

Green GDP: Notes for UPSC

Green GDP is an important and current topic that is relevant to the UPSC exam. It forms a part of the current affairs, environment and ecology, polity and also social issues segments of the IAS exam. The following article gives you a brief about the concept of green GDP.

What is the Green GDP?

The green gross domestic product is an index of economic growth where the environmental consequences of that growth are factored in the conventional GDP of a nation. Green GDP monetizes biodiversity loss and also accounts for costs attributed to climate change. A few environmental experts prefer physical indicators (like "carbon dioxide emissions per year" or "waste per capita"), which may be aggregated to indices such as the "Sustainable Development Index".

What is the Rationale behind Green GDP?

The main idea behind a Green GDP is that the standard GDP has limitations with regards to being indicators of economic progress and social well-being. The normal GDP only measures gross output and does lack the mechanism of recognising wealth and assets that come out as a result of economic output.

This is an issue because it does not take into consideration the permanent or significant decrease or replenishments of these assets. In short, GDP has no capacity to identify whether the level of income generated in a country is sustainable or not.

Natural capital is inadequately represented in GDP as they are not considered economic. Pertinent to their costs, companies and policymakers also do not give sufficient weight to the future benefits generated by restorative or protective environmental projects. As well, the important positive externalities that arise from forests, wetlands and agriculture are unaccounted for or otherwise hidden because of practical difficulties around measuring and pricing these assets. Similarly, the impact that the depletion of natural resources or increases in pollution can and do have on the future productive capacity of a nation are unaccounted for in traditional GDP estimates.

The need for a more comprehensive macroeconomic indicator is consistent with the conception of sustainable development as a desirable phenomenon. GDP is mistakenly appropriated as a primary indicator of well-being, and as a result, it is used heavily in the analysis of political and economic policy. Green GDP would arguably be a more accurate indicator or measure of societal well-being.

Green GDP Vs GDP

To calculate green GDP net natural capital consumption, including resource depletion, environmental degradation, and protective and restorative environmental initiatives is subtracted from traditional GDP. These calculations can also be applied to the net domestic product (NDP), which deducts the depreciation of produced capital from GDP. In each case, it is required to convert the resource activity into a monetary value, since it is in this manner that indicators are usually expressed in national accounts.

GDP vs Green GDP

Some critics of environmentally adjusted aggregates, including GDP, point out that it may be difficult to assign values to some of the outputs that are quantified. This is a particular difficulty in cases where the environmental asset does not exist in a traditional market and is therefore non-tradable. Ecosystem services are one example of this type of resource. In the case that valuation is undertaken indirectly, there is a possibility that calculations may rely on speculation or hypothetical assumptions.

Supporters of adjusted aggregates may reply to this objection in one of two ways. First, as our technological capabilities increase, more accurate methods of valuation have been and will continue to develop. Second, that while measurements may not be perfect in the cases of non-market natural assets, the adjustments they entail are still a preferable alternative to traditional GDP.