ECONOMY FOR THE COMMON GOOD

Common Good Product

In the face of climate change and growing inequality, our current way of measuring economic success has failed. The Gross Domestic Product (GDP) is not designed to indicate the health of people and planet. It fails to inform decision-makers how sustainable our economy really is. The Common Good Product (CGP) is a new, innovative measure that can be used by policymakers and societies to overcome these limitations. Instead of endless material growth on a limited planet, it reveals the well-being of people and nature. It shifts the focus from everincreasing profits to that which really counts.

"All the energies of Government and business must be directed to increase the national income."

Franklin D. Roosevelt, 1938[1]

Robert F. Kennedy, 1968

"The Gross National Product measures everything except that which makes life worthwhile."

Our economy has a problem

Global warming, loss of biodiversity, rising inequality, erosion of meaning, decline of democracy. More and more experts and people have concluded that the most pressing problems of our times cannot be resolved with the existing economic model and its focus on monetary indicators. One of the most controversial elements of our current model is GDP, not as a value-free statistical indicator, but as the single most important method for measuring economic success. Although GDP had never been designed to measure the progress or well-being of a country and its citizens, it has been called "the best single measure of a society's economic well-being" by a leading textbook author in economics, N. Gregory Mankiw.[2] His predecessor and most successful textbook author of all times, Paul Samuelson still, in 2010, celebrates GDP as "one of the greatest inventions of modern times"[3]. Accordingly, it has been broadly used as a reference for "development", "progress" and well-being.

What is the goal of the economy and what should we measure?

The core of the problem is that GDP has little to do with the economy's overarching goals such as satisfying basic needs, general welfare, life quality, or the common good. It neither computes adequately the positive steps towards these goals, nor accounts for the negative impacts of positively considered economic activities. In other words, it does not serve as a compass for policymakers or society to help keep track of whether our economy is heading in the right direction.
An effective tool to evaluate a society's success is what matters most. However, what is the goal of the economy?

The author and philosopher Claus Dierksmeier found that over millennia, the overarching goal of the economy was the common good.[4] Adam Smith used the term "wealth" in his book The Wealth of Nations, and nowadays many constitutions refer to the "general welfare". The problem is that there is no consensus on what "wealth" or "welfare" or the "common good" actually mean. Consequently, the "success" of a national economy could never be accurately measured. How then did GDP become the sole tool for measuring economic success and, for that matter, "economic growth".

History of GDP: Forged in war

The GDP was developed in the United States during the Great Depression when the government wanted to know how "the economy" developed, or more precisely, was shrinking; and how it could counteract the crisis. For this purpose, Simon Kuznets, a US economist and recipient of the Swedish Riksbank's Prize in Economics, was commissioned in the early 1930s by the Department of Commerce to develop an accounting method for the "national income". On the eve of World War II, the government wanted to know to what extent national resources could be channeled into the military sector without damaging other essential sectors. After ten years of depression, the way out of the Great Depression was a gigantic investment in military spending, which shot from 1.6 percent of GDP in 1940 to an incredible 48 percent in 1944.[5] Due to this supreme armament effort, based on Kuznets' calculations, the US turned into a military superpower and has maintained that position until today. To Kuznets, it was crystal clear that the complex calculation he had developed had little or nothing to do with measuring welfare. He stated: "The welfare of a nation can, therefore, scarcely be inferred from a measurement of national income as defined above".[6] That is, nevertheless, exactly what happened. GDP became the de facto method for measuring well-being and the overall health of a society.

Shortcomings and public criticism of GDP

GDP's biggest advantage is that it is comparatively easy to measure – in monetary units – and it has been developed and acknowledged by world-renowned institutions. Nevertheless, the list of its shortcomings is long. It excludes, for example, any non-market transactions, it measures only monetary output and not direct increase in well-being, it ignores any negative social and environmental consequences, and it counts destructive events such as damages (repair and reconstruction), disputes (litigation fees) and wars (armament and reconstruction) as a net gain.

Fundamental criticism of GDP started as early as 1968, when US presidential candidate Robert Kennedy pronounced in an electoral speech at the University of Kansas that GDP measures „everything except that which makes life worthwhile".[7] The current fixation on GDP assumes that economic growth is always good and essential to a healthy economy. In 1972, "The Limits to Growth" were reported to the Club of Rome. In the same year, the economist Kenneth Boulding said before the US Congress: "Anyone who believes exponential growth can go on forever in a finite world is either a madman or an economist."[8] According to Manfred Max-Neef, increases in GDP between the 1950's and 1970's no longer had any correlation to life quality and well-being in most high-income countries.[9] In 1995, three Californian researchers developed the Genuine Progress Indicator. In a supportive letter, 400 leading economists declared: "Since the GDP measures only the quantity of market activity without accounting for the social and ecological costs involved, it is both inadequate and misleading as a measure of true prosperity. Policy-makers, economists, the media, and international agencies should cease using the GDP as a measure of progress and publicly acknowledge its shortcomings."[10] Finally, in 2010, then French president Nicolas Sarkozy wrote in a foreword to a commission on finding alternatives to GDP: "Growth is endangering the future of the planet and is destroying more than it is creating".[11]

The problem is that GDP only measures market transactions in monetary terms which do not correlate with the satisfaction of basic needs, the actual goal of the economy. A team of authors of the movement Economy for the Common Good (ECG) came up with a proposal on how to define economics. They suggest, "the science of the satisfaction of the needs of living and future human generations, in alignment with democratic values and ecological planetary boundaries".[12] In other words, an "economy" is not about "output" of products and services which have a market price, but about the satisfaction of basic needs, irrespective of whether money and markets are involved at all. Human needs can be satisfied in households, via commons, and through public goods and services, hence we need a larger understanding of the economy and how we measure it than mere market transactions. Dirk Philipsen, author of "The Little Big Number", a standard reference on the GDP, comes to the same conclusion: "The central challenge is thus to generate a different concept of the economy."[13]

Previous attempts at alternative metrics

Due to widespread criticism, a growing number of initiatives have developed alternatives to the GDP.[14] The economists William Nordhaus and James Tobin came up as early as 1972 with the Measure of Economic Welfare (MEW). World Bank economist Herman Daly developed the Index of Sustainable Economic Welfare (ISEW) which includes, next to GDP, also life expectancy and illiteracy. The Human Development Index, created by Amartya Sen, and today used by the UNDP, measures "long and healthy life, knowledge, a decent standard of living" and "not economic growth alone".[15] The World Happiness Report (WHR), conceived by Jeffrey Sachs, Richard Layard and John Helliwell, and published annually since 2012, measures six weighted indicators: income, social support, healthy life expectancy, freedom, generosity and trust. In 2018, the scores ranged from 7,632 points (Finland) to 2,905 points (Burundi). Norway, Denmark, Iceland, and Switzerland also figure among the top five.[16] The Happy Planet Index (HPI) of the London-based think tank New Economics Foundation, is led by Costa Rica 2019, ahead of Vanuatu, Colombia, and Switzerland. The HPI is made up of well-being (according to the Gallup World Poll), Life Expectancy (UN data), Inequality and Ecological Footprint.[17] In 2011, the OECD came up with the Better Life Index.

The "Gross National Happiness" of the state of Bhutan is particularly straightforward. With Bhutan's model no complex mathematical model is worked out, rather thousands of households are comprehensively surveyed every few years. They are asked various questions such as:

- How much do you trust your neighbours?
- How often do you attend social and cultural activities?
- Is pollution of rivers and streams an issue of environmental concern in your community?

Some may still ask: "Is it possible to measure happiness?" It seems that with around 135 questions on all aspects of quality of life, a sense of the happiness of a country could be measured much more effectively than with the one-sided GDP. As evidence of an emerging megatrend, four small countries – Iceland, Scotland, Finland and New Zealand –

have announced plans to replace GDP by a richer set of well-being indicators.[18] In 2007 the European Union began to search for alternatives. In its report "Beyond GDP" it is stated that "Economic indicators such as GDP were never designed to be comprehensive measures of prosperity and well-being. We need adequate indicators to address global challenges of the 21st century such as climate change, poverty, resource depletion, health and quality of life."[19] The European Green Deal, announced in 2019, builds upon these ideas and is about improving the well-being of people.[20]

A new process for a democratic Common Good Product

In order to develop a widely accepted and easily understandable instrument from the plethora of new measures of well-being and the indicators that compose them, people can be directly involved in the development of a Common Good Product (CGP). A central innovation of the Economy for the Common Good (ECG) movement is the development of a participatory process in which the sovereign population can develop a Common Good Product itself.

CGP assemblies can be held in a multi-round process, first at the municipal, then regional and finally national level. The direct organisation of a federal convention by random selection is also conceivable. Such formats have been taking place in more and more countries since 2015, starting in Canada and Ireland. In Germany, the first citizens' council was held in 2019 on the topic of democracy, followed by another on "Germany's role in the world" in 2020 and the third on climate protection in 2021. France already had its turn with climate protection in 2019, Austria had its premiere in 2022.

The convention members can collect their own proposals plus others from the population (for example through liquid democracy) and filter out those 20 sub-goals that enjoy the strongest support. These 20 "finalists" would be included as sub-goals in the future Common Good Product. A variant would be that five sub-goals each are assigned to the areas of ecology, social affairs, economy and culture. Another option is the division of well-being in four quadrants: inner and outer individual and collective/natural well-being. All goals must serve to satisfy basic needs and safeguard basic values. In a final phase, experts can operationalise the sub-goals with the help of indicators, e.g. two to five per sub-goal. The guiding question should be: How can the achievement of the respective sub-goal be measured most effectively? This would make it possible to compare the Common Good Product of a country over time as well as internationally (with other countries). The CGP can be presented on a colourful "dashboard" that is visible and easy to follow for the public - both the results of each single sub-goal as well as the aggregate score of all of them together.

The goal: CGP anchored in the constitution

A process using direct democracy to develop the Common Good Product would be desirable and, from a democratic policy perspective, the optimal variant. Nevertheless, in an alternative process, the first version of the Common Good Product could be developed by the members of parliament and subsequently further developed by the citizens. The last step would be to vote on the developed CGP in a binding referendum. On this basis, the CGP could be anchored in the constitutions as a measure of general welfare. Dirk Philipsen aptly concludes: "Replacing the GDP regime with a democratically articulated smart metric that promotes general welfare could provide a unifying goal."[21]

Transparency tool for legislation

Following Bhutan's example, the CGP could be used as a tool to assess the impact of proposed legislation and other policies on core values and societal goals. Such a tool would be akin to a common good test or compass for new legislation. In the business sector with financial balance sheets and in the banking sector with credit ratings, there are sufficient methods to measure the financial impact of legislation.

The US Congress, for example, employs the Congressional Budget Office to advise politicians on budgetary issues. The proposed transparency tool would offer the public, government agencies, political leaders and legislators themselves a nonpartisan, easily understandable and transparent way of measuring proposed laws against a set of fundamental values like human rights, dignity, sustainability and economic justice.

Piloting through a local Common Good Index

The first attempts to develop a meaningful welfare metric can be started bottom-up, i.e. regionally and locally. Within the Economy for the Common Good (ECG) movement, first steps have been taken in parts of Spain, including Guarromán, Benifairó de Valldigna and Salamanca; in Alto Adige in northern Italy; in one district of the city of Münster as well as in the regions Baden Württemberg in southern and Wendland in northern Germany. The first published document is a thesis at the University of Salamanca on the "Índice del Bien Común" (Common Good Index).

The strategy is to initiate, moderate, and document several processes which use different methods, but head for the the same goal - and learn from the first experiences. These pilots will spread internationally and inspire more and more cities and regions to develop their own Common Good Indices. One day the first country will dare to lift it on to the national level and create a Common Good Product.

Derivations of CGP for the business and finance sectors

A Common Good Product, defined by people in a democratic process, would have the further advantage that instruments for measuring the ethical responsibility of companies and investments could be derived from it relatively easily. Companies and investment projects could be assessed on what they contribute to the achievement of the 20 sub-goals of the CGP. As one possible instrument, the ECG movement has developed the Common Good Balance Sheet (CGBS) which evaluates a company's sustainability performance with a specific score. High-scoring companies could be favoured during public procurement and industrial development grants and could benefit from lower taxes and prioritised access to credit. This would turn the current competitive disadvantage of climate-friendly, sustainable and responsible economic practices into an advantage. The financial sector could use companies' CGP score to steer investments towards economic activity that improves the common good. Externalising benefits would be profitable, externalising costs would be financially detrimental. After a transition phase, only comprehensively ethically responsible investments and businesses would be profitable. The "system error" of the current market economies would be fixed.[22]

A better world based on sound goals and appropriate measures

A democratically-designed Common Good Product would be a real game changer. It would reorient the economy from primarily financial performance indicators to the true goals of the economy: well-being, satisfying basic needs, life quality, improving the common good, and ensuring a good life for future generations. By calling for a participatory approach in developing the Common Good Product, this tool can be a transitional bridge to a common good economy. Moreover, it can be an effective undertaking against the feeling of powerlessness and disenchantment with politics that characterises the current state of our democracies.

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