Genuine savings (Genuine Savings)
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Genuine Savings

Onno Kuik (onno.kuik@ivm.falw.vu.nl)

1 Introduction

Most proposals for adjustments to national accounting focus on income or product accounts, such as GDP, NDP or national income. Pearce et al. (1998) propose an indicator of “weak” sustainability that focuses on capital formation: they call it a measure of “genuine savings”. In the weak sustainability ‘paradigm’ different types of capital are distinguished such as man-made capital, human capital, natural capital and even social capital. The operational definition of sustainable development in the weak sustainability paradigm is that the total stock of capital should be maintained as a necessary (though possibly not sufficient) condition for the sustenance of future well-being (Pearce et al., 1998). The sufficiency of the weak sustainability paradigm hangs on the extent to which different types of capital can be substituted for each other. Pearce et al. (1998) give a number of arguments (irreversibility, uncertainty, and thresholds/discontinuities) why the substitution possibilities between man–made and natural capital may be less than perfect. However, Pearce et al. argue, while an indicator based on weak sustainability may not necessarily tell us what development is sustainable, it certainly tells us what development is not sustainable. Persistent negative genuine savings rates must lead to non–sustainability in the sense that the welfare of the country will eventually decline.

2 Methodology

The Genuine Savings indicator measures aggregate net savings in a country that takes account of the depletion of natural resources and the accumulation of pollutants. The problems of measurement and valuation of natural resource depletion and accumulation of pollutants are basically the same as in other approaches to adjust national income.

3 Process

Genuine Savings is calculated by adjusting conventional national savings by the factors mentioned above. It is based on the monetary valuation of resource depletion and accumulation of pollutants.

4 Review

4.1 Evaluation results

The Genuine Savings method gives an ex–post assessment of the total capital formation of an economy over a time period of a year, inclusive of changes in environmental and natural capital stocks.

4.2 Experiences

The Genuine Savings indicator has been calculated for a large number of countries and for various years and has been widely published by the World Bank (see, e.g., Lange, 2003).

4.3 Combinations

The Genuine Savings method depends on the monetary valuation methods that were described earlier in this report. Genuine Savings also depends on the measurement of physical flows of pollutants and natural resource extractions for a country in a particular year.

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4.4 Strengths and weaknesses

The Genuine Savings method operationalizes the concept of ‘weak’ sustainability. Its methodology and assumptions are very clear. A weakness of the method is that it can only suggest unsustainability, but not sustainability. Genuine Savings suggests unsustainability if the indicator is 'persistently' negative. It cannot assess whether an economy is truly sustainable. As with other methods, there is uncertainty with respect to the monetary valuation of environmental pollution and degradation.

4.5 Further work

Further work on the Genuine Savings indicator would need to focus on better and more comprehensive estimates of environmental damage at national and international levels.

4.6 References
