Why Measurement?

Sabina Alkire (OPHI), 28 Feb 2011
Why?

1) Data are increasing
2) Measures are increasing
3) 2010 HD measures sparked interest and debate
4) Technical resources do not reflect Human Development measures
5) Political space is opening; demand increases
1. Relevant Data are Increasing

- Since 1985, the multi-topic household survey data has increased in frequency and coverage.
- Even greater breathtaking increases have occurred with income and expenditure data.
- Technology exists to process these data.
1. Relevant Data are Increasing
2. Multidimensional Measures are exploding

- Bandura (2006) found that over 50% of composite (multidimensional) indices had been developed since 2001; now is greater.
- Examples: Doing Business Index, Governance, Global Peace Index, Quality of Life Indices, Multidimensional Poverty Indices, SIGI, CGD Index.
3. 2010 HDR sparked debate

• HDI: Blogs and *Let's Talk HD*

• MPI: Blogs and papers

• Governments: what data? Our voice?
4. Technical Resources do not reflect human development:
Various new guides to measurement methodologies: e.g. 2008 Handbook. But they do not view measures as normative.
5. Political space is opening; demand increases

- Basic need: to distill information
- Governments demand – and use – new measures
- European shifts
- Sarkozy Commission: Stiglitz Sen Fitoussi
Her Majesty The Queen
Buckingham Palace
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MADAM,

When Your Majesty visited the London School of Economics last November, you quite rightly asked: why had nobody noticed that the credit crunch was on its way? The British Academy

Many people did foresee the crisis. However, the exact form that it would take and the timing of its onset and severity were unforeseen by nobody. What matters in such circumstances is not just to predict the nature of the problem but also its timing. And there is also finding the will to act and being sure that authorities have all the powers that they need to carry out the problem.

There were many warnings about imbalances in financial markets and in the global economy. For example, the Bank of International Settlements expressed repeated concern that risks did not seem to be properly reflected in financial markets. One newspaper in England issued many warnings about this in their Financial Stability Reports. Risk management was considered an important part of financial markets. One of our major banks, very soon in public ownership, repeatedly had 10,000 risk managers. But the difficulty was seeing the risk to the system as a whole rather than to any specific financial instrument or loan. Risk calculations were often confused to delta of financial activity, using some of the best mathematicians minds in one country and abroad. But they frequently lost sight of the bigger picture.

Many were also concerned about imbalances in the global economy. We had enjoyed a period of unprecedented global expansion which had seen many people in poor countries, particularly China and India, improving their living standards. But this prosperity led to what is now known as the global savings glut. This led to very low returns on safe long-term investments (bonds), in turn, led many investors to seek higher returns at the expense of greater risk. Investors like the UK and the USA benefited from the rise of China which lowered the cost of many goods that we buy, and through easy access to capital in the financial system it was easy to

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22 July 2009
Her Majesty The Queen  
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So in summary, Your Majesty, the failure to foresee the timing, extent and severity of the crisis and to head it off, while it had many causes, was principally a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole.

We have the honour to remain, Madam,  
Your Majesty’s most humble and obedient servants
the giants of our profession… straddled many areas of our subject.
As such their judgments were founded on a range of insights and observations.

Nicholas Stern
“We are almost blind when the metrics on which action is based are ill-designed or when they are not well understood. For many purposes, we need better metrics.”
Background

In February 2008, the President of the French Republic, Nicholas Sarkozy, unsatisfied with the present state of statistical information about the economy and the society, asked Joseph Stiglitz (President of the Commission), Amartya Sen (Advisor) and Jean Paul Fitoussi (Coordinator) to create a Commission, subsequently called “The Commission on the Measurement of Economic Performance and Social Progress” (CMEPSP).
Motivation: Mis-Measuring Our Lives:

“The Commission’s aim has been to identify the limits of GDP as an indicator of economic performance and social progress, including the problems with its measurement; to consider what additional information might be required for the production of more relevant indicators of social progress; to assess the feasibility of alternative measurement tools, and to discuss how to present the statistical information in an appropriate way.”
Key reasons for Commission:

1. Statistical indicators are important
   – Especially in an information society
2. What we measure affects what we do;
   – Flawed measures => Distorted decisions
3. Standard measures (growth, inflation, etc) do not match widespread perceptions.
Reasons Statistics may be faulty

• The measurement process may be imperfect.
• The statistical concepts may be flawed
• GDP per capita does not reflect inequality, hence GDP may rise and avg income may fall.
• Commonly used statistics omit traffic, climate change, pollution, overwork; people see this
• Statistics may be wrongly reported/used
• Economic measures may not reflect societal well-being, or sustainability across time.
• Wrong stats lead to surprises (crisis 2008-9)
The Commission’s Consensus (p 9)

• “those attempting to guide the economy and our societies are like pilots trying to steering a course without a reliable compass. The decisions they (and we as individual citizens) make depend on what we measure, how good our measurements are and how well our measures are understood. We are almost blind when the metrics on which action is based are ill-designed or when they are not well understood. For many purposes, we need better metrics.”
Commission’s Working Groups:

1. Classical GDP issues
2. Quality of life
3. Sustainability
Global measures: limited yet key

‘It has to be as vulgar as GDP/capita
– but better.’

Amartya Sen, recalling Mahbub ul Haq’s insistent aims for the HDI.
Sometimes You Don’t Need to Get Every Detail Right

It doesn’t mttae in what oredr the ltteers in a wrod are, the olny iprmoetnt tihng is that frist and lsat ltteer is at the rghit pclae. The rset can be a toatl mses and you can still raed it wouthit porbelm. This is bcuseae we do not raed ervey lteter by itslef but the wrod as a wlohe.