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Governing the economics of the common good: from correcting market failures to shaping collective goals

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Institute for Innovation and Public Purpose

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Governing the economics of the common good: from correcting market failures to shaping collective goals

Mariana Mazzucato

Abstract:

To meet today's grand challenges, economics requires an understanding of how common objectives may be collaboratively set and met. Tied to the assumption that the state can, at best, fix market failures and is always at risk of 'capture', economic theory has been unable to offer such a framework. To move beyond such limiting assumptions, the paper provides a renewed conception of the common good, going beyond the classic public good and commons approach, as a way of steering and shaping (rather than just fixing) the economy towards collective goals.

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Public policy, political philosophy, common good, public good, market-shaping

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1 Introduction: A collective response to global challenges

Given the increasing focus on the need for economies to steer activity towards what is 'good' (e.g. a green transition, the Sustainable Development Goals) and away from what is 'bad' (e.g. global warming, inequality), it is more important than ever to consider which 'good' objectives are to be reached and how. In economics, the concept of 'good' has its roots predominantly in welfare economics, where it captures the relative benefits of consumers and producers through individualistic utility definitions (Pigou 1951; Boadway and Bruce 1984; Just et al. 2008). The 'good' is an aggregated form of private interest. While there has been a rich body of scholarship that engages with the limits of welfare analysis (Sen 1979; Stiglitz 1991; Little 2002), economic theory has avoided providing a comprehensive definition of 'good' as a collective approach to the 'what' and 'how' of economic activity for decades (Mastromatteo and Solaria 2014; Mazzucato 2023a).

Recognising this limitation, the notion of economic activity serving the common good and wellbeing has garnered considerable attention from scholars aiming to develop alternatives to gross domestic product (GDP) as the primary objective of economics (e.g. Felber and Hagelber 2017; Costanza et al. 2018; Coscieme et al. 2019; Dolderer et al. 2021). While this scholarship has contributed to important critiques of neoclassical economics, and formulated alternative organisational metrics at a micro-level (Felber et al. 2019) and accounting metrics at a macro-level (Stiglitz et al. 2009), less attention has been paid to the theoretical framework guiding the state's role in governing the economy through collaborating with other actors for the common good.

The paper addresses this question by building on, while distinguishing itself from, previous work on the public good (Samuelson 1954), the global public good (Kaul et al. 1999), and the commons and common-pool resources (Ostrom 1990), all of which have informed calls for action by governments and multilateral organisations.[1] In particular, the concept of global public goods, while advancing the need for global cooperation in promoting wellbeing, remains conceptually largely attached to an understanding of the state as mitigating externalities that need fixing. And while the literature on the commons and common-pool resources has successfully foregrounded and significantly advanced our understanding of the value of community involvement (Ostrom 2010; Saunders 2014), this focus has often been linked to an implicit assumption of insufficient or ineffective government activity, and positioned as a way of moving beyond the state/market dichotomy (Ostrom 2010; Sanderson et al. 2020). In other words, governments are seen as part of the problem, due to weak capacity or state capture (Berkes 2000).[2]

Conceptualising government activity as a correction to market failure, as well as placing the burden of compensating for weak states on communities, does not allow for ambitious and pro-active action to be taken. While the debate between market-driven and state-driven economies has adopted a more nuanced perspective that does not view both approaches as mutually exclusive and in opposition to each other, the view that states only fix when markets fail prevails (Nelson 2022). The public sector is understood to fill the gap created by markets, rather than setting ambitious objectives and promoting collective action towards achieving them (Mazzucato 2016). Relying on this framework of government failure, as well as placing the burden of compensating for weak states on communities, does not present a view of the good as an objective to be reached together.

1 The United Nations' High-Level Advisory Board (2023), for example, builds on global public goods as 'resources that cannot be excluded or competed over', asserting that 'their protection is an increasingly urgent task that we can only undertake together.'

2 Note that occasionally, common-pool resources and commons have been used interchangeably with the common good.

The 17 UN Sustainable Development Goals (SDGs) are an important moment in which the need for ambitious governance and collective action – regionally, nationally and globally – towards ambitious goals becomes clear. The paper argues that the increasing focus on viewing the SDGs as collective challenges in need of a 'common agenda' (United Nations 2023a), requires a renewed focus on achieving objectives that are collectively considered 'good'.

Thus, the paper puts forth a framework of the common good as an objective, centring the 'what' and the 'how' as central questions that guide collective economic activity. A renewed conception of the common good, one that is nested in market-shaping and public value, may be a productive way of forming synergies between previous contributions, while moving beyond existing shortcomings and informing what is being considered an urgent moment for collective action. It draws valuable insight from political philosophy as highlighting the relational and mutual nature of the common good. The paper puts forth a framework where the ways in which actors work together towards collective goals are guided by five key principles: (1) purpose and directionality; (2) co-creation and participation; (3) collective learning and knowledge-sharing; (4) access for all and reward-sharing; and (5) transparency and accountability.

Section 2 reviews how the common good has been discussed in political philosophy, with an emphasis on relational attributes. Section 3 reviews how 'good' has been framed in economics, tied to a theory of markets and market failures. This section compares public goods, global public goods, the commons and common-pool resources in order to distinguish previous approaches to economic goods from a renewed theory of the common good. Section 4 builds a new approach to the common good through five pillars. Section 5 concludes.

2 The common good: From political philosophy to economics and back again

In political philosophy the common good offers an avenue to explore the link between individual and communal interests. The common good is considered 'proper to, and attainable only by, the community, yet individually shared by its members' (Dupré 1993, 687). This means that the common good is not merely about maximising the sum of aggregate individual interests, but about common interests and mutual concern. Aristotle first used this idea of the common good to differentiate between just and corrupt institutions. He wrote, 'Whenever the one, the few, or the many govern with an eye to the common interest, these constitutions must necessarily be right ones, while those administered with an eye to the private interest of either the one or the few or the multitude are deviations' (1998, [1279], 76). In this way, the common good does not serve anyone in particular and its rewards are not immediate (Etzioni 2004). There is an emphasis on the relational obligation of care that members of a community share (Hussain 2018). Understanding the common good as rooted in the values and collective responsibility that members of current and future generations share foregrounds the significance of how common goals are achieved.

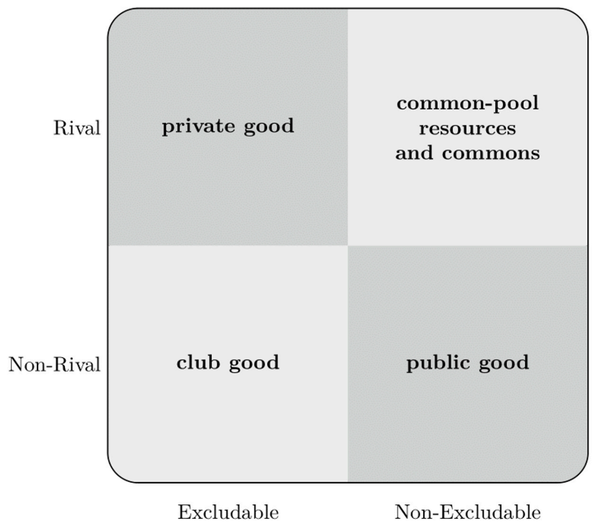
In this philosophical tradition, governance is key. Linking Greek philosophy and economics, common good scholarship has pointed to the state's responsibility in providing a 'good life' (Hollenbach 2002; Yuengert 2001; Murphy and Parkey 2016; Finn 2017). In this context, 'The very idea of the common good implies that the government is not a simple "night watcher"' (Mastromatteo and Solari 2014, 97). Thus, when thinking about governance, the obligation of public authorities to consider the common good in their actions becomes central. The pathways to ambitious goals – and with that the necessary collaboration between private and public actors – must be aligned with mutual interests and common concerns.

The rise of liberal theory diminished scholarly interest in the common good, as many liberal thinkers contended that individuals best determine their own good without external impositions. Mill (1947 [1859]) argues that individuals are the best arbiters of their own wellbeing and that moral or religious communities lack the authority to impose their interpretations of ultimate goals upon others. Relatedly, Rawls (1971; 1993) positions political neutrality as a cornerstone of granting individuals equal opportunities in pursuing their own good, free from coercion. In his view, the common good is limited to the individual interests attached to equal citizenship, such as freedom of speech, equality of opportunity and the liberty to vote. Based on this interpretation, the only obligation members of a community share is to care for these liberties (Hussain 2018). The foundation for political authority is the protection of individual rights rather than mutual interest (Smith 1999). These perspectives significantly diminish the range of available normative ideas that are accepted to form the basis for government activity (Fuchs 2022). Critics also contend that the emphasis liberalism places on individual rights overlooks how involvement in community significantly shapes individual identities, and the latter cannot be treated independently from the former (Etzioni 1998). The widespread critique of liberal theory has sparked a renewed focus on the common good, which this paper aims to take forward.

3 Conceptualising economic goods

In thinking about how 'good' (singular) is approached in economics, it is useful to begin with the way in which goods (plural) are conceptualised, and how that framing impacts policy design and distribution of benefits. Much of this work, such as the distinction between market-based private goods and not-for-profit public goods, has its origins in neoclassical microeconomic theory and welfare economics. This approach emphasises the idea that, given certain assumptions, individuals pursuing their own self-interest in competitive markets give rise to the most efficient and welfare-maximising outcomes (Samuelson 1947; Mas-Colell et al. 1995). Efficiency is understood in a utilitarian sense, whereby an activity is efficient if it enhances someone's welfare without making anyone else worse off (so-called Pareto efficiency). As Figure 1 illustrates, economic scholarship differentiates between goods based on two key attributes: rivalry, which refers to whether one person's consumption of the good reduces its availability for others; and excludability, which denotes whether people can be prevented from the consumption of the good (Adams and McCormick 1987; Hess and Ostrom 2003).

Figure 1. The four types of economic goods



Source: Adapted from Hess and Ostrom (2003)

- **Private goods** are excludable and rival. They are goods that can only be consumed by a limited number of people at a time (Adams and McCormick 1987). They are often created with the objective of commercialisation or profit-maximisation. Examples are clothing or food.

- **Public goods** are non-excludable and non-rival. Because they are non-excludable, the private sector has little incentive to invest as they cannot appropriate the profits (Samuelson 1954). As they are non-rival, one person's access does not limit another one's access. Recently this concept has been elaborated with an international dimension through the idea of global public goods (Kaul 2016). Examples are environmental protection and national defence.

- **Club goods** are those that are non-rival, but excludable. One has to pay, but the access is open to all who can pay, so hence they are non-rival. One person consuming does not reduce the ability of another person to consume, as long as they pay (McNutt 1999). Examples are subscription TV services and the theatre.

- **Common-pool resources** are the opposite of club goods: they are rivalrous but non-excludable. They are non-excludable, because excluding people from use proves difficult, and they are rivalrous, because the benefits are not without limit – there are only so many fish in the sea – but the (limited) benefits are good for all (Ostrom 1990). Examples are fisheries and forests.

Based on their non-excludable nature, public goods, global public goods, common-pool resources and commons have been particularly central to discussions of public policy and state governance (e.g. Holcombe 2000; Heikkila 2004; Hazelkorn and Gibson 2018). The next section discusses non-excludable goods, to set the stage for a more nuanced analysis of how the common good departs from this classification. Table 1 provides an overview.

3.1 The public good

Public goods are non-excludable and non-rivalrous in their consumption, and can thus be consumed at no additional cost by the rest of society. Given these characteristics, public goods are deemed unprofitable for businesses since their consumption cannot be monetised, positioning the state as the primary provider. To understand the implications of public goods on economic policy, two underlying assumptions are critical to consider: their emphasis on private interests and their conception of the state as fixing market failures.

Ironically, the public good in economics is not about the public, but about limits to the private. It revolves around the idea that individuals, primarily guided by self-interest, may neglect to produce or contribute to goods that align with their collective interest (Hussain 2018). In other words, since no one can be excluded from the benefits of a public good, the best action of rational and self-interested actors is to not contribute to its provision. By foregrounding individual preferences in this way, the public good concept inadvertently sidelines shared interests that often drive collective action.

Based on this focus of private interests, the public good concept is well embedded in the market failure theory which accepts public intervention in the economy only if it is geared towards fixing situations in which markets fail (Arrow 1951). This approach suggests that governments intervene to fix markets by investing in areas characterised by positive or negative externalities. Public goods with positive externalities are characterised by underinvestment as their high spillovers create difficulties for appropriating private returns. It is more about corrections than objectives. The opposite happens when there is too much investment in 'bads', such as investment in areas that cause pollution or damage to health. Such negative externalities require public measures that prompt the private sector to internalise those costs, for example, a carbon tax to cut emissions or a tax on cigarette purchases. Such market failures are said to arise in cases of information asymmetries, transaction costs and frictions to smooth exchange.

However, because the conditions of perfect information, completeness and no transaction costs have never been empirically demonstrated, market failure theory is limited as a basis of policy intervention (Coase 1960; Stiglitz 2010). In fact, the opposite conclusion should be reached. Markets are always imperfect and incomplete and can thus never be characterised as Pareto-optimal. They are always in a situation where a government (a central planner) is able to improve a market outcome (Greenwald and Stiglitz 1986).

Moreover, the market-failure justification implies that pure private markets and private goods can exist independently of public or collective action. While the role of institutions is admitted (North 1991), the role of different voices coming together to form the notion of the public itself is left mainly to sociology, not economics. Nelson (1987, 556) notes that, 'There is no satisfactory normative theory regarding the appropriate roles of government in a mixed economy' and no theory that captures the complex variety of institutional arrangements that people have developed to solve collective problems. Just as pure public goods are rare (Goldin 1977), so too are pure private goods. Hence the 'market failure' dichotomy is not particularly useful (Mazzucato and Kattel et al. 2020)

The limit of public good scholarship is that it treats some of the most systemic problems in global capitalism (e.g. climate change and inequality) as externalities and the results of failures of an otherwise perfect system, rather than questioning the structures underlying the market system itself (Nelson 2022). It frames public investment as the need to correct for a gap in private finance. This conception of the state as a market-fixer has led to the idea that government should not steer the economy but only enable, regulate and facilitate it (Mazzucato 2021).

3.2 The global public good

The public good concept has been elaborated with an international dimension through the idea of global public goods (GPG) (Kaul et al. 1999; Kaul 2016). GPGs are goods shared by more than one country and can even be shared among generations, such as transboundary waters and other non-renewable resources. The concept of the GPG is one that helps elucidate the deep international collaboration and investment that must be achieved to problems of overuse and under-provision, and is thus already characterised by a strong normative element (Barrett 2007). This work focuses on situations in which national governments cannot guarantee the provision of a public good due to global interlinkages. Kaul et al. (1999, 15) conceptualise this as the 'double jeopardy' global public goods are confronted with: 'market failure' and 'state failure'. A flood in one region of the world, for example, may have been caused by an emission-related change elsewhere (Global Commission on the Economics of Water 2023; Mazzucato and Zaqout, forthcoming). Collective and global action is required for national and global benefit.

The global feature means that no one nation can deal with the problem alone, thus requiring the involvement of global organisations such as the United Nations or the Global Fund. Based on this conceptual understanding, Kaul et al. (1999) conclude with the following policy recommendations:

1. The creation of international laws which address the global nature of public goods,
2. The promotion of participation of civil society at the global level, and
3. Giving people and governments the necessary incentives to take action for the provision of global public goods.

As a result, unlike the previous concepts within the economic goods quadrant, GPGs go beyond the excludability and rivalry as parameters to define the publicness of a good. Instead, whether a good is private or public should be a question of political interest and capacity to place a specific good in the public and global domain (Kaul et al. 2003). In this way, it has also revived the state's role, which was overlooked by traditional theories of market dynamics in addressing public goods (Stiglitz 2000).

The academic engagement with GPGs continues to rely strongly on the conceptual foundations and intellectual tradition of the public good, with a strong focus on remedying instances of overuse and under-provision (Boonen et al. 2019). Wellbeing remains captured through individual welfare functions and state action remains captured through externalities (e.g. Sandmo 2006; Levaggi 2010). The conceptual attachment to the public good becomes clear when Kaul et al. (1999) contend that institutions and regimes can be seen as intermediary public goods, ultimately facilitating the delivery of global public goods. Additionally, critics of GPG scholarship have noted the propensity to promote top-down enforcement at the risk of creating democratic deficits in the institutional arrangements argued for (Quilligan 2012). Recognising this limitation, Deneulin and Townsend (2007) emphasise the need for recognising the collective nature of a 'good life' and have identified a stronger focus on the common good as a potential avenue for change.

3.3 The commons and common-pool resources

On top of the notion of public goods and based on a similar conception of the state as market-fixing, commons and common-pool resource (CPR) theory has looked at the role of local communities in managing resources (Saunders 2014). Successful commons and CPRs, also sometimes referred to as common goods (plural), are governed by clearly defined communities with collectively agreed rules and punitive sanctions for those who break them. While there has been some work that has aimed to move towards the global level, these considerations remain attached to a focus on bottom-up governance and a move beyond a reliance on public-private cooperation. Indeed, this focus has been identified as the central difference to GPGs (Cogolati and Wouters 2018).

Nobel Prize-winning Ostrom, in her seminal work (1990), discusses how the tragedy of the commons, namely overuse and enclosure (Hardin 1968; Neeson 1993; Greer 2012), can be mitigated through collective decision-making. In her view, negotiations at the community level are central to the production and distribution of the commons. Grounded in the empirical example of coastal fisheries, she contends that effective CPR management requires an in-depth understanding of local conditions, differentiating between coastal fisheries as CPRs and open-ocean fishing as open-access resources. In the same spirit, Federici (2018) argues that the practice of managing shared resources, particularly by women, has been a key strategy for challenging the capitalist and patriarchal systems. Applying a specifically decolonial and environmentalist lens, Federici explores the creation of alternative economies based on solidarity and cooperation. Recent scholarship on collective action has focused on the organisational processes and coordination within communities in a similar manner (Albareda and Sison 2020).

Ostrom's work has relied on rationalist conceptions of the individual, similar to public choice theory. Dardot and Laval (2019, 102) write, 'According to Ostrom, rational and egoistic individuals may create markets, they may call for state intervention, and they construct a commons; it simply depends on the demands of different situations.' In other words, her conception of the commons is an attempt to provide an alternative to the market and state dichotomy without challenging the underlying assumptions that have given rise to limiting interpretations of the dichotomy in the first place. While articulating this shortcoming to develop their own notion of 'the common', Dardot and Laval (2019) refrain from challenging the notion of the state as interventionist and market-fixing.

Whenever the state has been the concern of commons scholarship, its role has mostly been deemed inadequate or remained rooted in neoclassical microeconomic theory and welfare economics. This is exemplified by Grumbach (2023, 181), when he asks 'Could government still act […] to correct market failures and adequately support primary care as a common good?'[3] De Jongh (2020) makes a similar case for government as merely levelling the playing field by highlighting its role in ensuring an intact public infrastructure as a critical foundation for successful common resource management by other actors. A key bottleneck is that, within this view, the state is seen as *facilitating* the process of communing and not as being a key driver of change itself. The conception of 'government failure' (Buchanan 2003) leads to a self-fulfilling prophecy of 'weak' states and 'captured' states, for which communities often end up compensating. Thus, while the commons literature has notions of decentralised capacity as a good model of collective action, this is also complemented by the fact that the state is excluded from the development process. It is not a coincidence that reasoning behind this approach has also led to the increasing use of NGOs and philanthropies in areas like health (Zanotti 2010; Nega and Schneider 2014). While alternatives to state and market are critical (e.g. Ostrom 2010; Benkler 2017; Pazaitis et al. 2022; Brandtner et al. 2023), this paper raises the question of how capable states may nurture such alternatives while governing the economy to achieve collective goals.

Table 1. Economic goods – an overview

	Scope	Focus	Limitations
Public good	National	State fixes market failures and provides non-rival and non-excludable goods	Oriented towards maximisation of private rather than collective interest; state regarded as market-fixing
Global public good	International	Global coordination between states based on over-exploitation and under-provision	Top-down with risk of democratic deficit; rooted in market failure framework
Commons and common-pool resources	Local	Communities govern resources as an alternative to the state vs. market dichotomy	Limited to the local level; implicitly assumes state to be weak

3 Note that he uses the common good and commons interchangeably.

4 A new political economy of the common good: From corrections to objectives and from market-fixing to shaping

While different from one another, the above notions of economic goods share one characteristic: they are all embedded in the same notion of either market failure or state failure. Indeed, the dual characteristics of rivalry and excludability not only serve as the foundation for classifying goods, but they also guide decisions about which entity – be it the market, communities or the state – should provide them. Thus, within this framework the state's role is generally confined to public goods as responding to market failure and to common-pool resources where communities compensate for state failure. This raises the question of how the role of government can be envisioned in a way that moves beyond these four attributes, allowing for pro-actively creating an economy towards collective goals. This question is particularly pertinent considering how much attention the international community has devoted to shared goals and collective action, yet there is no comprehensive framework that underpins such modes of action.

4.1 Market-shaping, value creation and public value

As the previous section has shown, the traditional notion of market failure has promoted the idea that public intervention in the economy is only justified if it is geared towards fixing situations in which markets fail to efficiently allocate resources. This can be contrasted with a notion of government as not only fixing, but shaping and co-creating markets. Polanyi (1944), for example, sees the market itself as constantly negotiated and shaped by the ways in which different value-creating actors are governed. He notes, 'The road to the free market was opened and kept open by an enormous increase in continuous, centrally organised and controlled interventionism' (144). Markets are seen as outcomes of governance structures, shaped by the state: they are 'embedded' in social and political structures (Evans 1995). The notion of states as levelling the playing field is also challenged by Keynes' (1926) view of government as primarily addressing the areas that are unattended and require action. In his view, 'The important thing for government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all.' Such a task requires vision and the desire to make things happen.

Even from a contemporary philosophical point of view the traditional notion of markets has remained unchallenged. Sandel's (2020) critique of the marketisation of areas like care, for example, accepts a notion of the market as 'given' and 'fixed' – an interpretation in line with the very approach he is tentatively critiquing. He does not in the end provide a theory of how markets themselves can be oriented towards the common good, but interprets them as inevitably producing unsatisfactory outcomes which public institutions have to compensate for. The question that remains unanswered is how markets themselves can be shaped – by the state and other actors – to produce satisfactory results in line with the common good. This approach requires an 'ontological shift' whereby markets are not seen as autonomous phenomena, but as outcomes of the interactions between all actors involved (Mazzucato and Ryan-Collins 2022, 356).

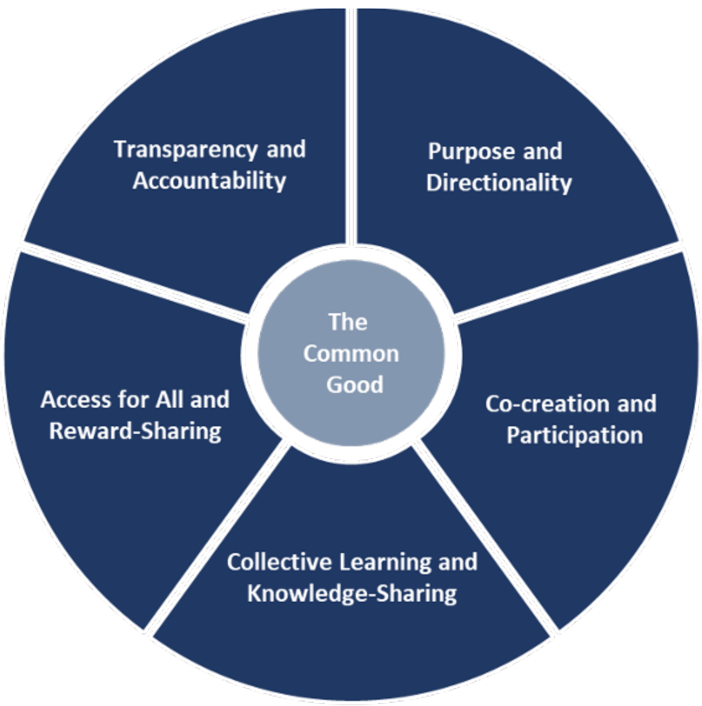
Rethinking the role of the state in shaping modern market economies requires an underlying theory of public value, one that is not thought to be created exclusively inside or outside the private sector, but focuses on how public organisations interact with private and civil society actors to deal with the major challenges facing society. As Bozeman (2007, 15) framed it, 'Have those public values endorsed by society been provided or guaranteed?' But public value should not be confined to the government's role in forming consensus. If public value is to truly serve the public, finding new interactive ways to engage with the public is key. Instead of seeking consensus, it should be acknowledged that public value is inherently contested in the political arena where 'differing interests are resolved and conflict and argument lead to decision and action' (Stewart and Ranson 1988). Finding new ways to engage with the public is key for society's ability to collectively create value (Leadbeater 2018).

To be the result of collective imagination and pressure from social movements, the common good needs to be based on a conception of public value as collectively negotiated and generated by a range of stakeholders.[4] Only by redirecting our economy – with public value at the centre of production, distribution and consumption – can the economy be shaped and co-created to produce more inclusive and sustainable outcomes. While the traditional question defining public goods is one of excludability and rivalry, the key question for the broader concept of the common good is one of public value.

4.2 Five pillars for the common good

A revived approach to the common good, posited as a collective objective rather than a correction, focuses as much on the 'how' as the 'what'. It can be guided by a market-shaping view of government, driven by public value. The first pillar, **purpose and directionality**, can promote outcomes-oriented policies that are in the common interest. The second pillar, **co-creation and participation**, allows citizens and stakeholders to participate in debate, discussion and consensus-building that bring different voices to the table. The third pillar, **collective learning and knowledge-sharing**, can help design true purpose-oriented partnerships that drive collective intelligence and sharing of knowledge. The fourth pillar, **access for all and reward-sharing**, can be a way to share the benefits of innovation and investment with all the risk takers, whether through equity schemes, royalties, pricing or collective funds. The fifth pillar, **transparency and accountability**, can ensure public legitimacy and engagement by enforcing commitments amongst all actors and by aligning on evaluation mechanisms.

Figure 2. The common good



Source: Author's construction

4 Stakeholders are all actors involved – public actors, businesses, civic representatives, social movements and labour.

a. Purpose and directionality

The first pillar of a common good approach recognises that growth has not only a rate, but a direction. Explicitly defining a direction towards which policies may be designed, public-private partnerships formed and citizens engaged is critical to shape the economy in the service of the common good. In other words, this pillar is about aligning multiple activities while crowding in willing actors towards a collective goal.

The notion of purpose and directionality is not about removing friction, but about pro-actively setting an ambitious direction. While public goods theory has neglected the question of how a purposeful direction can be set, CPR and commons scholarship has more effectively addressed the need for aligned expectations in joint resource management (Adhikari 2021). Indeed, there has been a growing interest in the ways in which shared goals induce self-organised cooperation that results in more sustainable long-term outcomes (Tu et al. 2023). This work has also brought the SDGs to the heart of community-led initiatives as an alternative to state-led action (Esteves et al. 2020). The question that then arises is how such considerations can inform purposeful directions to be set on a larger scale and by a broader range of actors, such as the state. By raising this question, the common good approach does not argue for the replacement of community-led with state-led initiatives. It does not endorse governments setting a purposeful direction through top-down decision-making in which they enforce an objective through regulation and then wait for the effects to appear. Rather, it considers a renewed conception of the state that promotes and nurtures such co-creation and participation on multiple levels.

Recent thinking about challenge- and mission-oriented policies is an example of re-orienting and directing the economy. Missions set clear objectives that can only be achieved by a portfolio of projects and supportive policy interventions, stimulating the development of a range of different solutions to meet grand challenges and reward those actors willing to take risks. Targeted, measurable and time-bound goals are a critical component of successful missions and a useful tool for delivering solutions to challenges that require deep coordination (Mazzucato 2018b; 2021). They require alignment and collaboration between production, distribution and consumption across various sectors and on multiple scales towards socially desirable goals.

In the context of the international financial architecture, purpose and directionality is not about 'filling the financing gap', but about promoting a shared commitment to bold objectives towards which finance can be directed. Using missions to align, for example, the more than $24 trillion in multilateral development banks and national banks could create more coherent orientations in the international system (Mazzucato 2023b; 2023c). There is an opportunity for ensuring strategic policy coordination to facilitate green structural change across the globe. How missions are collectively deliberated becomes a key question.

b. Co-creation and participation

The second pillar, co-creation and participation, renders more explicit the stakeholders at the table, participating not only in the provision, but in the decision-making processes over what ought to constitute a common good. An emphasis on co-creation brings to the fore the need to have genuine interfaces between the public sector, the private sector and civil society to mobilise collective intelligence. It not only offers an opportunity, but also promotes the necessity of involving stakeholders in determining a collective orientation. In this way, the principle advocates an environment that allows everyone to participate and contribute to society.

Within economic scholarship on the public good, the question of participation has remained embedded in public choice theory, which attempts to study decision-making from an efficiency perspective. For the most part, this has approached the question of participation through considerations of the associated costs for individual economic agents when contributing to the provision of public goods (McGuire 1974; Conlon and Pecorino 2022). Relatedly, research has extensively looked at the implications of competition over the 'net benefit' of public goods by participating groups (Riaz et al. 1995; Katz et al. 1990). While a focus on individual utility is foregrounded, a consideration of the collective benefits outside one's group membership remains largely neglected. However, participation not only in the provision, but also in the decision-making processes over what ought to constitute a common good, is critical.

The social systems of collective action and the relationships constituting them have been central to scholarship on the commons and common-pool resources (Linebaugh 2008; de Angelis 2017; Albareda and Sison 2020; Brandtner et al. 2023). Indeed, the institutionalisation of communing has been cautioned with regard to maintaining and protecting community-based organising (Jacobs 1961; Brandtner et al. 2023). The collective management of shared resources is often most successful when conducted on a small scale – as Ostrom (2010) herself suggests in her work on polycentric governance.

The question that remains, then, is how collective modes of governance can inform the ways in which we think about global challenges, structured by a broader range of conflicting interests on various levels – individual, regional, national and international. In emphasising the need for co-creation and participation, the common good sets out a framework within which partnerships between the state, business and civil society are a critical component of steering the economy in the right direction. This is not about enforcing top-down or centralised regulation, but about letting collective processes inform public policy and transnational governance.[5]

The SDGs, for example, can benefit from a common good perspective, because their legitimacy requires negotiation of the objective at a certain level. Different voices must be brought to the table to discuss what it means to achieve an equitable, just and sustainable economy that is co-created by actors from both developed and developing countries. Justice according to whom? Answers must include voices from the most marginalised, whether it is Indigenous communities, women or people of colour who have been left out of the process of deciding 'what is to be done.' Hirschman's (1970) work on 'voice' focused on this problem and can be applied to the way our international institutions could – and should – be governed more democratically, with actors from the Global South and North at the table (Alami et al. 2023; Mazzucato 2023c).[6]

As discussed in the previous section, the common good principle holds important implications for how voices are brought to the table when approaching the international financial system (Mazzucato 2023c). The Bretton Woods System, having led to the establishment of the International Monetary Fund (IMF) and the World Bank, has perpetuated varying degrees of bargaining power and imbalanced power structures. While both institutions were presented as mechanisms for economic cooperation and development, they have ultimately reinforced the hierarchical structure of the global financial system. The decision-making power within international financial institutions is unequally distributed, to the advantage of the largest developed countries.

5 Critiquing the limiting prioritisation of shareholder value, scholarship on stakeholder governance has formulated alternative approaches to economic governance by placing shareholder value not only at the centre of corporate governance reform, but also the economy itself (Freeman et al. 2007; Schwab 2021; Mhlanga 2022).

6 The Bridgetown Initiative, for example, led by Barbados, has been critical in challenging this entrenched structure by calling for emergency liquidity, concessional lending and private investment to promote the climate resilience and pandemic preparedness of low-income countries (Government of Barbados 2022). To make such calls to action reality, the UN's SDG Stimulus Agenda (2023b) aims to reform the global financial architecture to mitigate the systemic challenges faced by developing countries.

c. Collective learning and knowledge-sharing

Any sort of collective creation requires the sharing of knowledge. The question of how to embed knowledge-sharing in the underlying governance structure is key – whether this is about intellectual property rights, open access platforms or investing in the capacity of institutions to learn. The third pillar foregrounds the need for the common good to be achieved through processes of collaboration and collective learning.

In considering the potentials of knowledge-sharing, public good and GPG scholarship has focused its analytical efforts on the free rider dilemma in which individuals may benefit from resources and collective projects without having contributed themselves (Olson 1965; Gartner 2012). Based on the underlying conception of utility-maximising and rational individuals, the entire group is then theorised to be kept from reaping the full potential of collective intelligence (Messick and Brewer 1983; Cabrera and Cabrera 2002). This conception of the self-interested individual prioritises a view for competition over collaboration, and falls short of foregrounding considerations of how collective learning may be promoted and successful knowledge-sharing achieved. At the same time, Hess and Ostrom's (2007) work on knowledge commons, while foregrounding the collective aspect, has been characterised as offering little normative guidance on how to structure the sharing of knowledge, particularly with regard to intellectual property (IP) (Cole 2014). Building on this work, this pillar offers some insights on the latter, while stressing the importance of formalising knowledge-sharing on a global level between multilateral actors and on IP rights.

Given the low marginal costs of sharing knowledge, access to knowledge should be maximised to drive future innovation. Indeed, evidence shows that innovation has happened in many sectors with no IP rights (Scherer 2015). While patents may be required to incentivise innovation by allowing firms to profit from inventions, overprotection can stifle innovation by locking away know-how that the next generation of inventions needs to build on. In the context of the pharmaceutical industry, for example, innovation flourished before today's stringent IP regime (Dosi et al. 2023a; 2023b). While innovation scholars have emphasised the limits to IP rights, they have been shy in creating transformational change (Machlup 1958). Rikap and Lundvall (2021) argue that the limits to innovation studies' ability to counter the stringency of IP rights has been partly due to the way in which Schumpeter's late work emphasised the way in which big firms with market power are more active and successful in organising innovation than small firms engaged in intense price competition (Rikap and Lundvall 2021; Schumpeter 1942). Indeed, the Schumpeterian/evolutionary literature, while focussing on the 'systems' side of innovation, has not been able to debunk the more general understanding of markets in economics, so that even innovation institutions are seen as correcting system failures (except for Nelson 2022).

In any case, patents must be seen through a knowledge governance perspective, not just an innovation incentive perspective (WHO Council on the Economics of Health for All 2023). Here Veblen's (1908) notion of knowledge as 'common stock' is an important contribution, foregrounding knowledge as a cumulative and collective resource rather than an individual possession. He views patents as 'a detriment to the community at large', limiting the application and development of innovation to the patentee. Thus, if the contracts are designed to be too upstream, wide and strong, IP can inhibit the diffusion of critical knowledge, technology and infrastructure (Mazzoleni and Nelson 1998). This became blatantly clear during the COVID-19 pandemic, when some large pharmaceutical companies failed to share IP-protected information that could have drastically scaled up the production of vaccines. Additionally, contemporary intellectual property regimes remain rooted in, and tend to reinforce, colonial structures. Modelled on Western laws and in favour of Western interest, they can be a central means of economic control when enforced in developing countries.[7] Knowledge creation for the common good must establish a new legal blueprint for patents and other IP that better balances private incentives, public value and public interest. To encourage collective intelligence, patents should be weak (easy to license), narrow (not used for purely strategic reasons) and not too far upstream (so the tools for research remain open access).

d. Access for all and reward-sharing

Governing the economy for the common good means that the conditions must be correct in the first place, without over-relying on the taxation system to redistribute problematic forms of wealth creation that create structured inequities. Creation and distribution must be seen as two sides of the same coin. The fourth pillar emphasises that new thinking is required for the ability of public institutions to share not only the risks, but also the rewards. A balanced risk-reward relationship is not only about redistributing ex post, but also about proactively ensuring a fair distribution from the outset – in a *predistributive* way (Mazzucato 2018a).

Economic goods scholarship has acknowledged the challenges of guaranteeing equitable access to critical resources. In doing so, public good scholarship has pointed to the need for redistributive measures as a central means for governments to counter equitable access- and reward-related market failures, such as rent-seeking behaviour (Tullock 2008).[8] However, public goods theory has often overlooked the proactive choices governments have at their disposal when it comes to guaranteeing access to certain resources. Within common-pool resource scholarship, an imbalanced risk-reward relationship, where access for all remains unachieved, is most famously captured by Hardin's (1968) take on the tragedy of the commons, through which he captures the risk of overuse and degradation for commonly owned resources. While various engagements with the tragedy of the commons have shaped economic theories of open access, from an explicitly economic point of view they continue to be rooted in market-failure theory and focused on considerations of cost-effectiveness rather than equity (Stavins 2010).

In many cases, public investments have become business giveaways, making individuals and their companies rich, but providing neither access for all nor adequate (direct or indirect) returns to the economy or to the state. This is most evident in the case of pharmaceuticals, where publicly funded drugs end up being too expensive for the taxpayer (who funded them) to purchase (Mazzucato 2013; Mazzucato et al. 2018).

By allowing the state to retain a share of the rewards created through a process it contributes to, those rewards can be reinvested back into areas that directly create a more inclusive and sustainable economy. This can happen through both financial and non-financial means. Financial might include equity stakes, while non-financial can include conditionality on how prices are set, as well as the direction of investment making production more sustainable, and workers being paid well and treated with dignity. Profit-sharing, for example, is a measure that can enable the socialisation of rewards. Claiming a share in the financial gains of public operations can help to create a fund for future investments and innovation (Laplane and Mazzucato 2020). Attaching conditionalities to the allocation of public funds is another measure governments can take to balance the risks and rewards of public investment (Mazzucato 2022).

e. Transparency and accountability

The fifth pillar, transparency and accountability, is critical to ensure that the way in which the

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7 For a detailed discussion of intellectual property and colonialism see Merson (2000), Rahmatian (2009), and Birnhack (2021).

8 Nevertheless, the importance of redistributive measures, such as progressive taxation, cannot be overstated. As I argue elsewhere (Mazzucato 2018a), in both pharmaceuticals and the tech sector, companies that have benefitted from public investments have avoided paying their fair share of the tax that can replenish those very public investment funds.

economy is governed is accessible and visible to all stakeholders. To create and retain trust between all actors of civil society, public organisations need to commit to being transparent and applying an open data policy. Strengthening accountability and transparency mechanisms can help prevent misappropriation of funds, tax evasion and fraud. The fifth pillar is critical for enforcing the other four common good pillars.

Questions of accountability have been raised in public good, and CPR and commons, scholarship alike. Research on polycentric governance has grappled with the challenges the dispersion of responsibilities poses for holding involved actors accountable (Huitema et al. 2009; Lieberman 2011). Inspired by public administration scholarship, the role of institutional conditions in holding governments accountable has been emphasised as an important aspect of functioning polycentric systems. Absent accountability mechanisms in the context of natural resource management, for example, allow vulnerable groups to be disproportionately exposed to the risks of natural resource policies (Lebel et al. 2006). Accountability is closely related to equitable access and a balanced risk and reward relationship. Public goods scholarship has made similar remarks, particularly with regard to the free rider and collective action problem that manifests when accountability mechanisms are not in place (Tsai 2007).

Evaluation metrics are crucial in ensuring accountability and transparency, serving as a tool for institutions to both deliver on their promises and be held responsible for their actions. These metrics provide a foundation for comprehensive assessments of organisational performance, as evidenced by evaluations conducted in various sectors. An assessment of the BBC's public value contribution has shown that evaluations can not only promote transparency and hold organisations accountable, but also assess whether institutions are creating public value and governed in the public interest (Mazzucato and Conway et al. 2020). Dynamic evaluation frameworks provide a more nuanced understanding of value creation by considering both the interactions within the ecosystem and the governance structures that guide decision-making and evaluation processes, recognising their interdependence. In adopting such evaluation metrics, public organisations can establish a clear sense of purpose and direction, minimising the risk of external influence and ensuring a stronger focus on accountability and transparency in their operations and assessments.

In the last decades, the outsourcing of core government functions has increasingly undermined public sector accountability. While the scale and scope of outsourcing has increased, transparency has not (Mazzucato and Collington 2023, Kattel and Mazzucato 2018). When not confident, it is more likely that the state will get 'captured' and bow to private interests. When not taking a leading role, the state becomes a poor imitator of private sector behaviours, rather than a real alternative. Scrutinising how the common good, and its related processes and outcomes, are funded may promote a more equitable distribution of global resources. Promoting transparent and accountable financing models, and debt restructuring processes, can help ensure that debtor countries are treated fairly. Long-term finance to create more fiscal space for lower income countries to make critical investments is key to this shift.

A human rights-based approach together with new economic thinking may be an avenue through which accountability and transparency can be evoked legally (Mazzucato and Farha 2023). While the common good conception requires a rethinking of the role of government, its success will also depend on whether governments hold themselves accountable to their human rights obligations and responsibilities, and monitor their progress towards achieving the common good. The idea of human rights as enforcing global accountability within national governments and international institutions has also been reflected in global public good conceptions (e.g. Kim 2013). The particularities of such a joint vision are an important area of further study for the multifaceted scholarships on rights justice.

5 Discussion and conclusion

The framework set out in this paper has provided a systematic review and re-conceptualisation of the necessary steps that may be taken by economic actors to create public value while achieving collectively deliberated goals. The paper has shown that with increasing attention to the need for such common goals, the *philosophical* tradition of the common good centred on 'relational' obligation and mutual concern can provide helpful guidance. Previous economic good scholarship has not given sufficient consideration to the governance of collective goals and the therein embedded role of mutual – rather than private – concern. Putting the common good at the heart of governance empowers and encourages governments, business and civil society to actively shape markets, and to incorporate public value into the coordination required to meet common objectives.

If problems like global warming, global vaccination and the water crisis are to be addressed as global problems requiring collective action, it is necessary to see these problems not as imperfections of an otherwise perfectly functioning system, but rather as a deficiency in how the system itself is understood (theory) and hence designed (practice). COVID-19 illustrates the implications of a political economy for the common good (WHO Council on the Economics of Health for All 2023). During the pandemic, too little attention was paid to how a common objective (global vaccination) can inform the design of the collaboration between public and private actors (Mazzucato et al. 2021; Torreele et al. 2023). Had global vaccination, rather than vaccines, been the goal, much more care would have needed to be taken designing IP rights to be less extractive (e.g. not as strong, wide and upstream) and on making sure that the early stage, high-risk public funds provided were conditional on knowledge-sharing and issues around access. In positioning global vaccination as the 'what', the five common good pillars would have provided critical guidance on the 'how'.

The five principles become active areas for not just policy making but for the skills needed by governments to govern in the public interest. A successful incorporation of the common good principles depends on the state's dynamic capabilities to perform core policy functions, from the provision of public services to policy design and implementation (Kattel and Mazzucato 2018; Mazzucato et al. 2021). Indeed, dynamic capabilities bear no relation to the size of government but are closely associated with investments made inside the public sector for it to be more creative, agile, and flexible (Kattel et al. 2022). One of the lessons of the Covid-19 crisis was how the ability for governments to manage the crisis depended on the cumulative investments made on the ability to govern, do, and manage, including investments in digital governance for the 'infodemic' side of the crisis (Mazzucato et al. 2021). While the crisis was serious for all, it was especially a challenge for countries that ignored the needed investments in their dynamic capabilities and/or those that had instead chosen to outsource that capacity to consultants (Mazzucato and Collington 2023). A crucial element of governing economies toward the common good is thus the development of associated dynamic capabilities inside the state.

The common good principles described here are not meant to replace insights from previous notions of public goods and the commons, but to complement them by providing a framework that guides a symbiotic relationship between economic actors. This perspective acknowledges that no single actor, whether it be government, business or civil society, should be positioned as more important or more able than another to create value. Engaging these actors in a cooperative manner to solve problems that are set and solved collectively becomes crucial in the pursuit of addressing the complex challenges that define the 21st century. By fostering a collaborative approach, where knowledge is shared, rewards are socialised, and accountability and transparency are at the forefront, the common good can effectively guide societal actors towards creating public value that is not only shared, but also sustainable.

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