

## Smart Economics

by Ole Hendrickson

Much of a country's wealth lies in its natural resources. Nature provides water, minerals, energy, animals, plants used for food or timber, and so forth. Countries rich in natural resources like Canada have an advantage over poorer nations.

We don't know how lucky we are.

GDP, the most widely used economic indicator, is the market value of all final goods and services made each year within the borders of a country. Economists who focus only on GDP do not account for changes in the natural wealth that makes it possible to produce these goods and services.

If we don't have enough food, energy, water, or minerals, why, we can get them somewhere else, right? There's some truth in this. Japan, with little energy or mineral wealth, remains a prosperous industrial nation.

But stuff we use in our daily lives must come from somewhere. It is important to know if we're using energy and mineral wealth wastefully, or fouling our food and water with pollutants. If markets and GDP aren't telling us, we need some other way to track what's happening to our natural wealth. Some economists don't care how rich we are. They may not even think about risks of squandering the natural wealth of our city, province, nation, or planet. They might say it's the same as for any man living beyond his means: his problem, not mine. As for our children, well, if they're innovative enough, they'll find a way to deal with pollution and scarcity.

Smart economists don't think this way.

Smart economists know the two main limitations of GDP. First: externalities. When we make and buy stuff, the market price does not reflect impacts on the broader environment - particularly pollution. Markets are great as far as they go, but they don't go far enough. Governments can help markets work better by doing things such as taxing pollution - putting a price on negative externalities. Some economists don't want to do this.

The second limitation of GDP is that some things are not bought and sold on markets. Short of killing me, you can't stop me from breathing the air or admiring the beautiful landscapes of the Ottawa Valley or streetscapes of Ottawa. Economists call these "public goods". There's no point in trying to charge for them. They are available to rich and poor alike - "non-excludable", in economic jargon. If we want clean air, water, beautiful landscapes, biodiversity, attractive neighbourhoods and so forth, we need to rely on something other than markets.

Smart economists talk to other social scientists to find out what people really want, what makes for a better quality of life. They meet with ecologists to learn about the benefits ecosystems provide us. They meet with statisticians to propose indicators to track our natural wealth and our quality of life. They ask politicians to create space for public dialogue on these issues. This is economics in its broader sense - sound, prudent and efficient management of resources.

We can go on ignoring pollution and natural resource limitations - dumb economics. We're seeing the results already. Extreme weather events caused by greenhouse gas pollution, and peak oil, are hitting the economy with a double whammy. There is only so much oil, and it is getting more and more expensive to extract. Every time the price goes up it puts the breaks on a fragile economy. Tax measures and public financing for a zero-carbon economy may make a small dent in today's GDP, but will greatly enhance long-term growth.

Let's be smart - tax pollution; fund renewable energy, green education and jobs; and work towards a sustainable economy that benefits us all.

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