Comprehensive Wealth – Measuring what matters in the long run

Canadians are fortunate to enjoy levels of well-being envied by much of the world.

Having achieved such success, it would be reasonable to step back regularly and ask whether the foundation of this well-being remains sound — whether it is *sustainable* in the long run. After all, Canadians want the same levels well-being for their children and grandchildren.

Despite their hopes for the future, Canadians’ governments are focused principally on the short term. This is reflected by the indicators most commonly used to gauge national progress. The unemployment rate, the inflation rate and, especially, GDP gauge how well the economy and society are doing today. None of these influential indicators focuses on the well-being of the next generation or even how those alive today might be doing in the next few years.

Knowing where the country is headed — knowing whether national well-being is sustainable — requires measures that go beyond the short-term. What matters in the long run is wealth: more specifically, *comprehensive wealth*.

Canada has long had partial measures of wealth. Produced and financial capital, in particular, have been measured for decades. Measuring wealth comprehensively requires going beyond this, however, to include:

- the *natural capital* found in forests, lakes, minerals, land and other elements of the natural environment
- the *human capital* bound up in the skills and knowledge of the people that make up the workforce, and
- the *social capital* resulting from civic engagement, trust and cooperation of the population.

Though not as well-known as produced and financial capital, natural, human and social capital are no less essential to national progress than machinery, buildings, stocks and bonds. Together these five elements constitute the comprehensive wealth “portfolio.”

Tracking all five elements of the portfolio is important because of the link between comprehensive wealth and well-being. The assets that make up comprehensive wealth are the basis for producing nearly all goods and services that people require — obvious things like food, electricity and health care, but also clean air, healthy forests and safe communities. The consumption of these goods and services plays an essential role in creating well-being.

Understanding whether a nation is progressing requires understanding how comprehensive wealth is evolving. Simply measuring GDP growth is not enough. It is essential to know whether the asset base that underpins GDP — that is, comprehensive wealth — is growing alongside GDP. If it is not, then economic growth rests on an unsustainable drawing down of capital.
The international community is increasingly calling on countries to go beyond GDP in assessing development and sustainability. In the communiqué from their 2018 summit, G7 leaders recognized “that economic output alone is insufficient for measuring success”, noting “the importance of monitoring other societal and economic indicators that measure prosperity and well-being.” The United Nations, the World Bank and prominent economists all see comprehensive wealth as a key means of moving beyond GDP.

IISD believes moving beyond GDP means complementing it rather than replacing it with measures of comprehensive wealth. Both are required to assess the nation’s development. GDP says much about the latest quarter but is silent on the prospects for the future. Comprehensive wealth, in contrast, focuses on the long term, helping answer questions about well-being and sustainability that for the most part go unanswered today. As the president of the C.D. Howe Institute has put it, “GDP is so twentieth century.” Measuring wealth is “the Next Big Thing.”

Our research suggests Canada’s comprehensive wealth – and, therefore, the foundation of Canadians’ well-being – is not as robust as might be expected, making regular measurement of comprehensive wealth all the more desirable. Natural capital is clearly on the decline in Canada. Human capital, our largest asset, has been stagnant for more than three decades. Produced and financial capital, while growing, show signs of fragility due to unprecedented trends in asset concentration, household indebtedness and financial markets. Social capital, which is difficult to measure, appears to be holding its own but not growing.

Whether wealth is trending in the right direction or not, we believe comprehensive wealth is an essential complement to GDP. Half of the story of national progress is currently going untold. Correcting this will place Canada on much firmer footing for the future, paving a path other countries will want to follow.