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Wealth beyond GDP - Composing a National Commons Product

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Abstract

Most macro economic reflections on stability, risks and wealth refer to the empirical base of the *Gross Domestic Product* (GDP). After the financial crisis and the fast growing demand of public debts - the IMF attends $10 Trillion more state debts within the next decade - the absolute limits of debts are defined by the ratio between debts and GDP. Any doubt in the reliability of the GDP therefore risks to become a highly political issue. After the promising 2007 EU Conference *Beyond GDP* all activities to find alternatives were nevertheless slowed down or stopped. They occur below the line.

This paper in a first step focuses the doubts in the current GDP composition by having a look at the US GDP. In a second step International Indices referring to the GDP are listed in an *Index Benchmark*. In third an alternative is presented: the *National Commons Product*, that may be used to create a *Global Commons Index*. This approach to measure natural, social and private commons and public goods is made to create a knowledge base of economies that can not completely be influenced by currencies, trade and governmental debts.

Finally the aim is to create a more sustainable and realistic data base to estimate the world's economies and - of course - to encourage poorer countries to develop their existing commons instead of trying to achieve the level of the current benchmark leaders.

Content

I Cheatonomics: Why the US and the EU are trying to save the GDP

In an Op-Ed comment in New York Times on August 27th Nobel Prize Laureate Paul Krugman (Krugman 2009) surprised with a new perspective: he considers the estimated $ 9 Trillion surplus US-debt over the next decade not as too high but rather as *too low*. According to Krugman Obama should even spend more to revitalize the US economy. So were we wrong while believing that the so called World Financial Crisis was caused by debts mutually multiplying themselves like rabbits?
In his comment Krugman argues that even with that new debts the United States will not reach a GDP-debt ratio of more than 70 per cent in 2019. He claims that Belgium (118 per cent) and Italy (114 per cent) even had a worse ratio but none of them tumbled into a financial crisis.
We may call this argumentation a risky bet on the reliability of the US GDP. What, if the GDP had, in fact, already been significantly lower for decades, if the composition of the US GDP was part of a giant *cheatonomics* fraud, empowered by economic science? That is not a rhetoric question at all. More than 80 per cent of the turnover of the US IT-industry have been integrated into the US GDP by using the so called "Hedonic pricing" scheme. That means: If a computer with 500 MB working space was $500.- in 1999 and still available at a prize of $500.- in 2009, but now features 5 GB at triple speed, his price increases the GDP to an incredible $ 2.500.- after some years.
If the US is conducting wars in Iraq and Afghanistan with costs of several trillion Dollars (see the estimate of Joseph Stiglitz 2008) completely fundraised through new debts, the US GDP is growing 3 per cent every year.
The US are accomodating 1.5 million prisoners in a fast growing prison industry, more than China and Europe together: great, that boosts the US GDP! Exxon's and McDonald's worldwide turnovers that are spent all over the world, push the US GDP.
If we downsize the US GDP to the basic activities of a real national economy such as GM, Apple, Adobe and the Yellowstone Park and eliminate hedonic pricing, if we ignore the Trillion spend on military projects and wars per year, we surely will see a negative result. In fact the US has debts of 150 of it's GDP, not of 60 per cent. This is bad news also for the *Human Development Index,* which was intended to look behind the GDP, because it still contains the fake GDP. But don't worry: even the European activities "beyond GDP" – that was the title of a conference in 2007 – have been completely abandoned after the financial crisis. In a declaration published on

August 20th 2009 the European Commission (2009) justified the current GDP-policy and only promised to add some Environmental Accounting according to proposals made by the Stiglitz-Fitoussi commission (Stiglitz 2009). In their conclusion the EU Commission buries any changes with the following sentence: "The Commission intends to report on the implementation and the outcomes of the actions put forward by this communication by 2012 at the latest".
That reminds on reports being made before the financial crisis in 2007: suspended forever, because three years in international economy may be a decade.

Why that strong resistance against any changes of the GDP in the US and EU?
Now every state needs to rely on his fake GDP in order to be able to justify new debts and to avoid downgrading of its state securities. By the way: according to the Bureau of the United States Department of the Treasury on December 31st 2008 an amazing 40 per cent of all US debts were so called *Intragovernmental Bonds.* Let's speak it out frankly: creditor and debitor are identical. So there won't be a problem to add another $9 Trillion during the next decade. But do all economists have to adopt this religious belief in cheated figures of debts and GDP? The United States unify an approximately 50 per cent of the world's debts. According to Konrad Hummler (Hummler 2009) , the President of one of the world's oldest Bank, Wegelin in Switzerland, even an incredible GDP-dept ratio of 624 per cent in the US is not completely nonsense. He requests a total bail out of all American assets. The study he refers to was made by the University of Freiburg, Germany (Raffelhüschen 2009). If their GDP is not reliable, state securities worldwide will burst in a bubble as the Space Shuttle Challenger in 1986.
Today the difference between a *weighted* and not weighted GDP is still part of efforts, to achieve more realistic results. The difference the researchers from Freiburg today make, is the difference between *explicit* and *implicite* state debts. The explicit consists of the current debts, the implicit includes further interests and obligations g.e. for decreasing birth rates and more pensions and health costs to be paid for elders.

Let's have a look at the results:

Country	explicit debt per cent of GDP	implicit debt per cent of GDP
Switzerland	55,2	-155,0
Spain	35,4	80,8
Austria	62,8	242,7
Norway	40,6	291,3
Germany	62,5	315,1
France	60,4	315,3
United Kingdom	37,2	567,2
United States	57,1	624,5

Source: Raffelhüschen, Bernd and others (2009), Ehrbare Staaten? Die deutsche Generationenbilanz im internationalen Vergleich, Stiftung Marktwirtschaft, Nr. 107, Januar 2009, page 9

Considering firstly the fact that this estimate was made for the year 2004, long before the financial crisis, obviously an estimate for 2009 can be far more negative. Considering secondly the fact, that the US GDP composition of 2004 included *hedonic pricing*, prisoners and wars, we may easy get to an implicit US debt of 1000 per cent of the real GDP. We can therefore not admit in any case that these debts will ever be paid back. For this worst case a lot of scenarios were made yet and the most popular is inflation. Lately Warren Buffett, the conservative and US stock market severe investor, remarked:
"Still, their threat may be as ominous as that posed by the financial crisis itself." (Buffett 2009)
In general the composition of the GDP worldwide completely includes spendings being financed by debts, public as well as private ones. At a certain point, the economic growth rate starts to be identical with the growth rate of debts. In long terms, the growth of debts will beat the economic growth rate. An total of about 200 Trillion securitized money claims or better debt obligations are confronted with only 4 Trillion bank money supply in 160 currencies. (Solte 2009)

Dirk Solte, specialist for the International Financial system: "moreover as the total volume of the financial and tangible assets climbs higher than the world GDP, the real portion of yields from assets vis-à-vis other (more highly taxed) income becomes ever greater."
As a result public earnings are decreasing. The governments balance these income losses mostly through more and more debt by issuing bonds. Due to Solte's study the debt may finally reach 100 per cent of the public earnings. Absurd?
Another approach to question the reliability of the current GDP is the *footprint approach* that reduces the fictional growth rates by damages of CO_2 emissions and the consumption of water and soil. The result is a so called GDP_{nat} (Solte 2009) which in combination with the population's growth allows to define an absolute limit of growth.
On September 14th 2009 the *Report by the Commission on the Measurement of Economic Performance and Socia l Progress* (Stiglitz, Sen, Fitoussi 2009) has been published. Three weeks before the European Commission (2009) declared on the GDP: "It's still the best single measure of how the market economy is performing." Together with the promise, to deliver a next report *in 2012* this can be interpreted as a try to bury any activities questioning the GDP. The major reason may be the necessities to keep on tracking the GDP-debt ratio in order to continue to sell state securities and to avoid governmental insolvency. A second reason is that economic sciences completely trusted in the GDP and all forecasts on growth, "progress", bubbles or crisis are referring to the GDP. Finally the empirical base of economic sciences will be questioned - and with that almost all their results.

II Index Benchmarks - How to quit the unilateral approach of global indices

As a reaction on the critics of the globalisation several new international indices appeared on the scene of global monitoring:

- The *Human Development Index*, provided by the United Nations, United States
- The *Environmental Stability Index*, provided by Yale University, United States
- The *Happy Planet Index*, provided by the New Economics Foundation, London
- The *Living Planet Report,* provided by the World Wildlife Fund

We can in general distinguish three phases and types of international indices:
1) Indices measuring primarily economic indicators, such as the most recommended and important Index of the world, the World Development Indicators, provided by the World Bank.
2) Indices measuring education, happiness, society development, rule of law and human rights. The most advanced of those is the Bertelsmann Transformation Atlas provided by the German Bertelsmann Foundation.
3) Indices adding and covering ecological aspects such as *footprint* and *biodiversity*

All three types were created in different states of mind and frameworks. They went through the phases of the economy after World War II: *reconstruction, growth, affluence, globalisation, new economy, financial crisis*. They proceed and co-exist simultaneous. Each of them represents a universe of scientific progress and cultural values.
Our primary question was: *How unilateral are global indices?*
When the *Human Development Index* appeared it has been mentioned yet (Wolfers 2009) that the ranking was 86 per cent identical with the current GDP index. Whatever we measure - finally Norway and Switzerland will always be the benchmark leaders. That fact inspired us by introducing two new methods:

1) *Index Benchmarks* that allow to compare any country result by featuring all indices together. That will help us to qualify a unilateral approach.
2) Focussing our own index to measure *the existing* instead of the *absent* commons and public goods. We therefore called it *Global Commons Index*.

Global Index Benchmarks

The following international indices will be used to compare our results in creating a *National Commons Product* beside the GDP:

Index	**Provider**	**Importance/Costs**
World Development Indicators Database/Country classification	World Bank	+++++
Human Development Index	United Nations Development Program	+++
Environmental Sustainability Index	Yale University	+++
World Database of Happiness	University of Rotterdam	++
Global Peace Index	Fund of Peace, Australia	+
Global Competitiveness Report	World Economic Forum	++
Wealth of Nations Report	World Bank	+++++
Shadow Economy Index	University of Linz, Austria	+
Annual Report of Development Effectiveness	World Bank	+++
World Values Survey	University of Stockholm, Sweden	++
Bertelsmann Transformation Atlas	Bertelsmann Stiftung, Germany	++
Country Strategy Papers	European Commission	++++
Happy Planet Index	New Economics Foundation, London	+
Living Planet Report	World Wildlife Fund	+++

Not featured: all OECD indices, because they consider too few countries. The OECD project *Measuring the Progress of Societies* is still in work.

III Composing a National Commons Product

Let's start by giving a new definition of economy first: *Economy is the balance between the commons, public goods and private gifts*. We should not forget that even today economy is still defined by *scarcity*. Economy in this tradition is defined as the balance between *capital, labour* and *basic materials*.
This a fundamental change in economic thinking. *Creative Commons* did become a popular idea during the last years. *Freeware* conquered the markets. *Grassroot economists* like Peter Barnes (Barnes 2004) were reclaiming *The Commons*. Nevertheless the term is in no way popular.
We may explain it by using it for our aim to measure non-material goods and services.

common	**higher weight**	**middle weight**	**middle weight**
natural commons	renewable resources of raw materials and energy	limited resources of raw materials and energy	access to drinking water, soil and sea
social commons	security and peace health education	information law/justice public traffic	access to public space public path
private commons	labour in honorary capacity black labour	life satisfaction happiness religion culture/heritage	affluence of children high birth rate life attendance

Of course any weighting and definition of these commons will be critically discussed during the development of the index. Maybe the high weighting of renewable resources and energy may meet a overall consensus, but commons that root from private and subjective sources such as religion, altruism and fairness will be regarded controversial. Finally even the definition of what private commons may be risks to be a private opinion within itself.

The result: Composing a National Commons Product (NCP)

Weighting in per cent	Class of common	formula/Database
25% natural commons free public goods being provided by nature	40% renewable energies 20% water 20% soil, sea 20% Potential of not renewable resources	energy potential in GJ water potential in cb.m/year sqkm per inhabitant in market prices
32% social commons Free public goods being provided by the community, mostly by states	20% security and peace 20% health 20% education 15% access to public land/space 10% information 10% law/justice 5% public traffic	position in the *Global Peace Index* percentage of population with free access to sqm per inhabitant percentage of population with free access to
15% labour in honorary capacity and black labour	50% working hours provided for public or common aims. 50% working hours provided for private aims such as for neighbours, friends and family	no. of hours per year compared by market prices for the same labour
7% religion, culture, heritage	50% free access to buildings and places, 50% free access to communities and services	percentage of population with free access
7% life satisfaction/happiness		World Database of Happiness
7% affluence of children		birth rate and percentage of children among the population
7% lifetime		average life attendance

For further explanations and examples see: Alexander Dill (2009), Towards a Global Commons Index, Research Paper 2009,

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