Measuring the (ultimate) goal of the Common Market and of a true (literal) "Economy"

Christian Felber, August 2018

Ultimate goal of the Economy – and the European Common Market

In the history of economic thought there is a theoretic convergence that the ultimate goal of human societies is the common good (or: general welfare, well-being, happiness). Aristotle already distinguished a true "oikonomia" which is about the common good and uses money only as a means from its opposite "chrematistiké" where making money and increasing capital is the goal – Aristotle considered the first as "sound" and the latter as "antinatural". Following Aristotle, the Bavarian Constitution says: "The economic activity, in its entirety, serves the common good." (Art. 151) The German Fundamental Law says: "Property obliges. Its use shall also serve the common good." (Art. 14) The Columbian constitution says: "Private and econmic initiative is free, within the boundaries of the common good." (Art. 333) In many constitutions, the "common good", the "general welfare" are not only the overarching goal of the whole democratic society, but also explicitly for the economy.

Now, one core element of the common good is a sound and healthy ecosystems and a stable climate: the foundations of life. When it comes to define "a good life for all" or high life qality, a healthy Planet is always and everywhere included. In other terms, economic activities can only be regarded as successful if they don't harm the environment, don't heat up the climate and don't reduce biodiversity. Consequently, economic success measurement has to be firmly linked to not only this element – the ecological dimension – of the common good, but equally to all others. The content of this proposal is to develop metrics for all levels of the economy that measure the achievment of these overarching goals.

I Macrolevel: Democratically composed Common Good Product

The search for alternatives to GDP is fully under way. The UN started with the HDI in 1990, the OECD developed the "Better Life Index" in 2011, Bhutan is famous for its "Gross National Happiness" in 2008, 2010 and 2015. In 2015, the SDG were adopted by the General Assembly of the UNO. They are in progressive process of operationalization by a team around Jeffrey Sachs. The Common Good Product could be composed directly by the citizens in participatory processes, inspired by the experts' metrics. The goal is to identify the twenty most relevant aspects of life quality and well-being and convert them to a measurable aggregate: the Common Good Product. If the "CGP" is composed by the citizens, they will curiously follow its development, understand it and trust in it.

Countarguments:
1. Alternative indicators/aggregates may be complementary to GDP, but not replace it.
2. There is a huge diversity, which to chose?
3. How to measure the achievement of the goals?

Answers:
1. Everything positive we **associate** with GDP – employment, wealth, well-being – is included realiably in the Common Good Product (different from GDP, there, the link is unreliable). Whereas all the negative impacts of economic activities that do not figure in the GDP or account negatively, would reduce the Common Good Product.
2. A democratic process would select those e. g. 20 goals that are most relevant for the European citizens and thus fulfill the EU's goal of "listening to citizens' expectations"[1]
3. After the citizens have defined the goals, a multistakeholder body of experts could develop the corresponding measurable indicators, e. g. three indicators per goal. The CGP can be measured and compared intertemporarily and internationally as a whole (aggregate) and by each goal individually.

1 European Commission: Plan D for Democracy, Dialogue and Debate, 13 October 2005. Online: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:a30000&from=EN

II. Mesolevel: Enterprises’ contributions to the common good

Regulation of Corporations vs. CSR

Since the 1970s, there have been regular attempts within the UN to adopt and enforce a binding catalogue of obligations for companies under international law, particularly as a result of repeated human rights violations by (transnational) companies, for example through National Socialism in Germany. So far, however, all attempts have failed, starting with the establishment of the UN Centre for Transnational Corporations (UNCTC) in 1973 and including the Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights in 2003. Currently, a new “Treaty Process” is under way, but, once more, with little chance for success.

At the same time, more and more voluntary CSR instruments and reporting standards have been developed: the ILO’s Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), the OECD Guidelines for Multinational Enterprises, ISO 26 000, the UN Guiding Principles on Business and Human Rights, the Global Reporting Initiative (GRI), the B Corporations or the Common Good Balance Sheet. These reporting standards vary to a large degree and achieve different things. So far, the only common feature: they are voluntary!
This development stands in stark contrast to the additional international rights of action for transnational corporations (TNC) in bilateral and regional trade and investment protection agreements (ISDS). Private property is more strictly protected under international law than human rights, labour rights, social security, tax justice, consumer protection, health, the environment or the climate.

EU directive on non-financial reporting (NFI)

Initially, the voluntary option was also the core characteristic of the EU’s understanding of CSR. Since 2011, a shift is happening. The EU directive on non-financial reporting (214/95) was adopted at the end of 2014 and has been implemented in 2017 in most member states. Enterprises “of public interest” with more than 500 employees are now obliged to draw up and publish a non-financial report containing information on human rights, diversity, labour rights, the environment, health and anti-corruption measures - in addition to the financial statement.
Nevertheless, the directive has been watered down significantly. For instance, in Germany, only a few hundred companies (out of four million) are affected. In the case of corporations, the “non-financial report” does not have to be included in the annual report and, thus, does not have to be audited by a certified public accountant. Only the fact that a report exists has to be confirmed. The contents have no legal consequences whatsoever.
This constitutes a strong distortion of competition between ambitious performers (with higher costs) and externalizers of (eco)social costs. Equal treatment of unequal legal persons is strongly disadvantaging responsible, sustainable and ethical business actors.

Three-step proposal for a single ethical balance sheet in the a three-step strategy of the EU

1. Defining meta-criteria for reporting standards

In order to make the law (EU directive and national implementation) more effective in the future, we have developed eight criteria for non-financial reporting (CSR standards).

universal (all values and relevant issues)	legally binding
measurable and comparable (e. g. using points)	externally audited
generally understandable (for the public)	public (websites, shop doors, products label)
developed in a participatory process	linked to legal incentives (taxes, tariffs, ...)

In a first phase, those reporting standards which meet these criteria to the greatest extent could be included in the revised EU directive, meaning that companies must apply one of these standards and have it audited: An externally audited result is a prerequisite for participation in this first round. The result has to be made visible for consumers, investors, and the general public.

2. Merger into a singular EU standard

In Phase 2, the selected standards are integrated into a unified ethical reporting standard ("ethical / common good balance sheet") according to the above-mentioned criteria. In the same way that all companies have to prepare their financial statemenst according to a uniform legal standard (in Germany, according to the German Commercial Code (HGB) and in Austria, according to the Austrian Commercial Code (UGB)), they have to apply an ethics report standard, which is audited externally and applies to all companies. For small businesses, a "compact version" can be developed with little effort (exists in the ECG movement since April 2017).

As recommended by the EESC in its opinion about the Economy for the Common Good[2], the result of the main (ethics) balance sheet could have an influence on the financial (means) balance sheet. The better the ethical performance of a company, the greater its advantages in taxes, customs duties, interest rates, public contracts, etc. so that responsible products and services become cheaper than unethical products and services. This way, only responsible businesses are able to persist in the marketplace!

3. International standard

This integrated success report can first become EU standard ("Ethical Internal Market") and later WTO or, even better, UN standard ("Ethical World Trade" instead of "Free Trade"). The integrated success report would become an entry ticket to the world market and a license to trade. The better the result, the easier it is for companies to trade and access the global market. In case of severe and repeated violations of ethical minimum standards, "ethical insolvency" occurs and the business license expires.

Schedule	Until 2017	2017-2022	2022-2025	2026-2030
Strategic phase	First generation of CSR standards: diverse but ineffective	Second generation of CSR standards: All those who meet the meta-criteria are included in the EU directive.	All the standards listed in the Directive will be merged into one ethical balance sheet, which will have legal consequences.	Financial and non-financial balance sheets are merged into an integrated reporting standard which becomes first EU, then WTO or directly UN standard.

Counterarguments:

1. Companies are already overregulated – no new regulations, no more red tape!
2. It is impossible to measure the contribution to the common good – everybody understands something else by the common good! Only dictatorships impose a specific understanding of common good to the citizens.
3. Those initiatives who have developed a certain framework will not be willing to fusion with other framworks and lose their USP/identity/product.

Answers:

1. It is true that companies suffer already a high degree of regulation and bear Nevetheless, this is not an argument against purposeful new regulations, but against ineffective existing regulations.
2. Defining the common good is as possible or impossible as defining "freedom", "democracy", "justice" or "sustainability". Today, many laws implement and execute a specific understanding of these fundamental values. The same is possible with the "common good". Nevertheless, a thorough and participatory democratic process is recommended to find a definition that is broadly shared and accepted.
3. When the – legally binding – financial balance sheet was developed, the same problem emerged. Whose standard, practice or tool shall be chosen? Today, it is uncontroversial that there is only one – even international – standard of financial accounting. It would be unimaginable that companies chose between 15 different standards of financial accounting. Thus, they have to be unified to one.

2 European Economic and Social Committee: "Economy for the Common Good", Opinion adopted on 17 September 2015: https://www.eesc.europa.eu/our-work/opinions-information-reports/opinions/economy-common-good

III. Microlevel: Common Good Exam for Investments

Banks, stock markets and institutional investors usually don't evaluate an investment's impact on the environment, the global climate, social cohesion, distribution, democracy or human dignity. Classical "economists" (actually: chrematists) consider an investment as successful when it provides a financial return on investment. When the fROI is double digit, they consider it as extraordinarily successful. But even a double digit fROI does not tell us anything reliable on the impact of that investment on the environment, the climate, social cohesion, distribution, gender relations, democracy or human dignity – nothing at all.
The Common Good Exam would take over this task and calculate the "ethical risks" of investments. Also here, a first bunch of catalogues or standards for "impact investment" or "responsible investment" has been developed such as the SROI, the Impact Scorecard or the Common Good Exam by the "Cooperative for the Common Good" in Austria: Before helping to finance a project on its crowdfunding platform, it applies a common good exam in order to check if no fundamental value is violated and no common good is expropriated. Only if this is the case, the financial creditworthiness assessment is done as well. If both exams are passed, the project can be financed – by the better conditions the higher its positive impact on the society and the planet.

Interstingly, the Italian Law defines since 2016 six criteria for "Ethical and sustainable Finance", amongst them "the finance of legal persons according to internationally acknowledged ethical ratings, with special attention to the social and environmental impacts".[3]
One very important consequence of this ist that no loans are given for financial investments – to make more money out of money. By definition, this is not "economy" (according to Aristotle), but "chrmematistics". According to the Bavarian Constitution, loans ought to help fulfil "real investments" and to "create values" that help "satisfy the needs of the pupulation" (Art. 157 (2)). By definition, assets (exchange values) cannot satisfy basic needs, only use values can do. Consequently, loans can only finance investments and projects that aim at satisfying basic needs, creating use values. This, by definition, is a true "economy" according to Aristotle, where money serves higher values (see above). If a loan or other finance instrument is applied to buy assets, it will automatically fail the common good exam.

Countarguments:
1. Banks are already overregulated.
2. Nobody can define the common good – that would restrict economic freedom.

Answers:
1. It is a fact that banks are overregulated. Even stranguregulated. Nevetheless, this is not an argument against meaningful new regulations, but against ineffective existing regulations. Basel I contained a few pages, Basel II was already quite voluminous, Basel III is almost unfeasable for a small bank – and there is no "asymmetric regulation" that differs between small and big banks or ethical and profit-maximizing banks. It is more: New banks don't get access to the EU common market. A licence was denied to: ZEF (Croatia), Gemeinwohl-Genossenschaft (Austria), New B (Belgium) and FIARE (Spain). Authorities close markets and practice protectionsm for the existing banks that caused the crisis in 2008. The solution does not lie in preventing new regulations and conserving existing ones, but redesigning the whole financial system according to fundamental values.
2. Same answer as above (II).

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Economy for the Common Good: https://www.ecogood.org/en/

3 LEGGE 11 dicembre 2016, n. 232. Bilancio di previsione dello Stato per l'anno fi nanziario 2017 e bilancio pluriennale per il triennio 2017-2019. Art. 111 bis – 1a.