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Citizen-Centered Economic Theory (CCET 2.0) A Global Framework Beyond GDP for Measuring Human Welfare

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Abstract

This paper introduces a new economic paradigm, Citizen-Centered Economic Theory (CCET 2.0), as a structural alternative to Gross Domestic Product (GDP). The study develops a multidimensional welfare-based index, the Citizen-Centered Index (CCSI), integrating income, public services, living conditions, and subjective well-being into a unified and empirically testable framework.

Unlike traditional output-based metrics, CCET 2.0 provides a dynamic and policy-oriented system capable of measuring real human welfare over time. The model is compatible with the System of National Accounts (SNA) and allows cross-country comparison using panel data techniques.

An illustrative empirical application demonstrates the feasibility of the model using proxy indicators, highlighting its relevance for policy evaluation and development analysis. The paper contributes to welfare economics, macroeconomic measurement, and development policy by offering a structured, scalable, and globally applicable alternative to GDP.

Keywords: Citizen Welfare, GDP Alternative, Economic Measurement, Welfare Economics, Composite Index, Development Indicators

Introduction

Gross Domestic Product (GDP) has long served as the primary indicator of economic performance. However, its limitations have become increasingly evident, particularly its failure to capture inequality, social welfare, and quality of life.

Economic growth does not necessarily translate into improved living conditions. This disconnect highlights the need for a new framework that reflects real human welfare.

This paper proposes Citizen-Centered Economic Theory (CCET 2.0), which shifts the focus of economic measurement from production to human well-being.

Literature Review

The critique of GDP is well-established in economic literature. Alternative approaches include:

- Human Development Index (HDI)
- Genuine Progress Indicator (GPI)
- Multidimensional Poverty Index (MPI)

However, these measures remain either partial, static, or insufficiently integrated into macroeconomic systems.

CCET 2.0 advances the literature by:

- Providing a unified theoretical framework
- Introducing a dynamic measurement model
- Ensuring compatibility with national accounting systems

Theoretical Framework

The core transformation of CCET 2.0 is conceptual:

Traditional Model: Economy = Production Proposed Model: Economy = Human Welfare

The theory positions the citizen as the central unit of economic analysis, integrating both material and non-material dimensions of welfare.

The CCSI Model

The Citizen-Centered Index (CCSI) is defined as:

$$CCSI = \alpha Y + \beta S + \gamma L + \delta H$$

Where:

- Y = Income (GDP per capita or median income)
- S = Public Services (health, education, infrastructure)
- L = Living Conditions (housing, environment, security)
- H = Subjective Well-being (survey-based happiness index)

Normalization

Each variable is normalized using min-max scaling: $X' = (X - X_{min}) / (X_{max} - X_{min})$

Weighting System

Weights ($\alpha, \beta, \gamma, \delta$) can be determined using:

- Equal weighting (baseline)
- Principal Component Analysis (PCA)
- Policy-driven weighting

Dynamic Welfare Measurement

To capture temporal changes, the model includes a dynamic component: $\Delta CCSI = CCSI(t) - CCSI(t-1)$

This enables tracking of welfare progression and policy impact over time.

Empirical Illustration (Proof of Concept)

To demonstrate feasibility, a simplified application is constructed using proxy data.

Example (Illustrative):

Country A:

- Y = 0.60
- S = 0.55
- L = 0.50
- H = 0.65

Assuming equal weights:

$$CCSI = 0.25(0.60 + 0.55 + 0.50 + 0.65) = 0.575$$

This result highlights that welfare measurement differs from GDP ranking and captures broader human conditions.

Econometric Framework

The model can be estimated using panel data techniques:

$$CCSI_{it} = \rho CCSI_{it-1} + \beta X_{it} + \mu_i + \varepsilon_{it}$$

Where:

- X_{it} represents policy variables
- μ_i captures country-specific effects This allows:
- Dynamic analysis
- Policy evaluation
- Cross-country comparison

Policy Implications

CCET 2.0 enables:

- Welfare-based budgeting
- Policy effectiveness measurement
- Redefinition of development priorities
- Integration of non-market activities into economic evaluation

Contribution

This paper contributes by:

- Introducing a new economic theory
- Providing a measurable welfare index
- Offering a dynamic analytical framework
- Bridging theory and policy

Conclusion

Citizen-Centered Economic Theory (CCET 2.0) represents a paradigm shift in economic measurement. By focusing on human welfare rather than production, it provides a more accurate representation of economic reality.

The framework is scalable, testable, and suitable for global adoption.

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