

Reclaiming the Hidden Assets - towards a Global Freeware Index

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"Economy is the balance of three origins of Freeware: the commons, public goods and individual gifts."

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I Introduction

The creation from nothing, the *creatio ex nihilo* has always served as a model for economic activity.

Today transfers between *affluent* societies and poor *developing* countries seem to be the way to diminish economic differences. *"Poverty reduction will continue to require a strong focus on growth."*(ARDE 2006)

Mantras like this in the 2006 ARDE report of the World Bank are a result of a conservative *monetary* approach. The discussion is about the percentage of GNP or GNI a nation spends on aid for development aims.

During the last decade *Freeware* became a success story in the information technology business. What if we widen the term to name *free goods* in general? We might then identify three origins of Freeware:

- 1) *Commons* as water, sun, soil and raw materials.
- 2) *Public goods* as health, education, information and security provided by governments and communities to maintain social stability.
- 3) *Services, labor, goods and products* provided individually in a spirit of altruism, fairness, reciprocity and affluence, a so-called *gift economy*.

Economy is a social process and happens within a fragile balance of the three origins of Freeware. *The Global Freeware Index* is a fundamental new approach to manage the differences between the *asset portfolios* of countries and economies.

As a result of establishing a *National Freeware Product* national economies appear more auspicious in their potential than lost in their weaknesses. The current benchmarks promoted by *The World Index of Competitiveness* and *World Bank Country Classification* are leading down a dead-end street: neither can the IDA-classified countries follow the evangelism of growth, nor will the affluent countries transfer more capital than they do now. A third way might be to change the perspective. If we could evaluate the ability of a society to provide commons, voluntary labor, social access, peace and security, individual happiness and environmental sustainability, we get facts to activate these assets instead of reclaiming the absence of non-existing formal standards of "democracy", "education", "rules of law" and "market economy".

In fact econometric methods are means to a purpose. If the purpose is to overcome poverty, war and environmental destruction, we have to question econometric methods as well.

If Freeware is a useful term to describe phenomena of economic and social life as well as the potential of future developments (e.g.: the use of the solar energy resources to produce hydrogen), it has to become a point of macro-economic discussion.

The *Global Freeware Index* is a contribution within a new *Global Index Benchmark* (see Table VI). It is launched to inspire the controversial discussion of the incoherency of ethics and economics. It may help to use the knowledge of the existing resources of economies in the most effective way: as an accelerator to provoke the automotive power of Freeware and to activate *hidden assets*.

II "There is no need for further Indices" - let's have a look at the state of the art

International rankings and indices are the manifestation of standards and values and, of course, the knowledge base in research. The *World Development indicators database* to generate the *Country Profiles* of the World Bank is the following (2005, whole world):

External debt (% of GNI)	*
GDP (current US\$) (billions)	44384.9
GNI per capita, Atlas method (current US\$)	6987
Life expectancy at birth, total (years)	67
Population, total (millions)	6437.8
Population growth (annual %)	1.2
School enrollment, primary (% net)	
Surface area /sp. km) (in thousands)	133940.9

The World Bank says about this data: *"The data presented here are the most widely-used, official-source development data from the World Bank and other international agencies."* The data are generated by the *Development Data Group* at the Vice Presidency of the World Bank and covers 184 countries. The *Country Classification* of the World Bank, which is the most relevant database for macroeconomic decision-makers worldwide, classifies countries with a per capita income of less than \$ 1.025 in 2005 as *IDA* countries. In 2006 the following states were labeled as IDA countries:

*Afghanistan, Ghana, Nicaragua, Angola, Guinea, Niger, Armenia, Guinea-Bissau, Nigeria, Bangladesh, Guyana, Rwanda, Benin, Haiti, Samoa, **Bhutan**, Honduras, Sao Tome and Principe, Burkina Faso, Kenya, Senegal, Burundi, Kiribati, Sierra Leone, Cambodia, Kyrgyz Republic, Solomon Islands, Cameroon, Lao PDR, Somalia, Cape Verde, Lesotho, Sri Lanka, Central African Republic, Liberia, Sudan, Chad, Madagascar, Tajikistan, Comoros, Malawi, Tanzania, Congo, Dem. Rep. Maldives, Timor-Leste, Congo, Rep. Mali, Togo, Cote d'Ivoire, Mauritania, Tonga, Djibouti, Moldova, Uganda, Eritrea, **Mongolia**, Vanuatu, Ethiopia, Mozambique, Vietnam, Gambia, The Myanmar, Yemen, Rep. Georgia, Nepal, Zambia.*

These states are excluded from fundraising of bonds and loans. Their only official international address in development is the *International Development Association* (IDA) and, of course, all charity organizations as *the Red Cross, Terres des Hommes, Caritas, Miseror* etc.

The outcome of this classification is conclusions like this from the 2006 ARDE report: "*Poverty reduction will continue to require a strong focus on growth.*"

But what about the potential and hidden assets in these countries? The negative labeling *IDA-country* doesn't help to take up action in order to improve the situation. For example, countries like **Mongolia** and **Bhutan** are classified in this group, countries with enormous commons where people live in peace and without starvation. The natural, social and human assets of these countries are hidden and are not classified in statistics.

For the first time in 2006 *Natural Capital* and *Human Capital* became part of the vocabulary in the report *Where is the Wealth of Nations?* for the World Bank. The average wealth per capita was estimated at \$ 96,000.

Jürgen Turek, Director of the Institute of Applied Political Sciences at the University of Munich, who developed the *International Transformation Index*, wrote to me, that the existing World Bank Development Index and the OECD-Reform Index (still in development) are sufficient: "There is no need for further indices" (Turek 2007)

While having a look at the methods and examples of the Global Freeware Index and its embedment in the *Global Index Benchmark* the reader can decide if he wants to share this conservative position.

We propose that every effort possible has to be made to find new ways to solve the international problems in politics, the economy and environmental survival.

The World Development Index of the World Bank fixes differences instead of breaking them up. Nevertheless, several indices can contribute simultaneously contribute to the same subject other and lead to more promising perspectives.

III The Method: First Examples Mongolia and Austria

The *Global Freeware Index* is a ranking based on the *National Freeware Product (NFP)*. The NFP is the total of currently 18 classes of Freeware which are weighted within the NFP.

Freeware itself is defined as a label for any commons, public goods, products and services being available for free as a result of different reasons. To cite an example: drinking water is generally a *free public good* in the alpine countries. Nevertheless, most of the people pay for it because individual affluence allows it and the purification of waste water is financed by the water sales. Free drinking water is weighted within the NFP at 5.75% and a maximal score of 100 points. This score is reached, if 100% of the population had free access to this commons.

We can now compare this score list with:

- the score of other countries to create a ranking for this Freeware
- the official water market in this country

Then we could validate the yearly estimated maximal potential of free drinking water in sq.m with the current market price for each sq.m.

Irrespektive of the use the country's population makes of this potential, it represents a monetary value, an asset. We obtain the following table:

Country	Freeware	Score	Potential	Price	Turnover/year
Austria	drinking water	82	84 bn sqm per year	€ 2.80 per sq.m	€ 5.6 tn
Mongolia	pastureland	100	1.17 m sq.km (75%)	free	Zero or: € 357 m

The Mongolian example shows the challenge: Mongolia is ranked number 137 in the *World Development Index*. The 2.5 m inhabitants share a total of 1.564.116 sq.km, of which only 0.9% are privately owned. 3000 lakes and 3811 rivers provide water. 50% live from agriculture, mostly from livestock. 75% of the country is pastureland (1.17 m sq.km) with free access to all Mongolian people. The GDP per resident is \$ 440 per year. Neither the free pastureland nor the water potential are recorded in the national statistics of Mongolia - and even less in those of the World Bank, the World Economic Forum, the OECD and others.

Although there is no national market for pastureland in Mongolia, the asset of this common can be generated by using the average world price per sq.km for pastures. It would not be surprising to learn, that this price is in average € 8.000.- per sq.km because meat, wool and milk are products of worldwide trade which is dominated by market leaders like Australia, New Zealand, Argentina and Brazil.

If we capitalize* these € 8.000 with an interest rate of 4% only, we have to pay € 320 per sq.km and year. Hence theoretical yearly wealth of the Mongolian pastureland is exactly € 357.440.000 - about 50% of the whole GDP of the country.

If we follow this method, we might get a first impression of the way the National Freeware Product changes the econometric view on national economies not only those of developing countries. Austria does not sell its water, but if it could, it would be worth more than all other products and services Austria is exporting.

* The World Bank does not include capital costs and evaluates the revenues from pastureland with 50% of the direct income made with it and multiplying it by 25 years.

IV Composing the National Freeware Product (NFP)

Weighting in %	Classes of Freeware	Formula/Database
25% Commons	25% Water 20% Soil, Sea, Pastures 25% Biomass 15% Not renewable commons (e.g. cole) 15% Renewables	potential in sqm/year sqkm with free access in relation to population energy potential in GJ yearly potential of sales in market prices energy potential in GJ
25% Free Public Goods	25% Healthcare 25% Education 15% Information 10% Law 10% Public Transport 20% Public Security	percentage of population with free access to " " " crime rate
7% Honorary Capacity		percentage of population working in an honorary capacity
7% Religion		percentage of population with free access to religious services
6% Free Software	50% Acrobat Reader 50% Free E-Mailbox	percentage of population with access
7% Individual Happiness		ranking in the World Database of Happiness
7% Demographic Development		birth rate
8% Peace		deaths by violence per 1000 residents
8% Lifetime		average life expectance per capita

total 100

Some of the *missing* factors: % of children in primary, debt as a % of the GNP, annual growth rate of GDP, % of government spendings of the GDP...

V Pimp up the Econometrics!

The use of evaluation methods from *Asset Management*, *Portfolio Management* and *Private Equity* is a promising approach to overcome conservative

macroeconomic models. Nevertheless, *ethics* and *econometrics* still take place in two parallel universes. According to Einstein's theory of relativity all straight lines traverse in infinity.

As long as economic theory and methods only become *object* and not *subject* of ethical behavior, ethics and economics block each other. If the economy itself is regarded as a *Global Public Good* (Stiglitz 2006), if advanced economic studies in game theories show us, that fairness, reciprocity and altruism are part of economic behavior as well (Fehr/Schmidt 2005), if *Freakonomics* (Debener/Lewitt 2005) happen in the midst of daily economic life and if entrepreneurs are going for *Reclaiming the Commons* (Barnes 2006), econometric approaches have to consider these trends.

Therefore, the focus should be to *pimp up* the econometrics itself in order to develop innovative means for the evaluation methods.

As mentioned above, the NFP is generated by 18 different classes of Freeware. The selection of these classes as well as their estimation will always remain a controversial point of discussion. But 18 different sources are a widespread base to give a significant image of *hidden assets*.

We are used to searching for hidden assets in companies in stocks and in private equity - why not in countries and national economies?

The *Global Freeware Index* contributes to widespread target groups:

- international organizations supporting development and sustainability
- national bond and stock evaluators of banks, funds and international organisations
- other existing indices with a focus on monetary aspects
- research organizations undertaking forecasts for the worldwide development
- countries which intend to evaluate their own assets in order to activate them
- private and institutional investors to get an information advantage of hidden assets
- national investment promotion agencies
- scientists researching in economic change and its consequences

The census happens in cooperation with national and international contributors of data. The Index will appear yearly and be available as a synopsis and as a detailed report.

VI New Transparency: The Global Indices Benchmark

Country	Position/Labeling 2006	Index
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Mongolia	(18) estimation	Global Freeware Index
	137	World Development Index World Bank
	94	Global Competitiveness Report World Economic Forum
	71	Environmental Sustainability Index Yale University
	66	Market Economy Status Bertelsmann Foundation
	not covered	World Values Survey World Values Survey Association, Stockholm
	not covered	World Database of Happiness Erasmus University Rotterdam
	not covered	Annual Report of Development Effectiveness (ARDE) World Bank
	20.4% of the GDP Mean: 31.78%	Shadow Economy Index University of Linz
	Genuine Saving as a % of GNI 16.8% wealth not covered	Wealth of Nations Report 2006 World Bank
	0.36 (worst governance -2.5, best + 2.5)	Rule of Law Index World Bank

The example shows how different Mongolia can be presented in global indices. The synopsis of the indices is a first step to obtaining a full picture of the country.

VII Conclusion

The Global Freeware Index has not been created to replace the *World Development Index*. But it opens the possibility for *Global Index Benchmarks* which currently do not happen. They will allow us to evaluate a country in

a variety of aspects and to learn about the intentions, values and policies driving the indices.

Global and national Governance today means managing a *portfolio of assets*, as Ian Johnson and Francois Bourguignon state in their forward to the *World Wealth Report*. Their conclusion: "Growth is essential if development countries are to meet the Millennium Development Goals by 2015."

(Johnson/Bourguignon 2006)

These *magic Mantras* of a controlled economy didn't work until today. It might be more promising to focus on the *existing* assets than on the *missing* growth rates.

Of course statistics and econometrics are *highly political* in the meaning of the word: they are contributed within a *polis* by members of a polis. A Global Index Benchmark is part of all efforts in Global Transparency and Global Governance.

Therefore the website of the Global Freeware Index will be the first covering all other indices, whether we agree to their aims or not.

At the end of the day collaboration between all Indices, the World Bank, the World Economic Forum *and* its critics might be the way to proceed.

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