

# Money can grow on trees

*The Economist*

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# Forests

- Forests are disappearing because they are undervalued

## Bad accounting

- In the national accounts, the clearance [of forests] is recorded as progress
- This is bad accounting. It captures very few of the multiple costs ... which fall ... on poor locals, all Indonesians and the world at large

## A big problem

- Most of the goods and services the country's forests provide are invisible to the bean-counters (financial officers)
- Many of them are **public goods**: things like clean air and reliable rains that everyone wants and nobody is prepared to pay for
- Where they are traded, they are often undervalued

## Forest provide many benefits

- Preventing natural hazards, such as landslides
- Carbon and water cycles
- Safeguarding biodiversity
- **Almost none is priced on markets.** Forests are usually valued solely for their main commercial resource, timber

## Negative externalities

- According to TEEB (The Economics of Ecosystems and Biodiversity), negative externalities from forest loss and degradation cost between \$2 trillion and \$4.5 trillion a year
- A better evaluation of what forests are worth is needed—calculate the opportunity cost of cutting them down and sell them off

## An insurance policy

- The rainforest's contribution to South America's agricultural output is estimated to be about \$1 billion–3 billion
- But the real figure might be ten times as much
- The idea is that no one should need to pay it
- Bean-counters are becoming a bit less blind to nature's bounty. For example, Vietnam chose to spend \$1.1m on planting ... mangrove forest, thereby saving \$7.3m a year on dyke upkeep

## Biodiversity

- Habitat banking: A developer who drains a hectare of marshland can pay to restore a bigger area elsewhere
- This helps to protect **biodiversity**, the services associated with it are especially hard to collect on
- This alone can justify conserving forests
- Bioprospecting (biodiversity prospecting): scientific research that looks for a useful application, process, or product in nature is called



# Bioprospecting

- Bioprospecting has done almost nothing to raise the value of standing forests ... partly because of difficulties in attaching property rights to species
- Still, understanding biodiversity can make it an important adjunct to conservation motivated by other concerns