

# ECOLOGICAL ETHICS: *INCLUSIVE WEALTH INDEX* AND BEYOND

**Aliza D. Racelis, PhD**



- In the **14<sup>th</sup> SGRA Manila Seminar**, I made reference to “development that meets the needs of the present without sacrificing the right of future generations to fulfill their needs” (World Commission on Environment and Development [WCED], 1987: 43)



## **2. Ethical sustainability**

- “Triple bottom line” → “quadruple bottom line”, to include ability of businesses to:
  - contribute to economic growth in their respective countries;
  - minimize environmental degradation and decline;
  - alleviate or eradicate poverty, disease, and social injustice

A stylized graphic of a mountain range. The mountains are depicted in shades of brown and tan, with some peaks having a green base. The background features a light blue sky with white, wavy lines representing clouds. The entire graphic is set against a green background that has a white, wavy line on the left side.

# Inclusive Wealth Report 2012

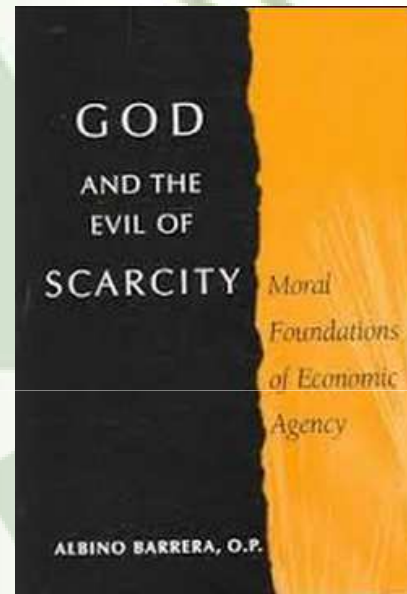
Measuring progress toward sustainability

The concept of “sustainable development” has been around for decades. The most recent expression of the concept can be traced back to 1983, when resolution A/RES/38/161, establishing a special UN commission to address the rapid deterioration of the human and ecological environments, called for a global, long-term effort to achieve environmentally and socially sustainable development.



Traditional indicators such as per-capita gross domestic product (GDP) and the Human Development Index (HDI) are the primary metrics in assessing the progress of nations today. GDP, an indicator for national economic production (and one for which there is relatively reliable data for nearly all countries), became a convenient yardstick of overall national progress and performance for policy-makers (GDP per capita is in turn used to demonstrate the well-being of a nation's citizens). This created fundamental problems: increases in total economic production do not necessarily translate into improvements in human well-being; increases in the employment and income of individuals are possible outcomes, not automatic consequences, of economic growth.

**Profit?**  
**earnings?**  
**income?**  
**=prosperity?**



**Albino  
Barrera**

*Integral human development for others:* In its social dimension, the principle of integral human development calls for the authentic personal development of everyone, no one excluded.<sup>26</sup> In concrete terms, this means that socioeconomic life should bring about mutual advantage for all, by how well integral human development is attained by members of the community. Every person is treated as an equal, deserving of respect as a person. The integral development of the self and others requires enormous effort and constant renewal given their incessant and often sacrificial demands.

“Human beings are made in the image of God, personalist subjects, naturally social, created to live in the material world but with an orientation toward the transcendent. ... . Command over goods and services cannot be left out of the evaluation of human well-being, but income by itself is a radically incomplete measure of human flourishing. There are other dimensions of human well-being, and growth in income does not guarantee, and cannot substitute for, growth along other dimensions. Such other goods as: the personal and social virtues, the quality of social relations, and personal initiative are equally essential, apart from wealth.” “The western philosophical and religious traditions have long rejected income as a sufficient measure of well-being. Both Aristotle and Aquinas noted that income is good only to the extent it promotes happiness, and that it sometimes leads to great unhappiness.”

Andrew Yuengert



Pepperdine University



## Inclusive Wealth Report 2012

Measuring progress toward sustainability

“In an attempt to broaden the perspective of well-being beyond economic growth and income, the **Human Development Index** (HDI) was developed by adding literacy and mortality rates to the equation of income. Although an improvement, the HDI has a number of well-documented inconsistencies that make it an unsuitable indicator of whether a country's policies are improving the well-being of its citizens. ...Neither GDP nor HDI reflect in any way the state of the **natural environment**, or give any indication of whether levels of well-being are sustainable. ...”

# The Inclusive Wealth Index

The **Inclusive Wealth Index (IWI)** seeks to measure the social value of capital assets of nations beyond manufactured capital. The index is *inclusive* in the sense that it accounts for other key assets as important components of the productive base of the economy, such as natural capital and human capital.





Q<sub>2</sub>

green  
FOR THE FUTURE

If a national accountant claims the savings ratio of a country like Brazil or Costa Rica is 15%, but doesn't take into account the natural capital, the forests being razed, then it is not a true indication of the accumulation of wealth. If depreciation of forests is deducted from savings, the picture looks significantly different.

care

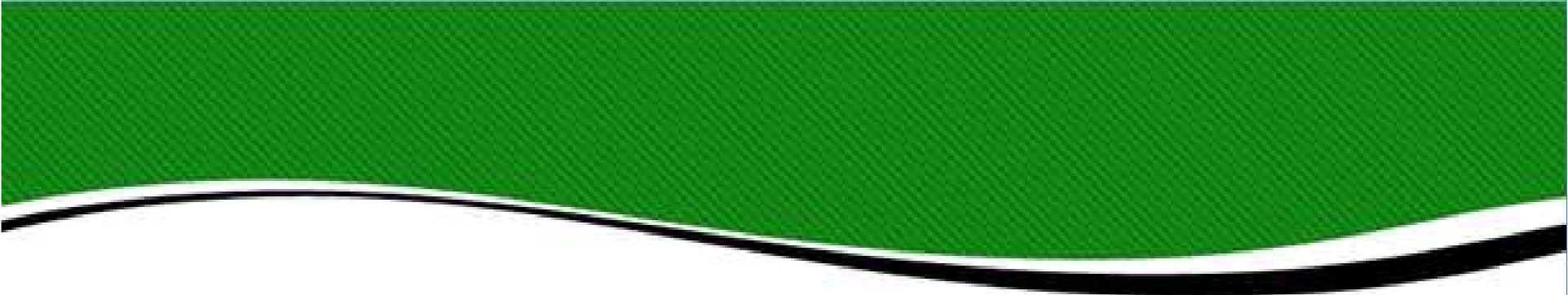
Earth

Nature

Spirit

home

family



Four kinds of goods should be present in a truly prosperous community: (1) goods of personal character, (2) goods of personal initiative, (3) social goods, and (4) material goods.

Character is both a means to prosperity and a principal component of it. A prosperous community bears fruit in the virtuous character of its people. If material prosperity is gained through institutions which erode the character of a people, it will not be enjoyed, and will probably not be sustainable.

The more virtuous a person is, the more fully human. The virtues are the characteristic excellences of human beings, and represent a sort of ideal fulfillment in this world of our created nature amid the challenges of the Fall. The cardinal virtues – **temperance**, **fortitude**, **prudence**, **justice** – make the person more able to deliberate about and successfully pursue both his own good and the good of the communities to which he belongs.





# Dasgupta



As the population of the world continues to grow, will there be enough natural resources to go around?

If the core problems of the environment are in great measure ecological, their causes are largely **anthropogenic**. This means that appropriate solutions need to involve partnerships, not only between ecologists and economists, but also among scientists from a broad range of disciplines.

Individuals from all branches of science have long recognized this challenge, but a deep chasm seems to have separated many of them. To be sure, different disciplines have frequently different lexicon, different ways of thinking, and different mindsets. ...

**“...sustainable economic prosperity for all”...**

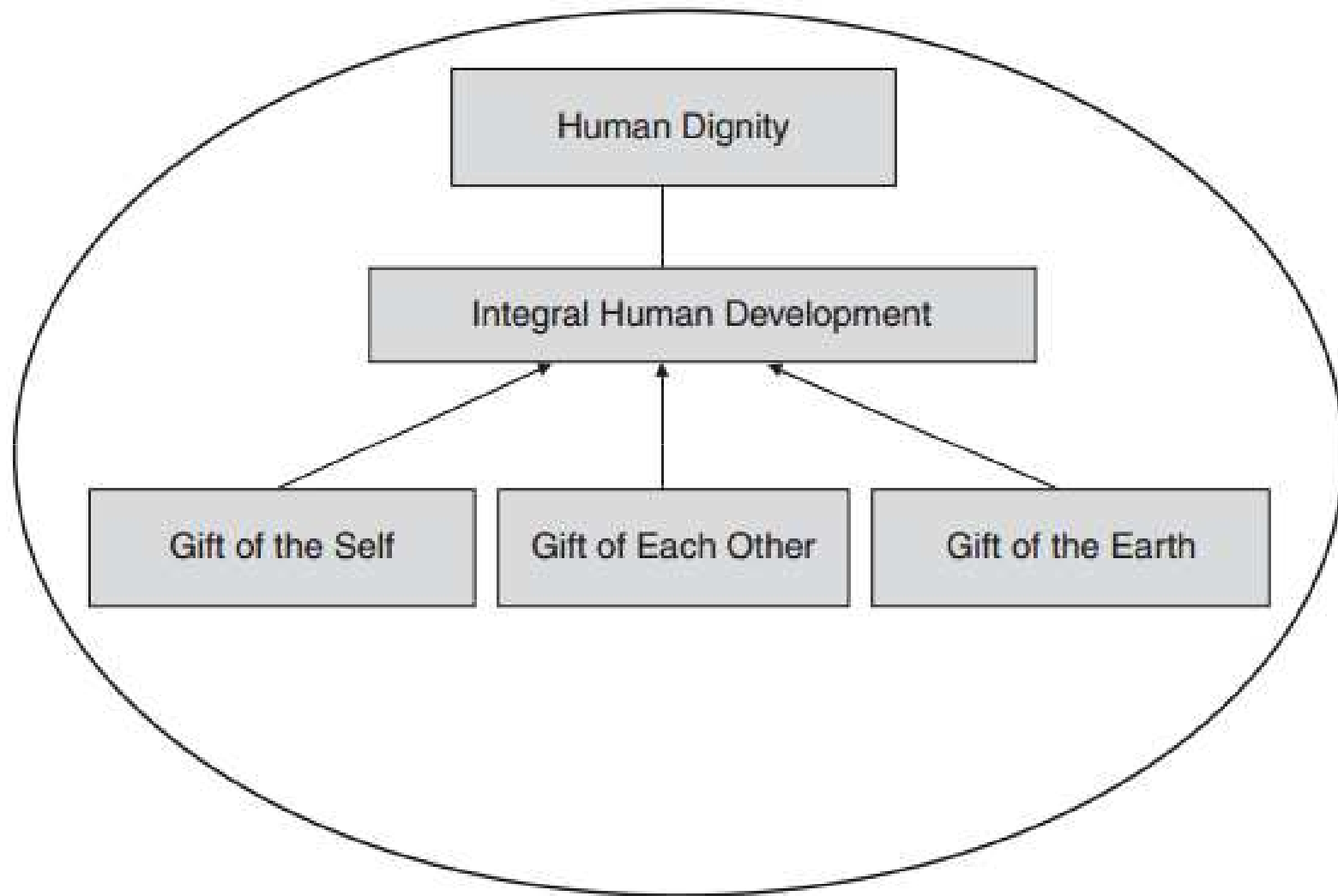


FIGURE I.I. Elements of the Economic Common Good

# 'Natural Capital'

What Mäler and I discovered is that intergenerational well-being wouldn't decline if – and only if – an appropriate measure of wealth relative to population were not to decline. We based our reasoning on a model economy we constructed whose assets comprised not only reproducible and human capital, but also natural capital. By natural capital we meant not only subsoil resources (oil, coal and natural gas), but also ecosystems. By wealth we meant the social worth of an economy's entire stock of capital assets, including natural capital.

In a paper (*Net national product, wealth, and social well-being*, 2000), we showed that economic development should mean a development path along which an economy's wealth grows. That's a far cry from demanding that GDP grows or that the United Nations' Human Development Index improves.

Natural capital assets in the report are comprised of the following five categories: (1) forests, represented by timber and non-timber forest benefits (NTFB); (2) fisheries (only for four countries); (3) fossil fuels (oil, natural gas, and coal); (4) minerals (bauxite, copper, gold, iron, lead, nickel, phosphate, silver, tin, and zinc; and (5) agricultural land. Total asset value is estimated by multiplying the physical amount available of the asset by its corresponding rental price.

	Inclusive Wealth Index		
 Australia	1.41	 Japan	1.10
 Brazil	2.30	 Kenya	2.85
 Canada	1.41	 Nigeria	0.53
 Chile	2.56	 Norway	1.33
 China	2.92	 Russia	-0.50
 Colombia	1.62	 Saudi Arabia	1.57
 Ecuador	2.14	 South Africa	1.57
 France	1.95	 U.K.	1.26
 Germany	2.06	 U.S.	1.74
 India	2.66	 Venezuela	1.70

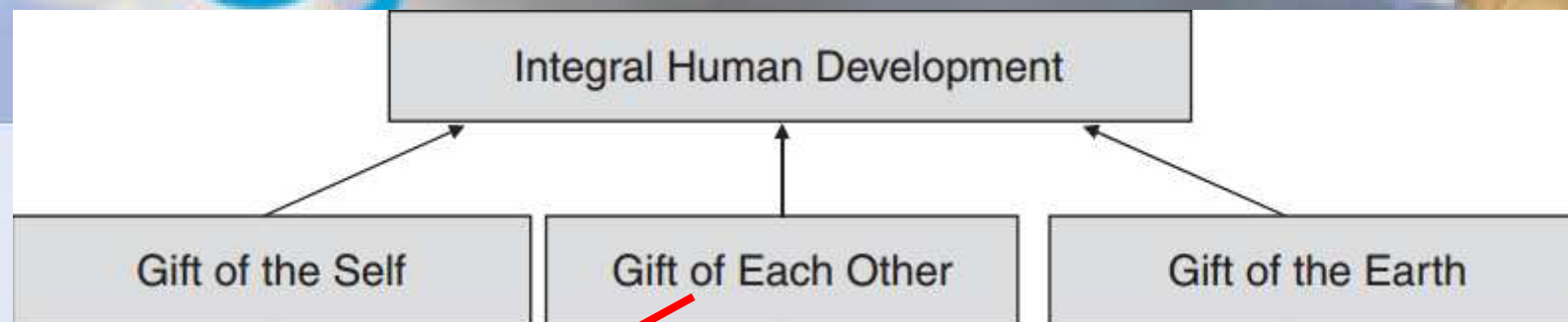
You've described the environment as "the most critical problem of our time." What are the consequences of economists ignoring it?

**Sir Partha:** Contemporary economic models give a misleading picture of the foundations of economic systems. They therefore point in the wrong direction to glimpse the economic possibilities of the future.



**SIR PARTHA  
DASGUPTA**

Sir Partha is the Frank Ramsey Professor Emeritus of Economics at the University of Cambridge. Born in India, his research focuses on welfare, environmental and development economics, with particular emphasis on poverty and equality. He was named Knight Bachelor by Queen Elizabeth II in 2002 for his services to economics.



- Socialization
- Participation, relative equality, and mutual advantage
- Primacy of labor
- Preferential option for the poor
- Restoration

Socialization is the obligation incumbent on those who possess the resources to be proactive in intervening and providing assistance to those who are no longer able to function for their own good or for that of the community.



## B. Households

Concrete Obligations	Measurement
Responsible Consumption (as indirect employers)	Recycling rates and patterns Consumption patterns Household budget survey (census) Boycott of unethical firms Carbon-footprint offset initiatives
Obligation to Save	Savings rate
Investment in Children	Household time-use surveys Expenditure on children
Philanthropy	Rate of charitable giving Volunteerism
Self-Investment and Self-Help	Measures of human capital development
Social Responsibility	Active socially responsible investing Passive socially responsible investing

## C. Business

Concrete Obligations	Measurement
Environmental Protection	Expenditure on ecological protection Product and production-process impact on ecology
Social Responsibility	Stakeholder rather than shareholder orientation Active socially responsible investing Passive socially responsible investing Alternative working arrangements (co-ownership, co-management, profit-sharing) Affirmative action
Philanthropy	Rate of charitable giving, volunteerism





## Environmental Accounting

Indicators of social well-being in frequent use (e.g., gross national product per head [GNP], life expectancy at birth, and the infant survival rate) do not reflect the impact of economic activities on the environment. In particular, such indices of the standard of living as GNP per head pertain to commodity production; hence, they don't fully take into account the use of natural capital in the production process. So statistics on past movements of gross product tell us nothing about the resource stocks which remain. They do not make clear, for example, whether increases in GNP per head are being realized by means of a depletion of the resource base (for example, if increases in agricultural production are not being achieved by "mining" the soil). Over the years environmental and resource economists have shown how national accounting systems need to be revised so as to include the value of the changes in the environmental resource-base that occur each year due to human activities (see, e.g., Mäler 1974, Dasgupta and Heal 1979).

# The Incompleteness of the Economy and Business: A Forceful Reminder

Paul H. Dembinski

The ongoing financial and economic crisis proves to be a very peculiar moment: unexpected, fearful, potentially lethal to our way of life, but paradoxically, until recently at least, it did not shake the way financial and economic activities are conducted or regulated. When the financial order was shaken to its roots, a number of wrongdoings were publicly confessed and promises were made both by private and public actors as to their future conduct.



## The Economist

The financial crisis drew the public's attention to the enormous amounts of profits generated by banks and other financial institutions. In 2007, the US financial institutions were generating about 40% of corporate profits whilst contributing only 15% to the US GDP.



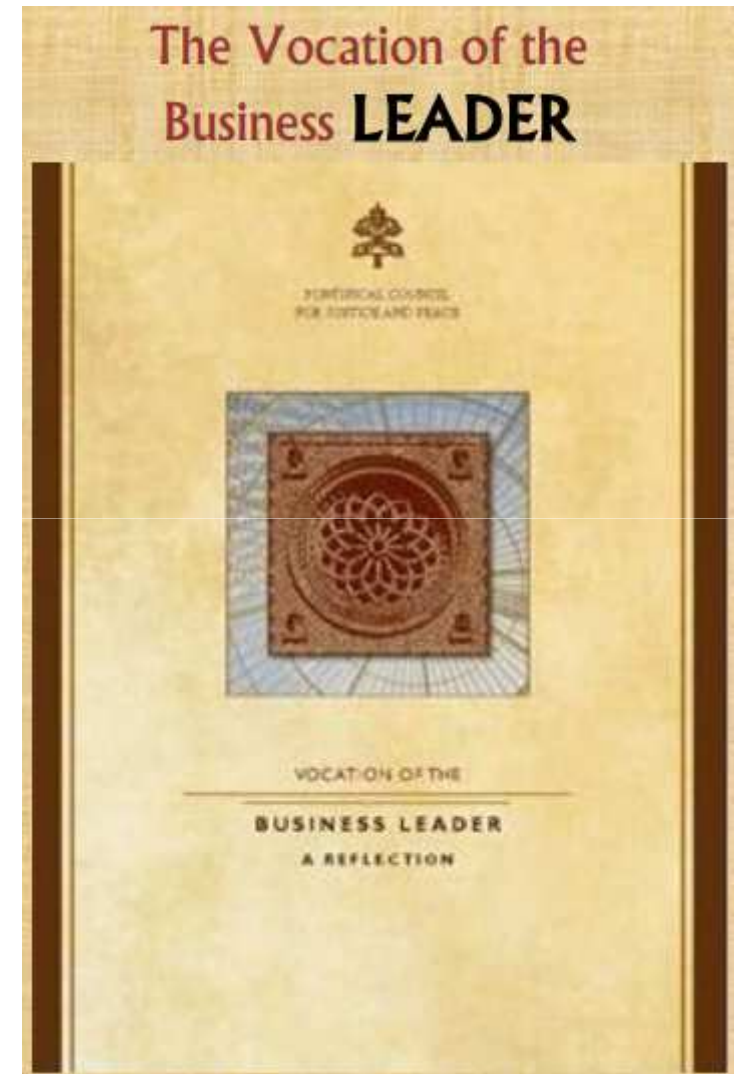
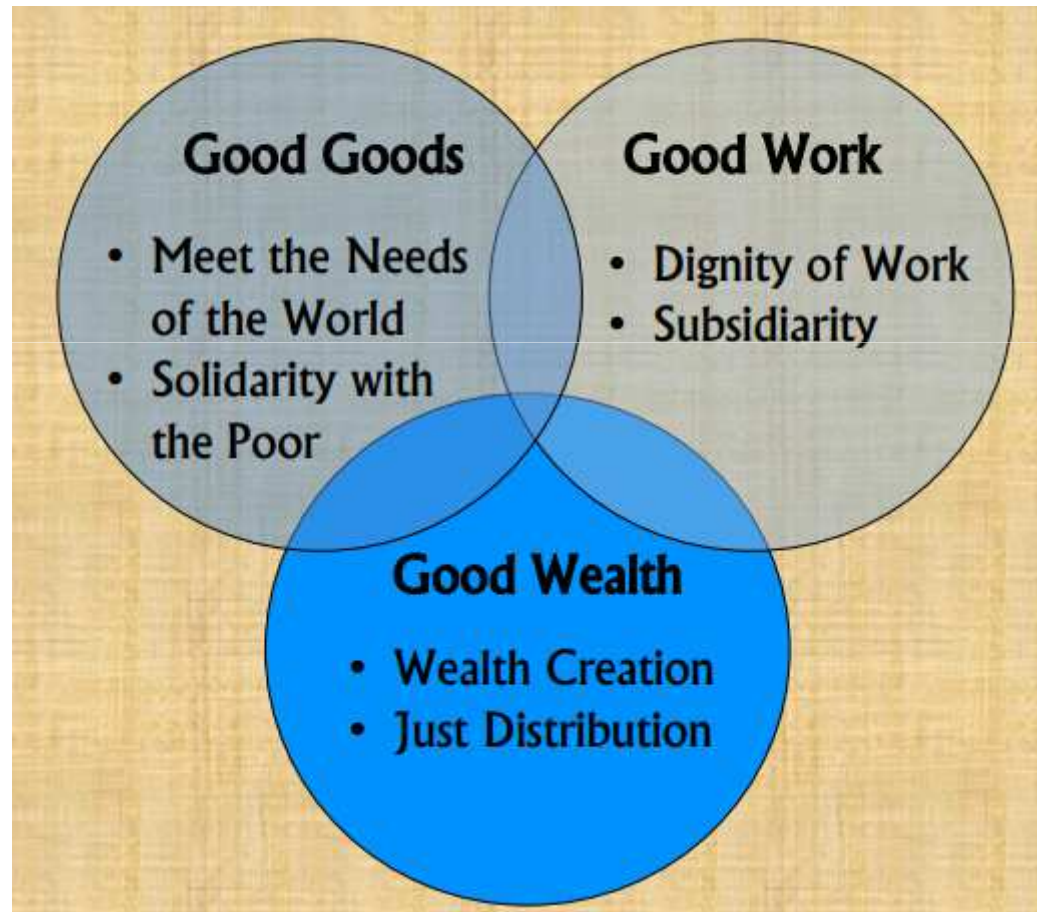


“

economic action is not to be regarded as something opposed to society.... Society does not have to protect itself from the market...(...) the market is the economic institution that permits encounter between persons' (*Caritas in Veritate*, 34). HOWEVER: 'Without internal forms of **solidarity** and **mutual trust**, the market cannot completely fulfil its proper economic function' (*Caritas in Veritate*, 36).



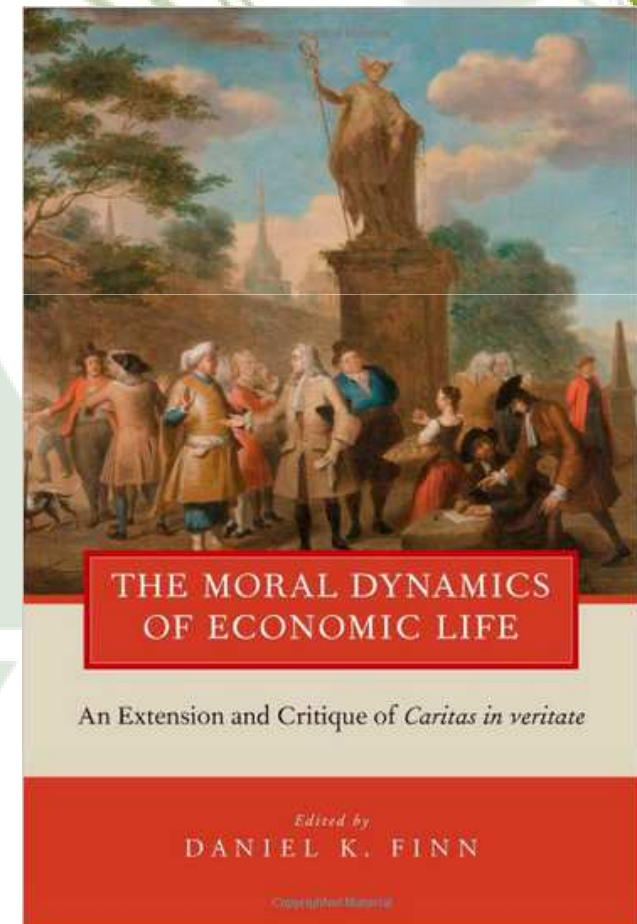
# Business as a ***communio personarum*** [community of persons]



“Mainstream business theory and practice has unfortunately failed to see capital as a form of property with a social and spiritual nature and labor as a form of work with moral and vocational meaning. ... At the heart of how we develop as persons is the dynamism of **love**, ‘the principal driving force behind the authentic development of every person and of all humanity’ (*Caritas in Veritate*, 6),” Michael Naughton.



“The golden calf is a symbol of misplaced devotion, born of a false idea of true success. . . . Each of these ‘golden calves’ amounts to a kind of fixation [and] . . . [e]ach has the capacity to ‘en-trance’ the leader and the business into idolatry.”

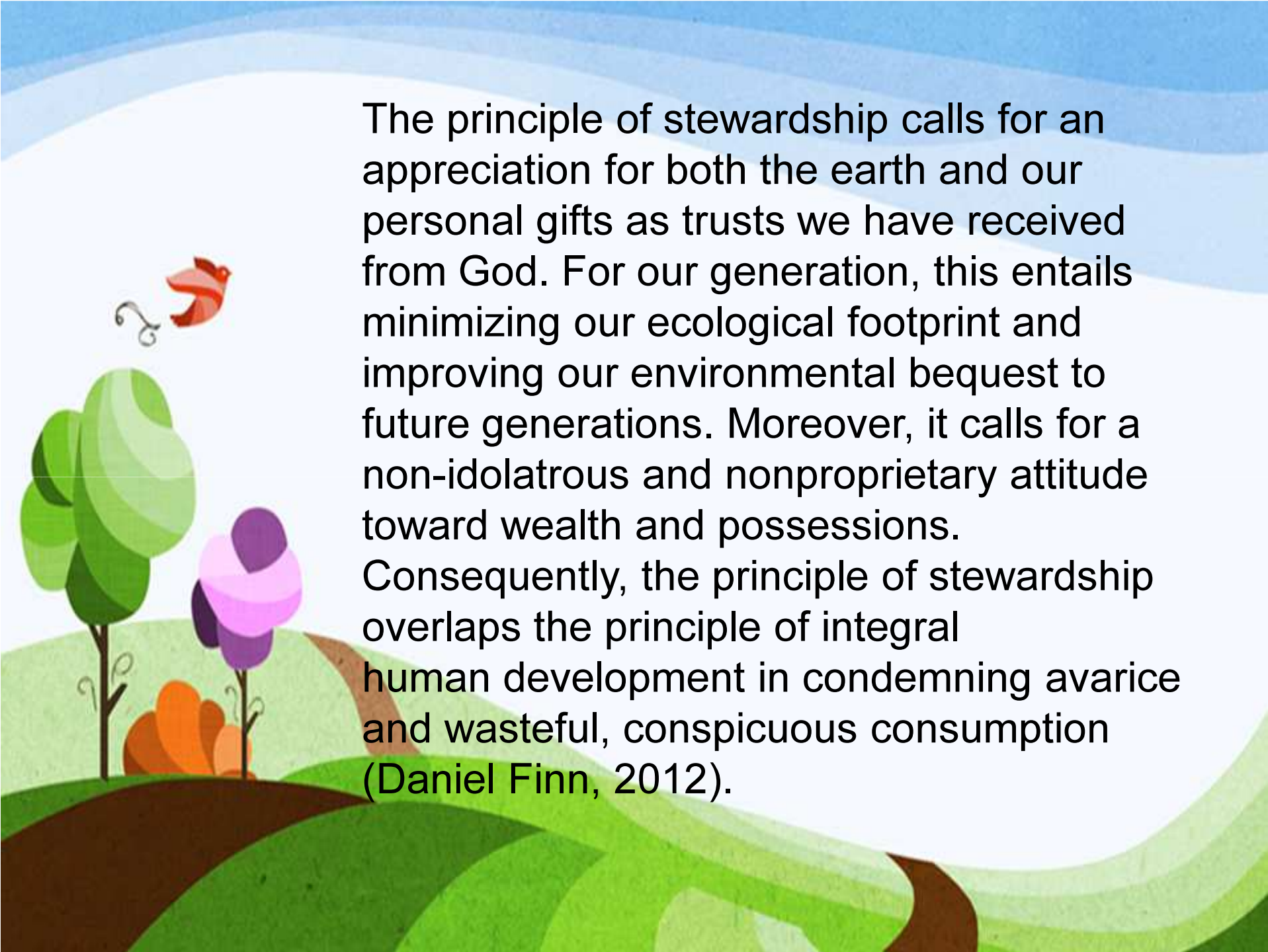




For the critics of modern finance, Bear's swift end on March 16th [2008] was the inevitable consequence of the laissez-faire philosophy that allowed financial services to innovate and spread almost **unchecked**. This has created a complex, interdependent system prone to conflicts of interest. **Fraud** has been rampant in the sale of subprime mortgages. Spurred by pay that was geared to **short-term gains**, bankers and fund managers stand accused of **pocketing bonuses** with no thought for the longer-term consequences of what they were doing. Their **gambling** has been fed by the knowledge that, if disaster struck, someone else—borrowers, investors, taxpayers—would end up bearing at least some of the losses.





A stylized, colorful illustration of a landscape. In the foreground, there are rolling green hills with a dark brown path winding through them. On the left, there are three trees: a tall green one, a shorter purple one, and a small orange one. A red bird is flying in the sky above the trees. The background consists of light blue and white wavy lines representing a sky or water.

The principle of stewardship calls for an appreciation for both the earth and our personal gifts as trusts we have received from God. For our generation, this entails minimizing our ecological footprint and improving our environmental bequest to future generations. Moreover, it calls for a non-idolatrous and nonproprietary attitude toward wealth and possessions. Consequently, the principle of stewardship overlaps the principle of integral human development in condemning avarice and wasteful, conspicuous consumption (Daniel Finn, 2012).



A tropical beach scene with palm trees and turquoise water. The image is split horizontally. The top half shows a clear blue sky with a few wispy clouds and the fronds of palm trees. The bottom half shows a sandy beach with gentle waves washing onto the shore. The water is a vibrant turquoise color. The palm fronds are green and yellow, suggesting a sunny day.

## Reflections and Proposals:

### **1 Social Institutions**

“Environmental problems in the modern world are a symptom of institutional failure,” Dasgupta.

→ price structure

→ local environmental problems have to be resolved locally.



A tropical beach scene with palm trees and turquoise water. The image is used as a background for the text.

## Reflections and Proposals:

# **2 Social Enterprise**

- directly addresses an intractable social need and serves the common good
- Its commercial activity is a strong revenue driver
- The common good is its *primary purpose*



A tropical beach scene with palm trees and turquoise water. The image is split into two horizontal panels. The top panel shows a clear blue sky with a few palm fronds hanging down from the top. The bottom panel shows a sandy beach with waves crashing onto the shore, with palm fronds in the foreground. The text is overlaid on the right side of the image.

## Reflections and Proposals: **2 VIRTUE ETHICS**

The cardinal virtues – *temperance*, *fortitude*, *prudence*, *justice* – make the person more able to deliberate about and successfully pursue both his own good and the good of the communities to which he belongs.

→NO to Avarice! Yes to Magnanimity!

At the center of the cardinal virtues is prudence, “the virtue that makes it possible to discern the true good in every circumstance and to choose the right means of achieving it.” It is through prudence that we live up to our vocation as persons, acting in the created world according to our created nature, ordering it toward our own good and the good of society.

Temperance and fortitude give prudence a space in which to deliberate and act, free from inordinate attraction to pleasure and inordinate aversion to danger and difficulty.

The virtues of justice and solidarity orient the person to others. Justice is the “constant and firm will to give their due to God and neighbor.”





# QUESTIONS?

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# THANK YOU!