDP) indicates how much monetary income or output a country creates in a year; wealth indicates the value of the underlying national assets and therefore the prospects for maintaining and increasing that income over the long term. GDP and wealth are complementary indicators for measuring economic performance and provide a fuller picture when evaluated together.

The Changing Wealth of Nations 2021 (CWON 2021) finds that our material well-being is under threat: from unsustainable exploitation of nature, from mismanagement and mispricing of the assets that make up national wealth, and from a lack of collective action at local, national, and regional levels. CWON 2021 provides the data and analysis that can promote a more sustainable approach to prosperity and help policy makers navigate these challenges. The report draws on a unique global asset database that allows detailed examination of the underlying value of a nation's wealth, taking into account human, produced, and natural capital and noting where assets are being managed sustainably or unsustainably. CWON 2021 presents the world's most comprehensive accounts to date of the wealth of nations that comprise not only what was made by people (produced capital) but also the wealth embedded in people themselves (human capital), and the wealth offered by nature (natural capital).

CWON 2021 Recommends Four Priorities for Policy Action

- 1. Measure and monitor wealth to boost sustainability and prosperity.** Governments should measure and monitor wealth, alongside GDP. They can use the System of National Accounts (SNA) framework and the System of Environmental-Economic Accounting (SEEA) standards to integrate wealth accounting systematically into national balance sheets. CWON provides the world's most comprehensive and SNA-compatible international data on wealth that can be used as a benchmark and proxy in the absence of detailed bottom-up national wealth accounts. Other actors such as financial markets can utilize wealth accounting to track sustainability and environment, social, and governance (ESG)-related indicators.
- 2. Invest in sustainable wealth.** Governments should create enabling conditions for balanced investments in all components of wealth, not just produced and nonrenewable assets but also human and renewable natural capital. Assets representing common and public goods, like education and public health and often the wealth provided by nature, will require public investments or active government intervention to establish property and use rights to prevent depletion or unsustainable conversion to other forms of capital. Governments also have the duty to correct market failures to enable private investment in wealth creation by aligning private returns to investments with public benefits and damages they create.
- 3. Create policy incentives to protect and increase the value of wealth.** Where government policies are designed to maximize short-term income only, results can come at the expense of future income and well-being opportunities. Wealth accounting helps identify and correct such policy failures. Assets that are mispriced get mismanaged. Environmentally harmful produced capital and fossil fuels are often overrewarded by markets, while essential human and renewable natural assets are often undervalued and underpriced. This leads to the latter's degradation and depletion, with systemic risks to macrofiscal stability and potentially existential risk to humans. Governments should therefore use policies and pricing to support socially beneficial assets and do the reverse for those with negative external effects.
- 4. Diversify and rebalance the asset portfolio, to make growth resilient to external shocks.** Multiple environmental crises (climate change, biodiversity, ocean damage, and pollution) increase the intensity and frequency of external shocks to growth while also making these shocks more difficult to predict. Standard economic recipes for product and export diversification beyond commodities are no longer sufficient, as they often lead to accumulation of produced assets in emission-intensive manufacturing and land use. Diversification of *wealth*—the assets that countries rely on to generate income—can instead make economic development more resilient to uncertain external factors such as climate change and global decarbonization. A diverse asset portfolio is also more sustainable than one overly dependent on single assets, particularly depleting ones such as oil, gas, and some minerals.

Policy Matrix

Assets	Priority policy areas
Renewable natural capital	Forests: Policies and investments to prevent deforestation and forest degradation can enhance overall natural capital wealth, especially in low-income and lower-middle-income countries, which, as a group, show a decline in forest timber and forest ecosystem services wealth per capita. Mechanisms that make visible the full value of forest ecosystem services can help incentivize protection and sustainable use, relative to timber and agricultural uses.
	Critical services provided by forests and other ecosystems include retention (stock) and sequestration (flow) of carbon. Markets so far failed to reflect this value in widespread carbon prices. Domestic policy action to price carbon, alongside internationally comparable accounting standards consistent with SEEA, may pave the way for the emergence of global demand and willingness to pay for retention and sequestration services provided by ecosystems and stem overuse of forests for timber or clearance.
	Marine capture fisheries: Reforming and repurposing fishery subsidies, agreeing to sustainable quotas, and the replenishment and monitoring of fish stocks can all help prevent overfishing and depletion of the fisheries wealth, especially impacting coastal communities.
	Mangroves: Return to investments in mangrove restoration and preservation should include both the value of the ecosystem services they provide to the economy and the value of produced capital they protect from floods and storm surges, especially as these risks are increasing with climate impacts.
	Agricultural land: Countries with significant shares of cropland wealth that are vulnerable to the impacts of climate change on crop yields should manage this risk by diversifying their portfolio, investing in other renewable assets and/or human or produced capital.
	Renewable energy: Countries, SNA, and SEEA should assign explicit values to renewable energy assets in national balance sheets, just as they currently assign values to fossil fuel reserves.
Nonrenewable natural capital	Fossil fuel-rich countries should manage the risks associated with global decarbonization and stranded assets via international cooperation and asset diversification, avoiding carbon-intensive downstream activities. Policy instruments might include energy taxation (or reducing energy subsidies) to better reflect environmental costs of fuels. This can also help manage external risks, such as carbon border adjustment taxes and other tariff and nontariff trade barriers to goods with a high environmental footprint.
	Resource rents from nonrenewable natural resources (especially oil, gas, and minerals) should be transparently collected and reinvested in sustainable forms of wealth—including public infrastructure, green produced capital, renewable natural wealth, and human capital (skills, health) to support sustainable prosperity.
Human capital	Investing in girls education can improve both the level and equity of human capital wealth. This may be particularly urgent in countries with overly unequal distribution of human capital, such as measured by CWON, including in some resource-rich countries.
	Investments in education and health, including policies and measures that reduce population exposure to air pollution, can enhance the value of human capital alongside improving well-being and productivity.
Produced capital	Public capital (for example, infrastructure): Use proceeds from nonrenewable natural resources (oil, gas, and minerals) to invest in public infrastructure in capital-scarce countries.
	Risks to the value of produced capital, such as infrastructure and cities, from storm and flooding can be mitigated by leveraging investments in nature, such as protective mangroves.
	Proceeds from nonrenewables can be invested in produced capital and used to help improve the investment environment—a process known as “investing in investing”—promoting both asset diversification away from dependence on nonrenewables and economic sustainability.
	Fiscal policies should avoid unwarranted accumulation of produced capital in sectors exposed to transition risks and encourage accumulation of climate-proof produced assets.

Source: World Bank

Note: CWON = Changing Wealth of Nations; SEEA = System of Environmental-Economic Accounting; SNA = System of National Accounts.