

ATTAINING SUSTAINABILITY REQUIRES ECONOMIC SCORECARD

V. Kerry Smith
Special for *The Republic*
April 11, 2008

This is one in a series of articles contributed by Arizona State University's Global Institute of Sustainability. The institute advances interdisciplinary research and education on environmental, economic and social sustainability



Everyone loves to keep score. Most aspects of our lives get rated in some way. Sports, computer games, university-degree programs, local school systems and many other factors of daily living are routinely scored.

Scores are important in our economic lives as well. Real gross domestic product (GDP), for example, is a scorecard for gauging the performance of national economies. GDP simultaneously measures the total output of goods and services of an economy in a given time period and the incomes generated in the process of producing them.

Unfortunately, official measures of economic activity, prices and social well-being fail to measure the environmental amenities we enjoy and the services the environment provides. We need a new and expanded economic scorecard that includes the implicit value of environmental amenities and services.

The W. P. Carey School of Business and the Global Institute of Sustainability at ASU recently launched a partnership that should help to develop just such an economic scorecard for sustainability. This new scorecard will measure the importance of environmental amenities. The first part of the scorecard project employs a survey of households in the Phoenix metropolitan area and includes questions that will allow us to analyze and measure the economic importance of air pollution and heat-island effects.

The next step of the research will address the importance of open space and landscape-related amenities. Later plans call for research regarding the value of water. As an essential resource to sustained urban economic growth and the services of urban ecosystems, water must be allocated in ways that balance its contributions to economic activity with its value for sustaining environmental amenities provided by these ecosystems. These environmental values are currently left out of economic scorecards.

Why do we need scorecards in the first place? Scores create incentives for improvement. They highlight what works and what doesn't. Sustainability scoring, in particular, will provide a practical method to balance market outcomes with nonmarket consequences to create incentives for firms and households to engage in activities associated with positive feedbacks. We have reason to believe lessons learned here in Phoenix will have wide relevance elsewhere.

Economist V. Kerry Smith is a member of the National Academy of Sciences and is a pioneer in developing indicators to measure the nonmarket value of environmental assets. This article is reprinted from the sixth edition of the Arizona Policy Choices report, Sustainability for Arizona: The Issue of Age, November 2007, published by Morrison Institute for Public Policy and the Global Institute of Sustainability, Arizona State University.