

Working Paper No. 14  
28 March 2006

ENGLISH ONLY

**ECONOMIC COMMISSION FOR EUROPE**

**CONFERENCE OF EUROPEAN STATISTICIANS**

Joint UNECE/OECD/Eurostat Working Group on Statistics for Sustainable Development  
First meeting  
Luxembourg, 3-4 April 2006  
Item 5 of the Provisional Agenda

**WHERE IS THE WEALTH OF NATIONS? MEASURING CAPITAL FOR THE XXI  
CENTURY**

Submitted by the World Bank

This meeting is organised jointly with Eurostat and OECD
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With *Where Is the Wealth of Nations?* the World Bank publishes what could be termed the *millennium capital assessment*, that is, monetary estimates of the range of assets — produced, natural, and intangible — upon which development depends. This comprehensive snapshot of wealth for 120 countries aims to deepen our understanding of the linkages between development outcomes and the level and composition of wealth, and its changes.

### Wealth composition

Natural resources play a major role in the composition of wealth in the developing world (figure 1). The natural capital share (26 percent) in the total wealth of low income countries is much greater than the share of produced capital (16 percent). This suggests that managing natural resources must be a key part of development strategies. The composition of natural wealth in poor countries (figure 2) emphasizes the major role of agricultural land (70 percent), followed by subsoil assets (17 percent) and timber and non-timber forest resources (8 percent).

Managing natural resources plays a key role in development

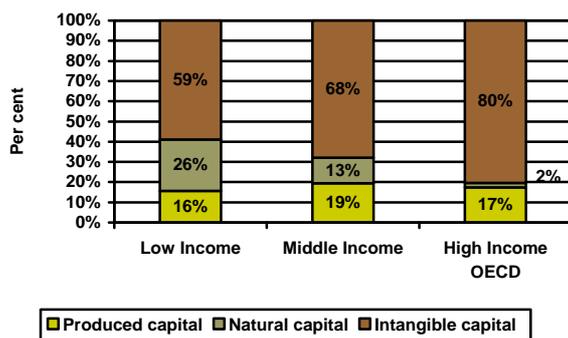
While the relative endowment of resources may determine the menu of options a given government has available, natural resource dependence need not lead to constrained development opportunities. The analysis in this volume shows that substitution possibilities between natural resources (e.g. land) and other assets are high. This supports the usual ‘rule of thumb’ for sustainability – to save the rents from the exploitation of natural resources if a sustained level of income generation is to be achieved.

The wealth estimates also suggest that the preponderant form of wealth worldwide is intangible capital – an amalgam including human capital and the quality of formal and informal institutions. Human capital – measured through schooling years per capita – and rule of law account for nearly 90 per cent of the variation in intangible capital. Investments in education, the functioning of the justice system, and policies aimed at attracting remittances are then the most important means of increasing the intangible components of total wealth.

Human capital and good governance are the basis of intangible wealth

The share of intangible capital in total wealth rises with income while the natural capital share declines and the share of produced assets is virtually constant across income groups. This suggests that rich countries are largely rich because of the skills of their populations and the quality of the institutions supporting economic activity.

Figure 1 – Composition of wealth by income group



Note: oil countries excluded

### Changes in wealth

The quality of development depends crucially on how wealth changes over time. Natural resources are special economic goods because they are not produced. As a consequence, natural resources will yield economic profits – rents – if properly

managed. These rents can be an important source of development finance, and countries like Botswana and Malaysia have successfully used natural resources in this way. Saving is obviously a core aspect of development. Without the creation of a surplus for investment there is no way for countries to escape a low-level subsistence equilibrium. Adjusted net or *genuine* saving measures the true level of saving in a country after depreciation of produced capital; investments in human capital (as measured by education expenditures); depletion of minerals, energy, and forests; and damages from local and global air pollutants are taken into account.

Measuring true saving to assess sustainability and guide policy

Economic theory suggests that current net saving should equal the change in future well-being, specifically the present value of future changes in consumption. The analysis contained in the volume confirms this hypothesis. The calculations also show how even a moderate saving effort, could have substantially increased the wealth of resource-dependent economies. For example Nigeria, a major oil exporter, in year 2000 could have had a stock of produced capital five times higher. Venezuela could have had four times as much produced capital. In per capita terms, Venezuela, Trinidad and Tobago and Gabon, could have today a stock of produced capital comparable to the one of South Korea.

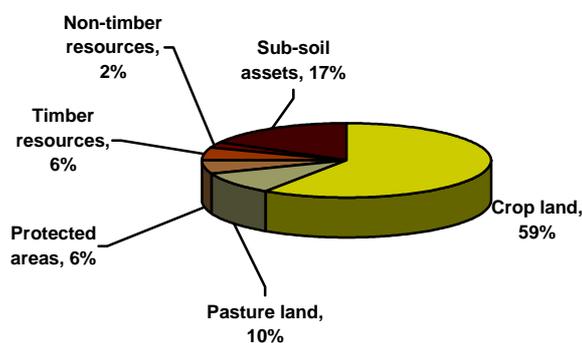
While adjusted net saving is answering an important question – did total wealth rise or fall over the accounting period? – it does not speak directly to the question of the sustainability of economies when there is a growing population. The analysis suggests very large saving gaps (the increase in saving required to maintain current levels of wealth per capita) in Sub-Saharan Africa when population growth is taken into account. The Republic of Congo would need to double current saving to make up for the effect of population growth. Nigeria would have to increase saving by 70 percent. Excluding the oil states, saving gaps in many countries are on the order of 10 percent to 50 percent of the gross national income (GNI).

Population growth exacerbates the effects of low saving

## Looking ahead

It is in developing countries where accounting based on comprehensive wealth and its changes is most likely to be a useful indicator to guide policy. The evidence in this volume suggests that investments in produced capital, human capital, and governance, combined with saving efforts aimed at offsetting the depletion of natural resources, can lead to future welfare increases in developing countries. The step from saving to investment is crucially important. If investments are not profitable, then savings are effectively being wasted.

**Figure 2 – Composition of natural wealth in low income countries**



Note: oil countries excluded

Achieving the transition from natural-resource dependence to a sustained and balanced growth requires a set of institutions that are capable of managing the natural resource, collecting resource rents, and directing these rents into profitable investments. Resource policy, fiscal policy, and political economy all have a role to play in this transformation.

