



Development Policy 2019

Session (2): Measuring Development

# Class Schedule

- Definition of development is not clear – then, how do we measure development? (or ‘growth’)
- Economic development – traditional measure of development, is this legitimate?
- Alternatives? – human-centered development index, promise and challenges
- Vietnam in Comparative Context

# How to Measure 'Development – Big Trend

Traditional  
measurement

Economic  
data

*GNP or GDP  
(Acquisition of wealth)*

Modern 20<sup>th</sup>  
Century

Process of  
Change

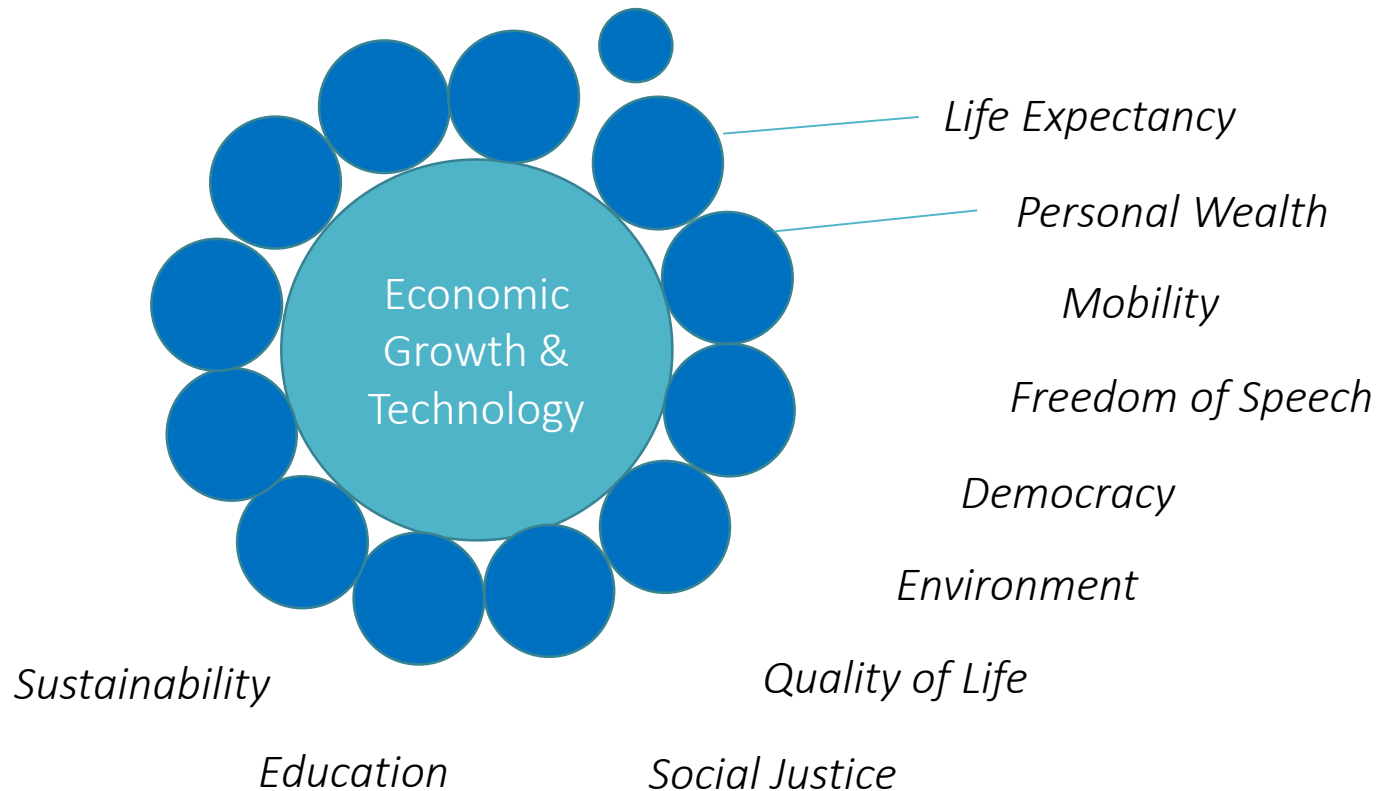
*Greater social justice,  
quality of life  
Qualitative  
Quantitative Data*

Later 20<sup>th</sup>  
Century

Greening of  
Development

*Focus more on  
sustainability*

# Why Do We Need To Measure?



- If we have ability to measure the wide range of development factors, we can look at development over time.
- Shown 'level' of 'process' of development.
- Encourage development – what is missing, less effective, etc.

# Defining & Measuring Development

- In order to review the various ways of measuring 'development' → necessary to define 'development.'
- Definition – “The process of change operating over time.”
- Traditionally, development = ‘\_\_\_\_\_’
- Economic data such as GDP growth rate, GDP per capital, etc.
- Under this conceptualization, traditional emphasis was on ‘\_\_\_\_\_’ of poorer countries to enable them to catch up the gap with richer countries.

# Traditional Measures

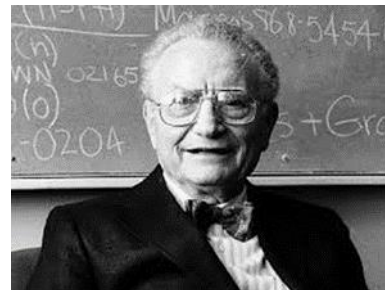
- The most widely used measure for international comparison is the Gross National Product per capita.
- GNP – total value of a countries' economic production in a particular year
- GNP includes;
  - ✓ Production of food/goods
  - ✓ Provision of services
  - ✓ Profits from overseas investments
  - ✓ Money earned in the country by foreign people and foreign business.
- GDP is preferred: the money value of all goods/services produced 'within' a country's geographic border over a specific period of time.



# Is GDP / GNP Growth Legitimate?

- Whilst the measure is extremely widely used, the use of money units (e.g. GNP, GDP) to assess development has a number of problems.
- Benefit: Provides an overall picture of the countries' economy (easier comparison).
- Benefit to policy makers and central banks? – Enable them to judge whether the economy is shrinking or expanding, whether it needs a boost or restraint, whether recession or inflation is coming.

But, almost universal agreement that GDP alone is an imperfect metric for growth and prosperity. Why?



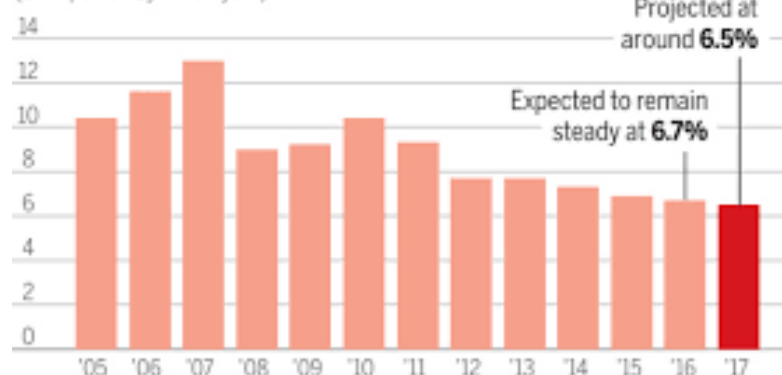
# Discuss What GDP Cannot Capture

1. Real Value: The real value of the unit of currency for each country will change significantly over short periods of time.
2. International Exchange Rates: do not necessarily reflect the relative purchasing power of one currency against another.
3. Some countries have different definitions of national income (e.g. former planned economies, like Russia, China).
4. GDP or related economic data saw development almost exclusively as an **economic** one. (e.g. Trickle down effect?)



## China's annual GDP growth

(Unit: percent, year-on-year)

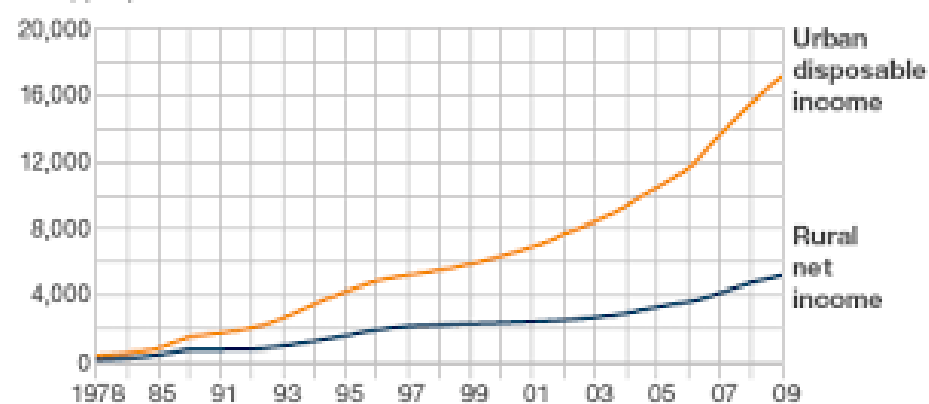


Sources: National Bureau of Statistics, Chinese Academy of Social Sciences

CHINA DAILY

## Income in China: urban vs rural

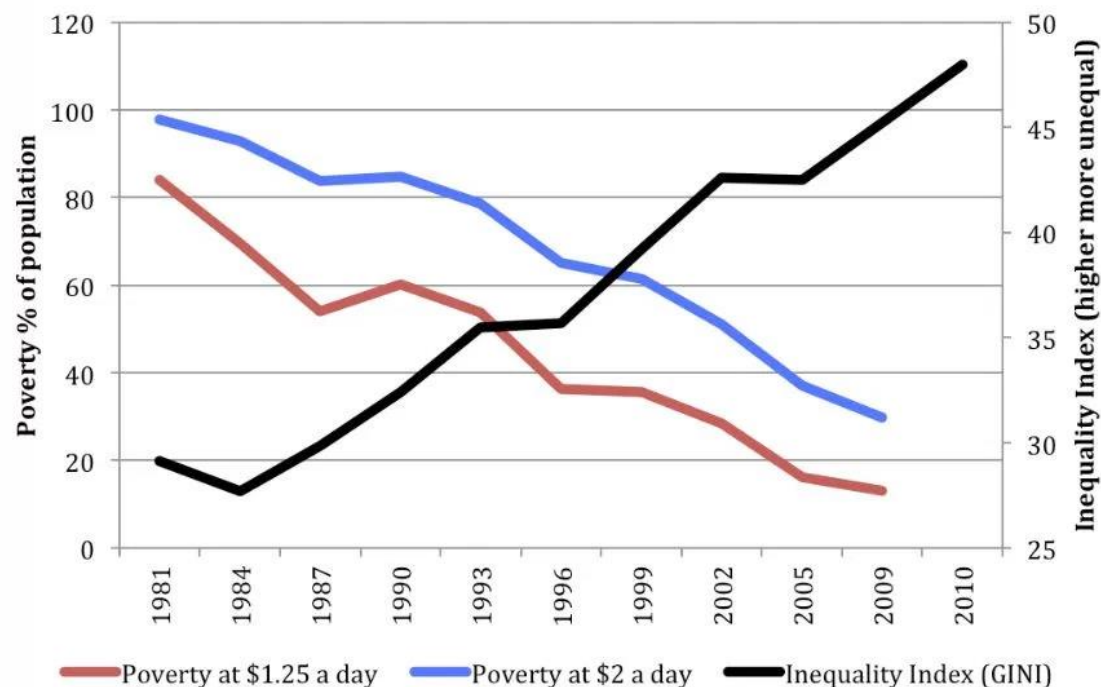
Yuan, per person



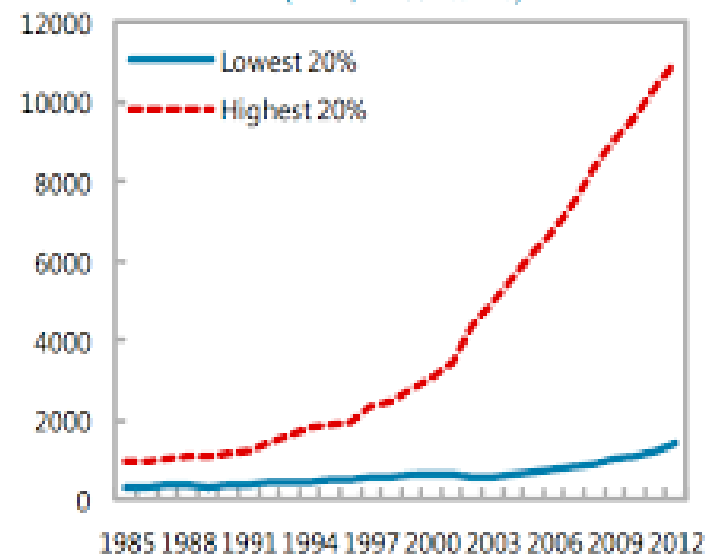
Source: National Bureau of Statistics of China

What are these graphs indicate?

## China: Inequality and Poverty



## Disposable income growth (RMB, in real terms)



Sources: CEIC China database.

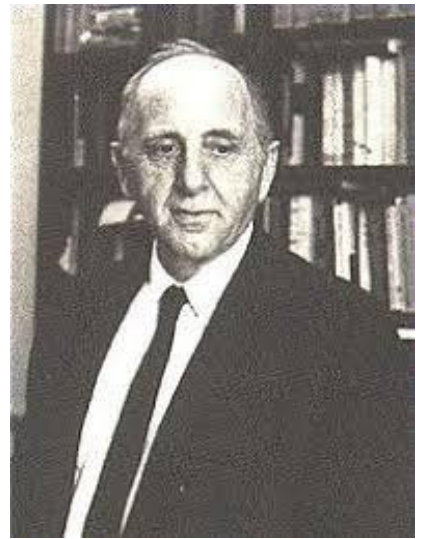
# But What are Really Missing?

- Materialistic measure – What's wrong with it?

# Kuznets

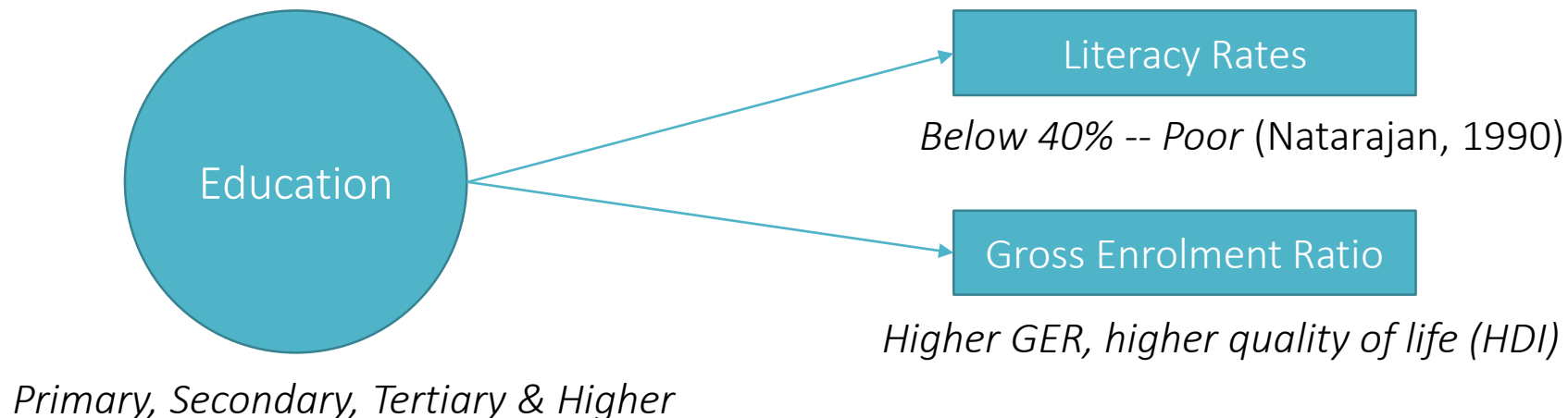
Simon Kuznets said (1934) puts:

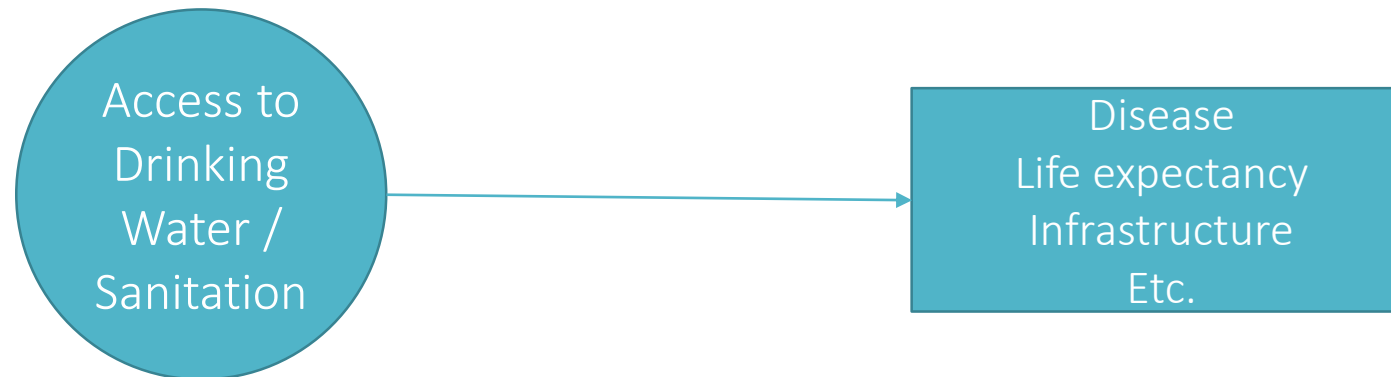
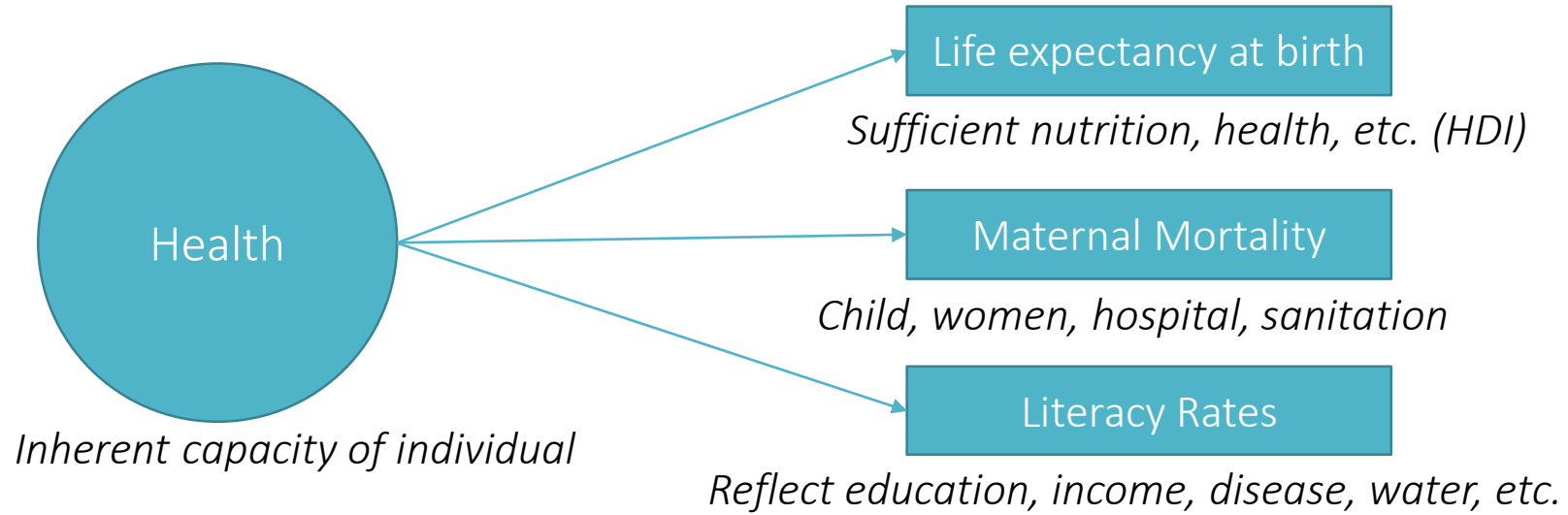
“The welfare of a nation can scarcely be inferred from a measure of national income. If the GDP is up why America is down? Distinctions must be kept in mind between quantity and quality of growth, between costs and return and between the short and long run. Goals for more growth should specify more growth of what and for what.”



# Alternative, Complementary Measures

- The aggregate and per capita real incomes are not sufficient indicators of economic development – a multivariate concept having many dimensions.
- Rise of social indicators – e.g. life expectancy, state of prevalent health, housing status, nutritional condition, educational achievement, etc.
- Welfare of the people – difficult to measure.





# Composite Index of Development

Trend: Development is measured in terms of composite indices of development that account for different aspect of development. For example,

## Physical Quality of Life Index

Morris D. Morris  
(1979)

Literacy, life expectancy, and infant mortality to measure quality of life

## Human Development Index

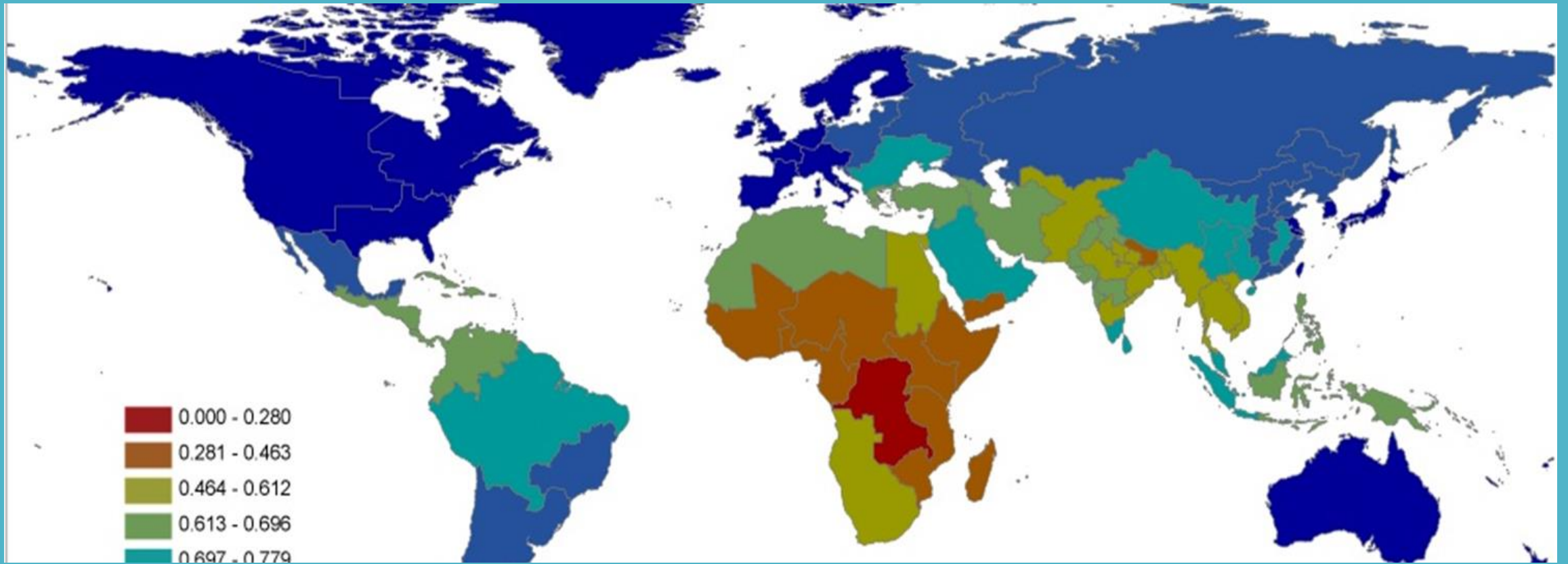
Mahbubul Haq (1990)

Life Expectancy  
Education  
Per Capita Income

## Global Multidimensional Poverty Index

Oxford & UN (2010)

Severe Deprivations  
Education  
Health and Living Standard



# Human Development Index

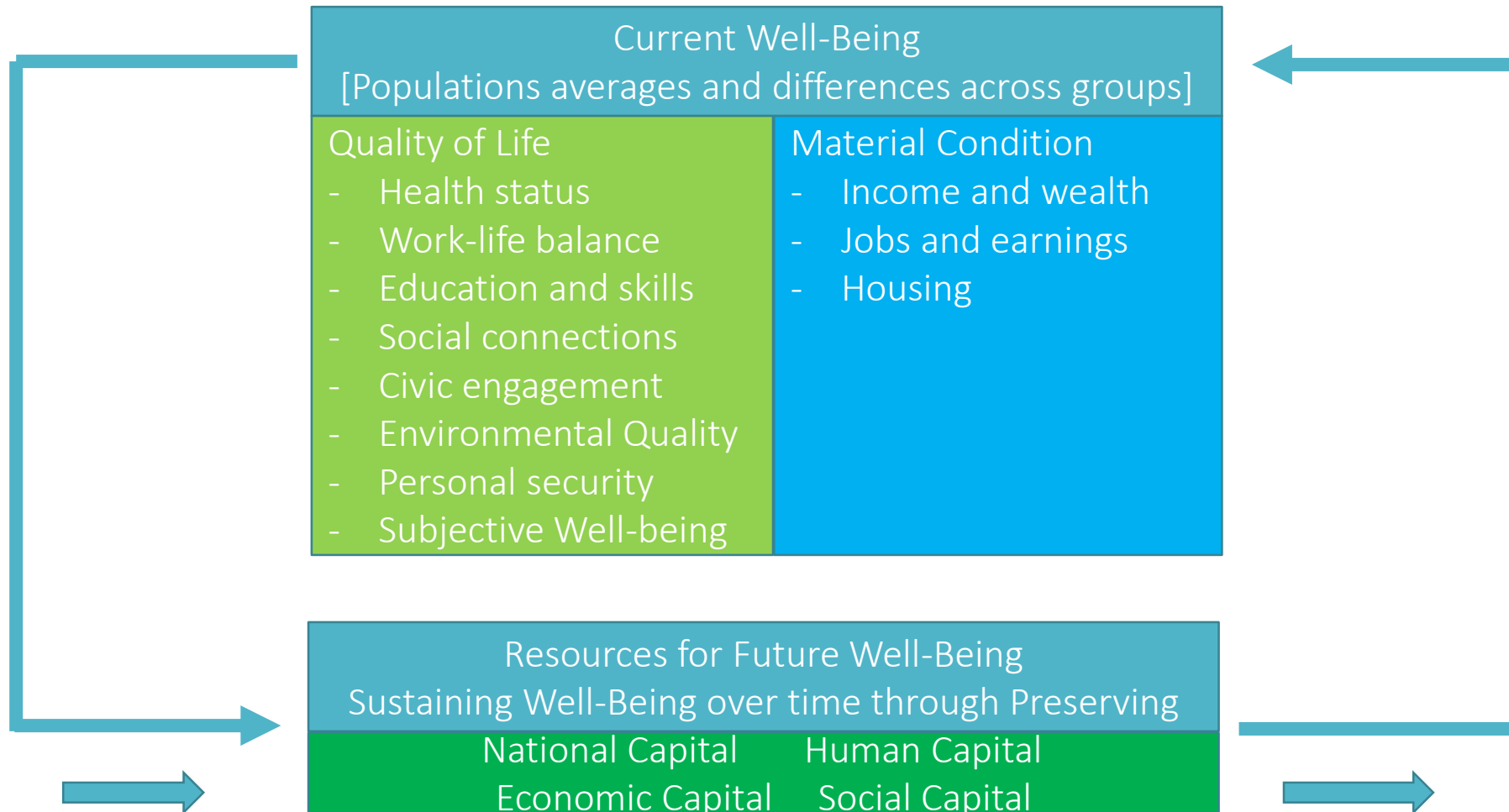
# Human Development Index

- “To shift the focus of development economics from national income accounting to *people-centered* policies” (Mahbubul-Haq, 1990).
- Whether people are able to ‘be’ and ‘do’ desirable things in life (‘*capability approach*’)
- Calculated by taking three indicators: a. Longevity, b. Educational attainment, c. decent standard of living.
- Sensational – widely viewed, and some governments used HDI to allocate resources (e.g. Argentina, Brazil, Mexico, Egypt, etc.).
- Some critics – a. Simplified (some dimensions of development cannot be measured precisely, b. *overreacted to monetary indicators* (growth))



# The OECD Well-Being Framework

*What is the meaning of having better measurement for policymakers?*



# Vietnam and HDI

**Table B: Viet Nam's HDI and component indicators for 2017 relative to selected countries and groups**

	HDI value	HDI rank	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (PPP US\$)
Viet Nam	0.694	116	76.5	12.7	8.2	5,859
Philippines	0.699	113	69.2	12.6	9.3	9,154
Thailand	0.755	83	75.5	14.7	7.6	15,516
East Asia and the Pacific	0.733	—	74.7	13.3	7.9	13,688
Medium HDI	0.645	—	69.1	12.0	6.7	6,849

Vietnam HDI  
0.477 (1990) to  
0.683 (2015)

**Table C: Viet Nam's IHDI for 2017 relative to selected countries and groups**

	IHDI value	Overall loss (%)	Human inequality coefficient (%)	Inequality in life expectancy at birth (%)	Inequality in education (%)	Inequality in income (%)
Viet Nam	0.574	17.3	17.3	12.7	17.6	21.4
Philippines	0.574	17.9	17.6	14.4	11.6	26.8
Thailand	0.636	15.7	15.5	9.3	13.3	23.8
East Asia and the Pacific	0.619	15.6	15.4	10.0	13.1	23.1
Medium HDI	0.483	25.1	24.9	20.3	33.1	21.2