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BILL VIRGIN

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Oil spill's bottom line hard to assess



By BILL VIRGIN SEATTLE POST-INTELLIGENCER COLUMNIST

A thing of beauty is a joy forever ... until that thing of beauty, such as a shoreline, gets coated with thick gobs of oil.

That sounds like an environmental problem, but it's also an economic accounting problem.

Specifically: If individuals, companies and government spend thousands (or more) to clean up the spill, does that qualify the spill as a positive economic event?

Or maybe it's not so positive if you use the right numbers. After all, John Keats, who scribbled that stuff about beauty and joy, followed his memorable opening line with, "Its loveliness increases; It will never pass into nothingness." Sounds like the very definition of an asset, and an appreciating one at that.

So when a thing of beauty gets besmeared with gunk, perhaps permanently, who records the write-down in value on the books?

Last week's dump of oil by parties as yet unknown prompted a musing on the economic aspect from Northwest Environmental Watch Executive Director Alan Durning, who posted his thoughts on the organization's blog:

"The methods of economic accounting are so perverse that they will tally yesterday's spill as a plus in the 2004 gross state product for Washington. The reason is that all the money spent on cleaning up the spill will show up in the GDP (gross domestic product) figures, but the ecological losses suffered are off the books."

Durning's comments get to a long-standing vexing economic problem -- how to account for what are known as "externalities."

Accounting and economics tend to look at entities or events as a sort of closed loop. I make a product: I spend money for labor and raw materials, I collect money for the sale of product, that's it.

But that's not necessarily it, if in the process of making that product I produce some results that someone else is harmed by or has to pay to remedy -- such as pollution.

The oil spill cleanup will mean expenditures on equipment and labor, which will show up as short-term economic activity. But the spill itself could also mean long-term reductions in revenue for commercial fisheries or tourism.

Durning acknowledges that critics of the gross domestic product critics would argue that all those effects show up eventually in the GDP numbers. "We'll probably never know if the effect was a plus or a minus in GDP," he says. "All these effects are diffuse and

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unmeasurable."

But that's hardly the only shortcoming of a measure such as GDP. It doesn't take into account, for example, the opportunity cost of spending the money on cleanup instead of having it available for more productive goods or activities. Says Durning, "GDP is also messed up in that remedial spending counts as much" as spending on productive goods or services.

This is not an issue limited to environmental matters. Think of the money spent to clean up natural disasters such as hurricanes or tornadoes or floods. Think of what we'll be spending around here after The Big One, once the megaquake arrives.

Or consider our spending for car alarms and home security systems on a personal level, or homeland security on a national level.

Such spending generates immediate economic activity, and it's necessary to protect or restore what we've got, but does it really contribute much as a multiplier to future economic activity?

GDP, Durning adds, is a little like getting a report card from school that gives a grade in just one subject -- math -- while leaving the other subjects blank.

"You can improve the GDP figure but you can never make it complete," he says.

Critics of GDP have tried to supplant it with alternative statistical measures; Durning's organization compiles what it calls the Cascadia Scorecard, a regional measure that looks at seven factors including the economy, and within that sector looks at such factors as unemployment, household income and the poverty rate.

Which, in an odd way, points up the shortcomings of the alternative measures -- there's even less consensus about what ought to be in them than there is on how GDP should be calculated.

Skeptics argue that decisions on what gets included and what gets left out are driven more by political considerations than an attempt to get a better understanding of what's going on.

What results is a mishmash of measurements even less illuminating than what's being replaced -- rather like those dueling studies of Washington's business climate that depict it either as nirvana or a hellhole.

Not that that's going to stop people from coming up with statistical measures that purport to calculate the economic impact of social ills ranging from obesity to traffic congestion to second-hand smoke.

About the best that might be hoped for is to accept the basic economic-accounting tools, warts and all, for what they are -- measurements that provide some insight into economic activity but which, because of their limitations in tracking the ripple effects of economic events, are also limited in analytical usefulness.

Those basic tools can then be supplemented by whatever individual statistics provide the necessary insights -- with the understanding that no one is going to agree exactly what those measurements are.

Trying to use GDP as an all-purpose, all-encompassing tool of economic activity is the equivalent of using a hammer in place of all tools including a screwdriver. You can try it, but you're probably not going to like the results.

P-I reporter Bill Virgin can be reached at 206-448-8319 or billvirgin@seattlepi.com. His column appears Tuesdays and Thursdays.

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