

# Why Measurement Matters

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# The importance of metrics

- To monitor and diagnose what is going on—what is happening to society and the economy in all of its dimensions, and how different groups within society are being impacted
  - Not just about the size and shape of the market economy
- We want statistics not just to *describe* but to *evaluate* and *help us prescribe*
  - To assess the well-being of different groups within society
  - To assess the locus of the changes
- Economic analysis tries not just to describe correlations but analyze causal relationships
  - We need good metrics to do this
  - Our metrics need to reflect beliefs about underlying structure

- Without appropriate understanding of how metrics are constructed, there is ample opportunity for false inferences
- We need metrics for policy
  - For steering the economy in the short run
  - For structural reforms in the long run
- To motivate civic action

***What we measure affects what we do***

# Example 1: measuring well-being

- More than income and consumption
- Also health, education, security (economic and non-economic) and *opportunity*
- Implicitly, real, secure prosperity has to be sustainable
  - Reflected in assets (stocks)—natural, social, and human capital as well as physical capital

- Financial capital may be part of an individual's wealth
- But *real* assets are the basis of societal prosperity
- Much of the growth of measured wealth is growth in financial capital and the value of land
  - By confusing capital and wealth, Piketty may have made wrong inferences about sources of wealth inequality
  - Value of productive assets (per capita) is declining in many advanced countries

# Example 2: Measuring inequality

- Inequality one of society's major concerns today
- Appropriate that national statistics attempt to understand the major changes in inequality and inequality opportunity
- Distribution of these variables across individuals (as measured, e.g. by Gini)
- But also across social groups (gender, ethnicity, regions, age, disability)
  - Disparities across certain groups particularly socially unacceptable and costly
  - Giving rise to strife and social and political instability

# Equality of opportunity

- Particular difficulties in assessing equality of opportunity
  - Partly it's about intergenerational transmission of advantages and disadvantages
    - But what are the channels through which this occurs?
  - Providing the *same* opportunities for individuals in different circumstances is not providing equality of opportunity

# Example 3: Measurement of magnitude of economic downturn

- **Much is left out of our standard metrics**
- Decrease in growth potential in the aftermath of Great Recession implies a large “hidden” loss of (mostly human) capital
  - Better metrics would have shown that the cost of the austerity policies are even greater than many critics claim

# The role of better metrics

- Better metrics can thus better assess what is going on, and provide better information, on the basis of which we can formulate better policies to enhance societal well-being and ensure shared prosperity
- The objective of the OECD High Level Expert Group on the Measurement of Economic Performance and Social Progress is to help identify lacunae in existing metrics and in existing systems of data collection, to help understand relative merits of different data sources, and to help develop these better metrics
  - Bridging the gap between users of statistics and producers of statistics
  - Users both in the policy world and academia

# Examples

- To monitor the evolution of the intergenerational transmission of inequality we need long run panel data
- Administrative data have advantages and disadvantages over survey data
  - There is a need for better access to administrative data
  - A need to be able to merge different data sets
  - To be able to identify limitations and biases in each data set
- Missing data often tells a different story
  - E.g. what has been happening to inequality in Germany

# Example 2: The Gini coefficient

- The Gini coefficient is probably not the best way to capture what is going on with the marked changes in inequality
  - Good metrics enable us to identify important changes
  - The Gini coefficient may be relatively stable, yet there may be large changes in the distribution of income (wealth)
- We may be more concerned with what is happening at the bottom/top
- Certain dysfunctions in economic behavior may be more related to one form of inequality than another

# Concluding Remarks

- This conference presents an extraordinary opportunity to discuss and share with each other these advances, to see how these ideas have already proved useful in understanding what is going on in our complex societies, and in formulating better policies for addressing key challenges facing our societies.
  - With a particular focus on the issues facing Africa
  - With a particular focus on the special problems associated with statistical work in Africa