PRESIDENCY OF THE REPUBLIC
SECRETARIAT OF INSTITUTIONAL RELATIONS
SECRETARIAT OF THE ECONOMIC AND SOCIAL DEVELOPMENT COUNCIL

Economic and Social Development Council – ESDC

Does GBP really reflect a nation's economic health? Contribution by the Economic and Social Development Council of Brazil to the IAESCSI debate on development indicators[1]

In 1998, under the French socialist government of Lionel Jospin, Guy Hoscoët, Secretary of State for Welfare Economics, commissioned the French writer, essayist and philosopher Patrick Viveret to write a critical analysis of the current indicators of economic development and to propose "new wealth factors". In truth, the aim was to question the indicators that are widely used in different countries to measure the well-being of society. The Brazilian Economic and Social Development Council (ESDC) organised two seminars and translated the report, entitled "***Reconsidering Wealth***", in order to keep the Brazilian people and researchers informed of a debate which, to paraphrase the author, raises issues of unquestionable importance: what are we going to do with our planet? What are we going to do with our species? What are we going to do with our lives? The answers are not based on adequate indicators because "our thermometers are not giving correct readings", or are even distorting the answers that should lead us to a fairer, sustainably-developing society. The work carried out by Patrick opens up room for a deep discussion of the differing visions that analysts in different areas of the human and social sciences are adopting in order to evaluate reality; these visions result from different theories and demonstrate the plurality of opinions.

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[1] This contribution by the Brazilian ESDC is based on the report by Patrick Viveret, *Reconsidérer la richesse* [Reconsidering Wealth]

Although the different visions are not explained in the work, when Patrick reconsiders the indicators of wealth and the effect that money has both in building economic and social connections between the different economic agents and in the production of goods, it is clear that different theories on current issues are appearing among economists. The question of the role of the state and economic policy are scarcely mentioned in the author's work, but are to a certain extent included in the three principal aspects that he approaches strategically: the critical debate on indicators of wealth, the counterproductive use made of money in modern economies, and the creation of the conditions necessary for a new approach to wealth.

Indicators of wealth

When we talk about economic growth, we generally refer to the growth of productive activity measured by the growth of gross domestic product (GDP) over time. We define GDP as the total monetary value of the production of goods and services made available to a specific country over a specific period – generally one year. There is a measure of income called GDI (gross domestic income) that corresponds to GDP and has the same value. GDI is made up of wages and salaries, rent, income from real estate, interest and profits in the strict sense of the term (including the provision for replacing equipment and machinery which depreciate during the production process). We can also talk about gross value added, which in reality reflects what is added to the inputs in the production process, i.e. the yield and income distributed in each period to workers and capitalists and which enable them to meet their commitments to the Government (which will be translated into government expenditure); to meet their personal expenses (consumption by families); to invest in order to boost the productive capacity of their companies and, therefore, of the economy as a whole; or to promote the replacement of machines and equipment which wear out in the production process (economists call this depreciation). To this expenditure must be added net exports (exports less imports of goods and services) in order to obtain

the value of gross domestic expenditure (GDE); in monetary terms, GDE is, like GDI, the same as GDP.

So many ways of handling data to calculate GDP, which in the jargon of journalists is “the creation of wealth by the country in a given period”, leave society confused. The concept is used incorrectly in the media, which equate GDP with wealth. Wealth is a stock. Reserves of natural resources which have not been exploited, the stock of machines and equipment, the population and accumulated knowledge are part of the country’s wealth but are not counted in GDP. GDP is merely a flow. GDP represents the goods and services generated over a limited period of time.

But if for most people GDP reflects the health of their economy, what is wrong with using it as a reference indicator for the well-being of our societies? Why does Patrick Viveret’s work open up room for so many questions, debates and discussions of concepts that are considered to be so sound by the majority of opinion-formers around the world? Indicators which are also used to classify and compare the development of different countries?

Firstly, because there are a great many criticisms that can be made of GDP, even in its *per capita* version, as an indicator of social well-being rather than simply an indicator of economic growth. At least this is so for those who wish to look beyond the figures and ask how the growth was generated and who benefited from it.

Let us consider: catastrophes involving hundreds of millions of monetary units with human, social, cultural and environmental damage counted not as losses but as GDP growth. Wars are equally sacrosanct: more arms, planes, ships, etc. are produced, causing income to rise. More workers are hired (salaries and wages), the profits of the arms industry increase, and income is generated by reconstruction and economic activities that are expressed in monetary terms. And what about urban neurosis? This also increases GDP. How does it do so? The industry that produces a large range of goods grows: alarms, wire fences and walls

that surround houses, consultations with psychiatrists, production of self-defence books, to quote just a few examples from a long list. And the activities of the underground economy: casinos, bingo, drug trafficking, the informal economy? Do they generate wages and profits? If so, they also cause GDP to grow. And crimes against the environment? They also have a positive impact on GDP, because the work to combat the environmental damage caused generates employment and income. On the other hand, unpaid work, work by women in the home, does not generate income and does not increase GDP. We could even interpret it that individuals who are not in the labour market cause GDP to fall.

Furthermore, it is important to remember that, because GDP is an aggregate monetary measure, it does not provide us with any information on how the income is distributed between the different layers of the population – no information concerning the well-being of the population. For example: how many have access to drinking water, to electricity, or to sewerage, sufficient food of sufficient quality, education, health services, etc.? Under what environmental conditions are goods produced? GDP tells us nothing about these things. Worse, as Patrick Viveret emphasises: “current forms of accounting for wealth thus have the effect of awarding a kind of bonus for destruction and heavy repairs to the detriment of prevention and less costly repairs (…). The “destroyers”, or the beneficiaries of the destruction, who will swell their sales figures, have little interest in limiting the destruction (…)”.

Alternative indicators

The purpose of producing the **Human Development Index (HDI)**, conceived by Mahbub ul Haq, in collaboration with the economist Amartya Sen, winner of the Nobel Prize for Economics in 1998, and used in the human development reports published each year by the United Nations, was to seek to offer analysts a counterpoint to *per capita* gross domestic product. The use of GDP to estimate social well-being was not regarded as satisfactory because it was based solely on the economic dimension and did not take account of the social, political, cultural

and environmental characteristics that certainly influence individuals' quality of life. The HDI is a wider measure because it takes account of *per capita* GDP, corrected by the purchasing power of the currency of each country, and two other components: longevity (calculated from life expectancy at birth) and education (evaluated by the illiteracy rate and the numbers enrolled at all levels of education). Despite this, the HDI is not sufficient to evaluate the complexity of human development and is criticised by academics and politicians.

The Brazilian Marcio Pochmann, who is an economist and professor at the University of Campinas (UNICAMP) and currently chairman of the Brazilian Institute of Applied Economic Research, believed that an adequate indicator must take account of a country's capacity to put in place basic reforms (agrarian, tax, etc.) and to provide universal access to education and health. Together with colleagues at the same university, he created the **social exclusion index**.

These examples are not innovations, they simply represent some progress towards what Patrick Viveret has proposed. But they do clearly reflect the widespread dissatisfaction with the indicators that are commonly used to evaluate the development of different countries.

The counter-productive use of money

We are convinced that it is time to change the indicators used to evaluate the development of different countries, to "change thermometers", and to add to this question another which, even if it may not seem so, is related: the question of money. Indicators are expressed in monetary units.

Money has several functions and has properties that other commodities lack. It is wrong to say that money is a commodity like any other purely on the grounds that it is bought and sold on markets, being subject to the law of supply and demand,

which gives it a price quoted in foreign currencies – the exchange rate. The basic function of money is to be the *unit of account* that makes it possible for all goods to be represented by a single accounting unit. Thus, money, as a single unit of account, enables the prices of goods to be represented as a sum of money and adds them together in order to obtain an aggregate monetary measure, for example GDP, which aggregates an enormous number of goods, services and products over a given period. In its function as a *unit of account*, money makes it possible for monetary contracts to exist; this reduces uncertainty in that it informs us of the results of present decisions that will be realised only in the future. It is money as a means of payment that allows payments deferred in time to exist, i.e. monetary contracts signed between parties contain obligations which must expire at a certain moment in time. Through its *means of payment* function, money allows these conflicts to be removed. For many analysts, it is this function that clearly distinguishes money from any other commodity as only money can serve to settle credit and debit transactions that are deferred in time. The third function of money is that of *means of exchange*. In modern monetary economies, goods are not traded for other goods. Trade – the purchase and sale of goods – takes place through the medium of money in its function as a *means of exchange*. And, finally, the last function of money is to be a *store of value*. It is this function as a *store of value* that explains why economic agents wish to keep it in its "liquid" form, as they believe that it will be possible to convert the value it contains into other assets at a given moment in time.

Now, in order ensure that money keep its value over time and can be saved, a mechanism has been introduced into the system to ensure that money holds its current value (a kind of insurance premium) but which also ensures it has a higher value as a result of not being used at the present time. This mechanism is the interest rate. With regard to interest rates, Patrick Viveret adds: "It is the interest rate that does not merely reward a service rendered (the loan), but which means that, according to the well-known expression, 'money works by itself'."

For the author, the fact that money has multiple functions favours certain sectors of society that know how to work with this monetary instrument. He suggests that these functions are, in part, contradictory; for example the *store of value* function is contrary to the *means of exchange* function. The fact that money is a *store of value* encourages the holding of money and is contrary to the *means of exchange* function, which requires rapid circulation. However, rapid circulation creates instability which is incompatible with the function of *unit of account* (or standard). "This lack of coherence creates a lack of transparency which transforms money into an instrument of domination", which benefits those who know how to handle it but is to the detriment of the majority of citizens who do not understand the mechanisms of money or who do not even have access to the banking system. Money can be seen as an instrument of domination, particularly in rural societies in which its circulation is limited. For example, it is common for rural workers to be paid "in kind", i.e. in goods. Although they are entitled to a wage, the workers are obliged to contract debts in the shop of the owner of the rural establishment where they work. This procedure ends up obliging them to work on the property for longer than necessary in order to pay their debts, under a semi-servile regime. Poor workers who do not have access to money end up being subjugated by debt.

Money makes it possible for distortions in income to be amplified in that it enables the best-off to access the credit system. They can use credit to buy durable goods, particularly real estate, shares or other securities.

The ESDC has examined this question closely on two occasions. The first of these was at the two *international seminars* on the *new indicators of wealth*, which were held in 2006. The second, more recently, was following the financial and economic crisis (or, as certain specialists call it, the "credit crunch") that initially battered the US economy in September 2008 and then spread throughout the global economy. The concept of financial wealth has widened in modern monetary economies, particularly during the last three decades, with financial innovations, derivatives, etc. Financial wealth is difficult to measure, extremely volatile in that it can be

artificial, arising from false expectations on stock markets that result from a decoupling of the financial economy and the real economy. Those expectations are subject to waves, are transformed into bubbles which, when they burst, cause huge crises and damage; they affect the employment, income and well-being of populations. The question is how to measure this artificial wealth, these values that inflate and deflate in a very short space of time but which, as with the recent crisis, have a devastating and lasting effect on socio-economic conditions, the conditions of economic well-being.

Money distances and amplifies the social differences between individuals and is also an instrument of division and domination between nations. Nations that are able to issue a strong, convertible currency that is accepted in international trade will also be the strongest nations politically.

It is important to emphasise the power that the role of money in the creation of generally accepted purchasing power confers on agents that can create money. These agents are, in particular, governments acting through their monetary authorities and the commercial banks. The case of government is a good example, particularly the monetary authorities represented by the central banks. Monetary policy means that the central bank becomes the most important authority in a country. In the blinking of an eye, the chairman of the central bank can increase interest rates and thus reduce the yield of stock markets. Although the authority of the chairman of the central bank cannot be challenged, he or she was not elected. It is no exaggeration to say that one of the most influential politicians of the last decade of the last century was Alan Greenspan, chairman of the US Federal Reserve Bank.

At heart, the main criticism made by Patrick Viveret and other analysts concerns commodity fetishism and with it money fetishism – both of which are fundamental to the market system. The values established in a capitalist economy based on the free play of market forces are values based on individualism, competition and the

accumulation of wealth. Without these values, capitalist economies do not function satisfactorily. The allocation of resources and the production of goods are based on the dynamics of these values. Social relationships are measured by the market, not the reverse. Patrick Viveret states that "far from being on the side of a market that is regulated and tamed, money becomes a vector for power and leads to social relationships where, at one end of the scale, the lack of money causes physical (and sometimes psychological) poverty, while at the other end an excess of money (often) generates moral poverty".

Actions of the Economic and Social Development Council (ESDC) in connection with the objective of constructing new development indicators

It is accepted by the ESDC that the inequalities in Brazilian society are the result of the large and complex problems the country faces. Starting from this diagnosis, the members of the Council, with technical support from the Brazilian Institute for Applied Economic Research, the Brazilian Institute for Geography and Statistics and the Inter-Union Department for Statistics and Socio-Economic Studies, created the Equity Observatory. The objective of the Observatory is to create the capacity and the tools to monitor and check to what extent Brazil is moving towards or away from the goal, supported by the Council, of becoming a more equitable society.

By involving, in addition to the partners mentioned above, an extended network of governmental and non-governmental institutions, the Equity Observatory is seeking to consolidate its position as a centre for producing knowledge, for achieving agreement on indicators and for making information available on projects, policies and resources in order to achieve the objectives of equitable development.

In this context, the question arises as to how to monitor and check development in a way that takes account of its different and necessary aspects. How to measure the wealth of a people, a society, a nation? Will the traditional indicators, such as GDP, be able to capture changes in the production and distribution of a country's wealth and the resulting impact on the population's quality of life?

Alongside observing concrete situations of inequality in Brazil, the strategy of the Equity Observatory, in its conceptual and methodological role, is to be informed of and participate in the debate and in the creation of the knowledge that will assist in finding answers to such questions.

The two “New Indicators of Wealth” seminars that were held in 2006 brought together Brazilian and international specialists, members of the council and the Observatory’s network to discuss and exchange experiences on transformatory concepts of wealth and new indicators to reflect those concepts. Also present were Patrick Viveret, author of the report *Reconsidérer la Richesse* (Reconsidering Wealth), and the French economist Jean Gadrey, both of whom are researching new indicators and are currently on the Stiglitz Commission.

The aim of holding the seminars and making available the information presented and the high-level debate that took place, in addition to providing a forum to develop and support the thinking of the ESDC, was to contribute to increasing society’s ability to monitor, evaluate and propose actions for the development of Brazil, with a focus on reducing inequalities.

For four years, the equity observatory has been publishing research works on subjects that are of interest to the ESDC, monitoring the country’s situation with regard to education and evaluating the national tax collection system through indicators of equity.

In our view, this work is of fundamental importance if we are to overcome the gaps left by an inadequate system of development indicators used until now in Brazil and the rest of the world.

The need to come up with a new system that takes account of nature and human beings

The system of production must be reinvented and the allocation of goods must be based on different principles, or a system of values must be created that is capable of redirecting the commercial and amoral values of capitalist market societies and that takes account of true human values – factors such as sustainable

development, new indicators of social wealth that can be expressed only in the political and non-technical sphere. In other words, the ESDC shares Patrick Viveret's vision when he emphasises the need to place "the economy and money in a longer term perspective, together with the two aspects that modernity has forgotten – nature and human beings – within the perspective of human ecology".

For that, an improvement in democratic quality is necessary since, to paraphrase the French intellectual and historian Pierre Rosanvallon, "a democracy which must be reinvented, which can put into practice this approach of democratic evaluation, nourishing it from the perspective of human ecology and through the tools of active citizenship".

However, the project that Patrick Viveret is calling on us to construct is posed in terms of the emergence of a new paradigm for observing the democratic evolution of human activities "the monetary accounting of which is barely a subset". At the heart of this evaluation lies sustainable human development. His work, therefore, set out to seek a new project, actors, alliances and strategies in order to accomplish the task conferred on him in 1998 by Guy Hascoët, the Secretary of State for Welfare Economics; it has now entered a new discussion phase, on the basis of the Stiglitz Commission's report, a document recently commissioned by Nicolas Sarkozy that is guiding the debate on the subject within the IAESCSI.

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