

Research impact: making a difference

Making sure economists count what really matters

Lachmann Fellow Marc Fleurbaey played a key role on a commission tasked with finding better ways to measure economic wellbeing than GDP

What was the problem?

Politicians, economists and members of the public have become increasingly dissatisfied with the use of gross domestic product (GDP) – the total value of goods and services produced in an economy over a year – as the prime measure of how well a country is doing. Critics say that it fails to measure economic activities such as housework and childcare, fails to capture people's wellbeing, includes harmful activities such as pollution, and is insensitive to inequality.

In 2008 Nicolas Sarkozy, then President of the French Republic, asked Joseph Stiglitz and Amartya Sen, both winners of the Nobel Prize in Economics, to set up a Commission with Jean Paul Fitoussi, an economics professor at the Institut d'Études Politiques de Paris, to look at economic measures that would more accurately capture social progress and personal wellbeing.

What did we do?

Prof. Marc Fleurbaey was appointed as one of just 22 academics serving as members of this prestigious commission. At that time Fleurbaey was a Lachmann Fellow in LSE's Philosophy Department and the following academic year became a Visiting Professor in the same department. (He is now a professor at the Woodrow Wilson School of Public and International Affairs at Princeton University.)

Fleurbaey contributed to the Stiglitz-Sen-Fitoussi Commission with a background research document, one of only four such documents used in the writing of the report. His paper argued that standard justifications for using gross domestic product as an indicator of people's wellbeing were flawed.

He argued that three alternative measures to gross domestic product as a measure of people's economic wellbeing were worth pursuing:

- An equivalent income approach. This measures someone's current income minus the amount he or she would be willing to pay to achieve a particular quality of life, such as perfect health. He had developed a theoretical justification for this measure and rebutted criticisms that it was insensitive to individual needs. He argued that the measure could be made sensitive to any number of personal goals, whether in terms of health, education or other constituent elements of the quality of life.

Research impact: making a difference

- A subjective wellbeing approach. This is based on what people think of their own quality of life measured by how they respond on a scale of 0 (worst possible life) to 10 (best possible life) and on how they report feeling during particular life episodes.
- The capability approach. This is based on the idea of “functionings” – various things that a person does or feels, such as having a job or feeling happy– and “capability sets” – the various combinations of functionings that a person can choose. This captures individual’s opportunities to generate valuable personal outcomes. Using his research, Fleurbaey criticised some measures of capability sets and proposed new ones.

While a Lachmann Fellow, Fleurbaey also made contributions to the theory of the fair distribution of resources among diverse members of a community – a key element of social welfare theory that aims to go beyond simply using average gross domestic product for measuring social progress. This work culminated in a book, *Fairness, Responsibility, and Welfare*, published in 2008.

What happened?

Fleurbaey’s work on measures for the quality of life and on criteria for the fair allocation of resources significantly shaped the Commission’s thinking and influenced the content of the final report.

In particular, the report’s criticism of average indicators such as gross domestic product per person and its advocacy of indicators that highlight inequality and the plight of the worst off were shaped by Fleurbaey’s input. The focus on the need for measures to combat inequality drew on the contributions he made to the theory of fair distribution.

The Commission’s report was launched in September 2009 and had an immediate impact on debate among the public, opinion-formers, politicians and global institutions. The report was published on major newspapers’ websites and discussed extensively in at least 60 leading news media around world, including the *Wall Street Journal*, *The Guardian*, and *Time* magazine.

Several major conferences on the report were organised, including one by the Bertelsmann Stiftung, a Berlin-based foundation, and one by the Organisation for Economic Cooperation and Development in Paris.

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Research impact: making a difference

A direct outcome of the Commission's report were 50 changes to the way that Eurostat and the associated national statistical institutes of the EU member states were collecting, reporting, and using data. These changes included introducing measures of leisure time, health, the quality of social relationships and subjective wellbeing and tracking the distribution of these measures, not merely their averages. The Commission report was cited as showing the need for better measures than just economic indicators that estimated average attainment.

Fleurbaey was appointed to a working group of the 5th Assessment Report of the Intergovernmental Panel on Climate Change from 2010 to 2014, on the basis of the importance of his contribution to the Stiglitz-Sen-Fitoussi report. This working group was tasked with assessing all relevant options for mitigating climate change through limiting or preventing greenhouse gas emissions and enhancing activities that remove them from the atmosphere.

In 2012 Fleurbaey discussed with the French health care authority, Haute Autorité de Santé, the impact of his recommendation to the Stiglitz-Sen-Fitoussi commission that the "equivalent incomes" approach should cover the reimbursement costs for medicines. He also discussed his wider LSE findings with the French Parliament in the same year, together with co-author Erik Schokkaert (then a visiting professor at LSE).

In 2013 Schokkaert and Luc Bovens, Head of the LSE Department of Philosophy, Logic and Scientific Method, discussed Fleurbaey's work on wellbeing at an LSE conference called 'Measuring Wellbeing in the UK, Europe and OECD Countries', attended by representatives of the UK Office for National Statistics and the Organisation for Economic Cooperation and Development.

Marc Fleurbaey

Personal webpage:

<http://www.princeton.edu/faculty-research/faculty/mfleurba> (now at Princeton)

Department of Philosophy, Logic and Scientific Method:

<http://www.lse.ac.uk/philosophy/home.aspx>

<http://www.lse.ac.uk/researchImpact>

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