0.1 Chapter 1: capitalism: Good Capitalism

0.2 Good Capitalism

1 Good Economic Measures: Beyond GDP

Over several decades, the measurement of Gross Domestic Product has become the primary way by which we try to tell whether the economy is moving in the right direction. An increase in GDP is taken to show that things are going well, while any decrease is regarded with anxiety.

Its not an unreasonable assumption. We intuitively understand that GDP gives a rough measure of a flourishing economy. The countries with the highest GDP per capita Norway, Switzerland, Australia, Denmark, Sweden and Canada are also pretty successful in many other ways. They are, for instance, all very close to the top of the Human Development Index, which assesses life expectancy and levels of education.

In line, though, with the basic neutrality of Classical Economics, GDP only measures how much financial activity there is. It does not concern itself with how good this activity is, from the point of view of human flourishing. If a nation became obsessed with buying lottery tickets or ringed its coastline with grim apartment blocks, GDP would certainly rise, but not in ways that would constitute progress towards a more flourishing society. GDP is not irrelevant to the good society. But it is a very imperfect guide.

Getty

The ultimate goal of work and money trade, buying and selling, manufacture, enterprise, corporate activity, financial investment: the whole array of activity which is currently designated Capitalism should be human flourishing. That is, an economy geared to flourishing and meeting our highest private and public needs. Good Economics developed by The School of Life is the study of the quality of commercial activity, not just the quantity. It aims to track how well (or badly) our actual economy is serving its ultimate purpose. To what extent is it aligned to its true goal? In what ways are we making progress?

Its not so much that we need to measure overall levels of happiness (though thats not a bad idea at all). We need some more morally focused economic dials. There are many determinants of happiness which are not closely tied to the economy, like whether we make good decisions about relationships, how forgiving we are, whether we appreciate nature, how we cope with our mortality. There are many areas of wisdom that contribute to the well-lived life and to collective happiness and they all need attention. But we should here consider the economy in a more closely focused way and ask to what extent it is in itself addressing its purpose as an agent of human flourishing.

Were not suggesting that societies should stop keeping track of their overall level of economic activity. Instead, we want to add some extra dials to the dashboard that tell us more about the quality of that economic activity.

Good economics is crucially concerned with six things that we should be measuring with all the careful attention presently given to GDP. We should be keeping a close watch on:

One: Motivation levels

Typically, motivation is seen as linked to levels of pay. Pay more the theory goes and you get great devotion from your employees. But this isnt quite right. The highest levels of motive which can be truly extraordinary arise when people understand that they are serving a genuinely good purpose. Their own role may be modest, but they bring their best efforts to the job because they are proud to be doing it because of what it is they do, rather than simply because of how much they get paid.

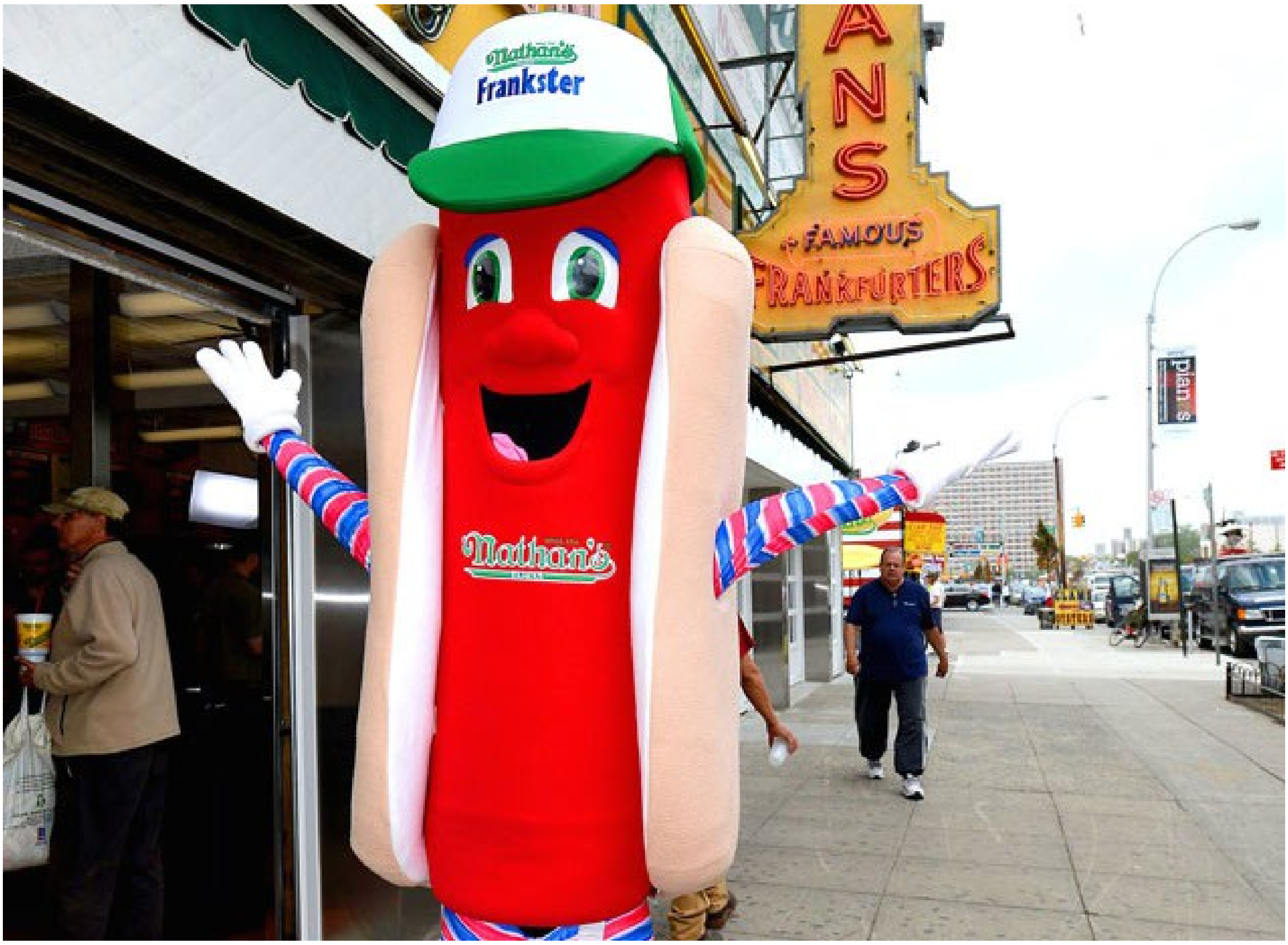
Getty

We can identify certain organisations or enterprises that have harnessed very high levels of motivation: the Armed Forces in the UK, the Swiss Federal Railways (neither of which offers particularly attractive financial rewards). So, we know it can be done. What we want from statistics is to find out how unusual such levels of motivation are. Are they becoming more or less widespread? Are five percent of employees at this high level or ten percent? The goal, in the end, is that it should be normal to love your work.

The motivation index shows the percentage of people who feel a high level of devotion to their job for other than purely financial considerations. The higher the figure, the better the economy is, in the large and deep sense, doing.

Two: Misemployment levels

We are all too familiar with the idea of unemployment. And we may be very glad just to have a job at all. The employment rate measures how many people have a job but it is silent on the character of the job. Ideally, work harnesses peoples best energies and talents, which are precious resources, and directs them productively towards some admirable and socially beneficial result.

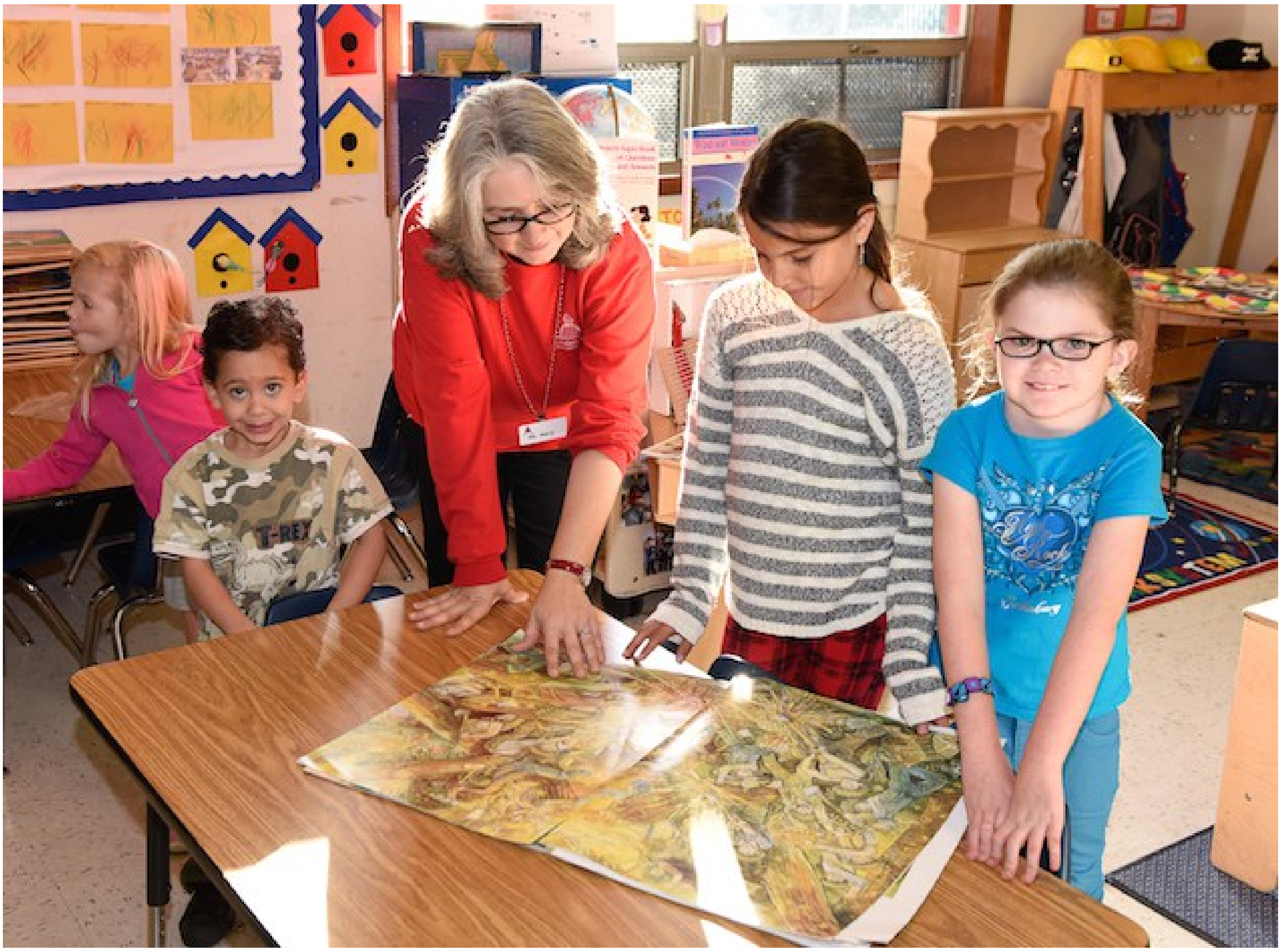


Misemployment data shows how many people are in work but do not have a good job. Not in the classical sense of a job that pays a comparatively high wage. But in a more basic sense of whether their job really is one that a civilised society should be glad anyone is doing. A good job can be modest. But it must be valuable to others. Clearing rubbish from the streets is not prestigious, but it is not misemployment. On the other hand the financial planning sector is firmly white collar but (at least in countries like Australia and the USA where the industry is poorly regulated) the work is frequently not in the best interests of the client and from a public point of view essentially worthless. People are employed and are paid, sometimes rather well. But they are often misemployed. The selling of credit cards by retail banks misemploys many people, whose days are spent working out how to get more people to take up credit simply because it benefits the bank if they do.

We want to know what portion of the working population is engaged in activities that are well-directed towards our collective flourishing.

Three: Earnings-Worth Ratio

Traditionally economists have paid attention to who gets paid what and have analysed this as broadly reflecting the state of supply and demand in the job market. But there is a natural longing that earnings should be connected to a persons level of contribution to the good of others. Sometimes this ideal seems to be realised. The cancer specialist gets paid a lot more than someone stacking the shelves at a supermarket. But it is dispiriting and frustrating to see (as we too often do) people providing a very worthy service teaching young children, nursing the dying for a small reward while others do things that are far from inherently admirable or beneficial, like producing trashy television shows or identifying tax loopholes, but for which the rewards are very high indeed.



Getty

So we can assess to what extent, for any particular kind of work, whether the rewards are roughly in line with or far above or far below the worth of the activity. What we want to know is what proportion of jobs are rightly rewarded. In the ideal economy it would be the universal norm. This figure would also tell us something important about the distribution of relative wealth. Societies tend not to resent income inequality when they believe that higher incomes are generated by the greatest contribution to the good of others. What we deeply resent is when some individuals make fortunes from activities that bring no tangible rewards to others and may even be opposed to our best interests.

Four: Right Demand

As consumers we are continually making decisions, large or small, about what to buy. Classically, economists have been interested in the overall amount we spend. But it is important that we assess how wisely we are spending our money. The question should not simply be how much demand there is but how much of this demand is good, or right. Right demand is wise consumption. We always hope that what we buy will enhance our lives. But frequently we dont grasp our own best interests, or understand our higher needs clearly, enough. So the choices we make dont actually help us flourish.

Of course sometimes they do. And we want to know to what extent. To study this we need to investigate in detail the experiences of consumers. Did buying that t-shirt or going on that holiday serve your long-term needs? Did it do so more or less than you might have thought? Was it, on reflection, a wise purchase? As with polling data on voting intentions, theres no need to ask absolutely everyone in order to get a fairly accurate picture of how demand is playing out in the life of the nation.

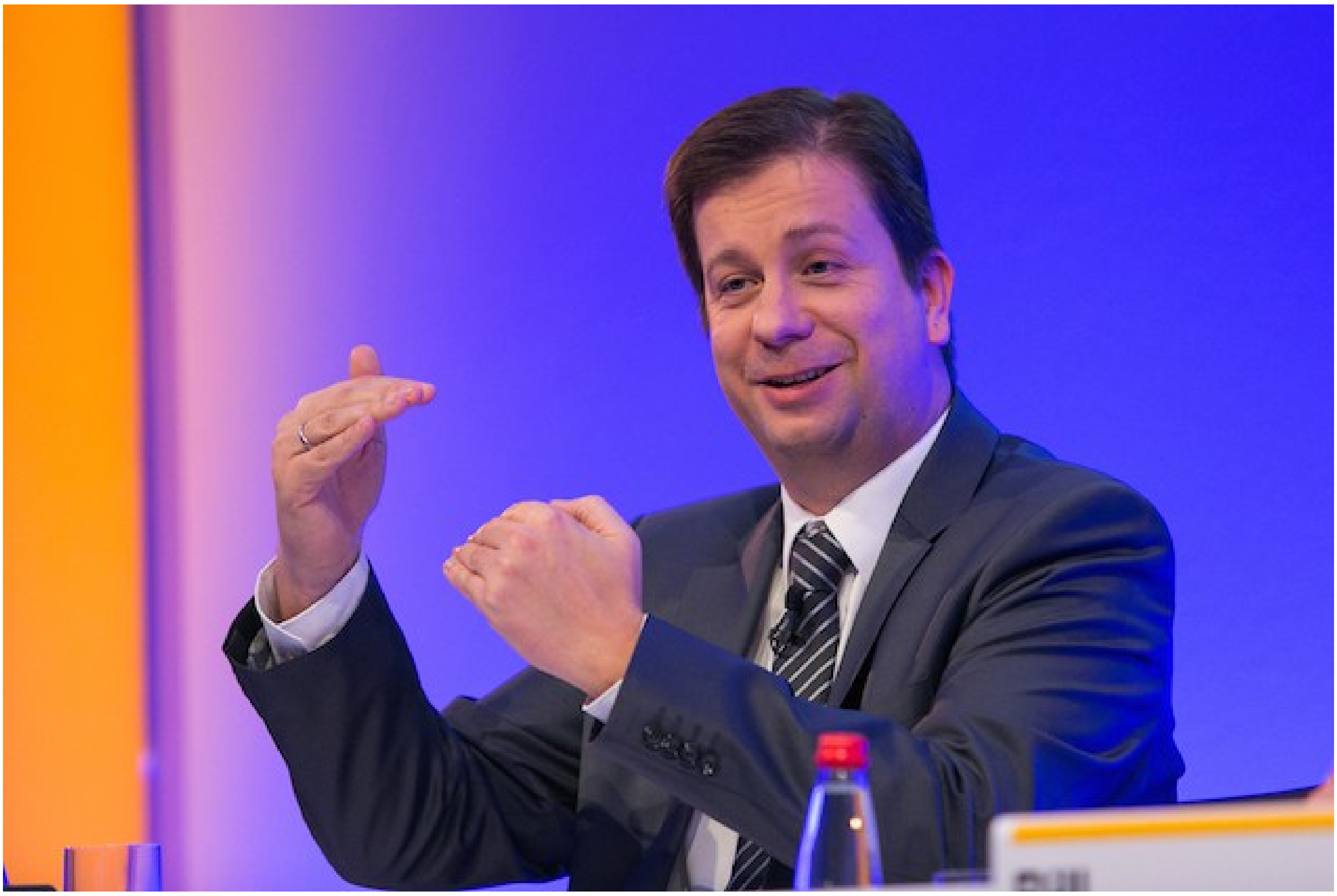
Getty

Right demand is immensely significant for the overall character of an economy, because it is demand that in the long run guides the efforts of business and thus defines the kind of work that we end up doing.

Measuring right demand does not, of course, in itself create right demand. But it lets us see something about why we end up spending our working lives as we do. And it therefore gives crucial focus to our ambitions to create a better economy.

Five: Right Profit

Instead of just assessing profit overall, we need to get more ambitious. We should set out to distinguish and measure right profit. Profit can arise in many ways that are not particularly admirable. It can come through exploitation, through the abuse of a monopoly position, by preying on the gullible, by employing slave labour… It is not surprising, with such instances in mind, if some people end up resenting the whole idea of profit.



Getty

Yet, this is not the whole story. Ideally, profit occurs because a business has found a way of delivering genuinely beneficial products or services at a fair price, where the price is above their costs. It might be a lovely hotel that wins loyal visitors with its charming, simple rooms and interesting, friendly staff. It could be a publisher that is able to guide authors to the most attractive presentation of their ideas. Or perhaps an architectural practice that has cracked the problem of delivering beauty rather than luxury. Right profit comes from being efficient in the deeply honourable task of helping people live better lives.

We know that at present some firms, though far from all, are making right profit. What we need to find out is the proportion. How much of the cumulative profit take of business is right profit?

Six: Right Price

The right or just price is determined by what it costs to produce something, or deliver a service, if everyone along the way is treated fairly and decently. Weve become habituated to the idea that the price of anything should be squeezed as low as possible and we typically take our custom to whichever supplier offers the cheapest deal.

But overall this attitude serves us badly. Partly, thats because we become the collective cause of so much suffering and anxiety. But in addition because we are not only consumers. We are almost all just as much a part of the productive side of the economy. Right price means that we, in turn, will be treated well in our own work.

Getty

We can already see deliberate efforts to set a just or fair price, like organic duck eggs or fair-trade tea. What we want to measure is how widespread the practice of setting a just price is. So the index tells us what proportion of sales meet this standard.

Putting a figure on all these factors would certainly be a demanding task; though modern societies have a very good track record in addressing technical problems of measurement. The resulting information would not just be of specialist interest. It would give us tools with which to build an economy that more reliably increases satisfaction rather than merely wealth.