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Professor Irene van Staveren   Mind & Matter: Developing Pluralist Development Economics

International Institute of Social Studies

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Mind & Matter: Developing Pluralist Development Economics

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1. Mind on matter: what is pluralist economics and why do we need it?

Almost twenty years ago, a plea for pluralist economics was published in a top journal of the discipline, the *American Economic Review* (1992). It was signed by various Nobel laureates, including the Dutch development economist Jan Tinbergen, several of whose inspiring lectures I had the privilege of attending as a student at Erasmus University. The main message of the plea was that many economists advocate free competition but don't practice it in the marketplace of ideas. The minds, in other words, were rather closed and united in ignoring different perspectives when it came to exchanging ideas about the economy and economics as a discipline. The plea recognized that the great majority of economists has been trained as neoclassical economists and a small minority is either formally trained in, or has turned, like myself, into self-made heterodox economists, for which, unfortunately, there remains rather little room in top economic journals, mainstream teaching programmes and general economic policy debates: except for rare places like the Institute of Social Studies, where I found an intellectual home.

Since that first plea made almost twenty years ago, other initiatives have arisen and I joined them eagerly – from the International Association of Feminist Economics, addressing the gender bias in orthodox and heterodox economics, to the Post-Autistic Economics Network, initiated by dissatisfied French students of economics, arguing against what they see as the autism of neoclassical economics. Unfortunately, the plea is still relevant today, but now more widely recognized inside and outside the discipline with the failure of the dominant economic approach to predict or prevent the current financial crisis, to reduce poverty significantly on all continents or to curb global warming.

Let me start with a definition of pluralism, as discussed in recent volumes on the topic (Salanti and Scepanti, 1997; Fullbrook, 2008; Garnett, Olsen and Starr, 2010a.) Joining a few others, I opt for the one that was formulated 150 years ago, by the political economist John Stuart Mill (1975) in his famous book *On Liberty*. Pluralism in a Millian sense is a 'positive valuing of a diversity of views in the minimal sense that one whom is so committed would not want to reduce the number of available narratives or views' (Garnett, Olsen and Starr, 2010b: 4). Or, to put it more strongly in the words of Marqués and Weisman (2010): 'Since the present opinions may be false, it is licit to express any view inconsistent with them. What has to be limited are not the usual conceptions, but the power of society to reduce non-conventional views to silence.' Pluralism, hence, is first and foremost a matter of open minds. A critical stance, open communication and willingness to engage with any theory, methodology, empirical approaches of data collection and data analysis, as well as policy recommendations.

Obviously, policy makers are not particularly fond of such diversity when it comes to economic policy advice. Former US president Harry Truman had enough of economists saying that 'on the one hand A should be done, but on the other hand B would be preferable'. That is why, one day, the President asked in despair for a one-armed economist. Moreover, pluralism concerns diverse matters, the enormous diversity and complexity of the matters of real-world economies. It requires an economics that tries to incorporate both a stronger real-world orientation on the economic lives of men, women and children as well as on nature as their fragile environment, and a critical awareness of the wide diversity of how knowledge about the world may be captured in economic analysis and policy recommendations: matters that call for broad-minded thinking, such as today in our world suffering from the Financial Crisis, and its successor, the Great Global Recession. An economic reality in which many of us, including economists, are unsure whether the current policy measures will help sufficiently, might have serious side effects, and can help soon enough and for everyone affected, including the poor in the developing world.

If there is one thing that the current state of economic affairs in the world has demonstrated, it is the failure of an economic theory that assumes an idealized, mathematical rationality of economic agents and by default positive net welfare gains from free markets. A theory that has led to behavioural strategies in financial markets based on financial models that led to herd behaviour, short-term profit seeking investors, biased rating agencies, excessive risk taking by banks supported by the moral hazard of bank bail-outs by the state, ignoring whistle blowers' warning about risky derivatives and bonus-hunting bankers who in their spare time lobbied for deregulation and for whom the few remaining rules put too modest a limit on their gambling-addiction. The theory that has not caused, but very likely contributed to, the crisis is neoclassical economics in its purest sense, relying on the positivist philosophy of falsificationism and carefully built on an individualist methodology featuring the rationality principle. Today, however, new developments in the discipline have emerged that have resulted in a much wider mainstream economics that does not necessarily rely on a neoclassical methodological foundation. Hence, it is important to distinguish neoclassical economics from mainstream economics, just like it is important to distinguish mainstream economics from various older traditions of economic thought like Keynesianism, institutional economics and Marxist economics, as well as from refreshing new approaches like feminist economics and ecological economics.

In order to understand the need for and relevance of the call to open minds to economic pluralism, let me try to summarize briefly the main problem with the positivist foundation of neoclassical economics, as it has been discussed by philosophers of economics over the past three decades. In neoclassical economics, the rationality principle states that economic agents are rational in the sense that they maximize their interests by maximizing their given preferences under certain constraints like prices and budgets. Wade Hands (2001) has, in his influential book on economic methodology, demonstrated that what is wrong with the rationality principle of neoclassical economics is that it has been constructed as a positivist concept. This means that it is assumed to be value free, purely deductive, that is, derived from a theory, and therefore falsifiable, which in the positivist tradition makes it a genuine scientific theoretical construct. Falsification means that it is possible to test a theoretically derived hypothesis, with two possible outcomes: confirm or reject. Hands, however, has shown that the neoclassical principle of rationality cannot be falsified, hence the underlying theory cannot be regarded as scientific, at least not according to the principles of positivism. In order for rationality to be falsifiable, it should not be too broad. Because if it is too broad, any behaviour can be regarded as rational simply by invoking a peculiar preference (for example that some people like to have less money rather than more) or an unusual time horizon (like drug addicts have: a very short time horizon when in need of their next shot, giving up their long term interests such as health). But if rationality is defined so broadly, it can explain any behaviour, and hence is no longer falsifiable: there is no way to reject it. And when it is not falsifiable, it is not scientific.

On the other hand, if rationality is defined more narrowly, allowing some behaviours to be recognized as non-rational, it is falsifiable. But if then indeed some behaviour is found to be irrational, as is found in game theory where people appear to act partially on the basis of rules of fairness rather than self-interest, or in Keynesian economics where financial crises are partly explained by herd behaviour rather than by neat expected cost-benefit models, neoclassical theory is found to be wrong: its rationality principle cannot explain all economic behaviour. Hence, it is falsified and therefore unscientific in its own terms.

There is a third option, namely that the rationality principle is defined narrowly enough to make it possible that it can be falsified, though no such instances have been found yet. So, empirical testing has only confirmed the principle, and no rejections have been found yet. However, then we face the problem of versimilitude: there is simply no way to find out whether neoclassical theory is scientific or not, or more scientific than other theories that do not invoke the rationality principle but employ a looser understanding of economic behaviour.

Irrespective of which of the three cases hold for neoclassical economics, each calls for pluralist economics. The first one because too broad a rationality concept explains anything and hence nothing. The second one because a narrow rationality principle that is proven to be wrong in various instances is clearly insufficient to explain all real world economic behaviour. And the third one because we can only find out the value of neoclassical theory vis-à-vis other theories by using a wide variety of theories in economic analysis, so that by using these theories we learn which one works best for which type of problems under which type of conditions.

It follows that neoclassical economics is not right or wrong (though it may be either way), but that economics can only advance when it is genuinely pluralist, stimulating full competition in the market place of ideas. This implies, of course, that pluralism should not be confused with a rejection of neoclassical economics. To my own surprise, I was labelled a neoclassical economist a few months ago by a PhD student at the University of Bern, who disagreed with me in a discussion on trade after I had given a lecture at the World Trade Institute on the feminist economics of trade. I took it as a compliment for my pluralist approach, which indeed also includes characteristics of neoclassical economics, though not the ones that rely on a positivist foundation. Indeed, not every part of neoclassical economics requires the acceptance of the positivist foundations on which the theory was constructed. Various neoclassical concepts are valuable in their own right, such as economies of scale or comparative advantage, just like many general economic concepts that cut across theories are valuable in their own right, such as prices, supply, demand or productivity, and they do not require positivism in order to be able to do their work in economic analysis. It is precisely such concepts and methods that are central in neoclassical economics but not dependent upon the philosophy and methodology that underlies neoclassical economics, that lend themselves to build a truly pluralist economics in which not only different theories stand next to each other, but in which they critically engage with one another and sometimes complement or mutually reinforce each other in the analysis of a particular economic problem.

Obviously such engagements are not without friction. It is a process of trial and error to find modes of mutual understanding between methodologies and theories whilst also acknowledging that even simple concepts cannot always be transferred from one framework to another. It is not an easy task to bridge minds on economics, but a task worthwhile to embrace, I find, if only because the current state of economics is not very likely to help solve the problems that matter today, in particular those of poverty, instability and global warming.

2. Mind matters: towards a pluralist development economics

Since coming to the ISS eleven and a half year ago, and already in my early years as an activist researcher and later when working on my dissertation, I have engaged with neoclassical economics, feminist economics, institutional economics, socio-economics, Post-Keynesian economics, experimental economics, and hermeneutical economics. None of these provides a complete understanding of the economy, or of economic development, in my view. It is tempting, then, to take an eclectic approach and shop around for a theory depending on the research question at hand. I have tried this, but then found that what I learned from one school in researching a particular topic also appeared helpful for studying a different topic, though often in a different way. Indeed, what I started doing was combining two or more theoretical or empirical approaches at the same time[1]. For example, institutional economics taught me to see markets as more than demand and supply meeting each other freely, only constrained by budgets on the demand side and marginal cost structures on the supply side and regulated by the state. Institutions matter too: they constrain behaviour or enable it in a socially structured, or patterned, way and they even influence agency itself as well as the preferences and values of economic agents. This may be through formal institutions, such as banks or inheritance laws, and informal institutions, such as beliefs about the work attitudes of different ethnic groups, or routines among financial professionals about price boundaries for buying and selling shares. The concept of institutions, however, also proved very helpful in my feminist economic analysis, because it helped to explain why women and men face partially different constraints and sometimes use different behavioural strategies. I realized that some institutions should be understood as asymmetric, having different effects on different groups of agents, such as property rights or traditions of marriage at a very young age which both tend to put women in a disadvantaged economic position. So, for me, pluralism goes beyond eclecticism although, equally, I do not believe in the other extreme, namely in a unified theory. I think that every school of thought and approach has its merits, which will inevitably have to be sacrificed to a considerable extent if all would be melted into one unified theory, which, in turn, would kill pluralism …

My research agenda for pluralist development economics therefore seeks a middle ground between eclecticism on the one hand and unification on the other, thereby following the advice of my former Nijmegen colleague Esther-Mirjam Sent (2003) on how to keep pluralism pluralist. Moreover, to be honest, I don't care very much about where I find myself exactly on that sliding scale, because what matters most is that development economic research contributes to development, to the improvement of the position of millions of poor men, women and children.

Now, where is the pluralism in the development aspect of economics? Let me start with a recent article published in another top journal by the well known development economist Angus Deaton (2010). In this article, Deaton briefly defends the method he sees best fit for development economics: deductivist hypothesis testing. This is the method of positivism which underlies neoclassical economics, as I explained earlier: the endeavour to falsify theoretically derived hypotheses, based on the rationality principle, by testing them with data. And as Deaton himself explains, this method relies on proposed mechanisms that may be supplemented by additional assumptions, deducted from established theory which would lead to generalizable results. In the words of Deaton (2010, p. 4): 'In this approach, mechanisms are proposed, key predictions derived and tested, and if falsified, the mechanisms are rejected or modified.' The mechanisms are rejected if they are regarded as an anomaly, not explainable with deductions from the theory at hand, and modified other times through adding even more assumptions. As Deaton explains with a strikingly deductivist positivist belief: 'Sometimes the falsifications can be repaired by changing supplementary assumptions'. Hence, if a hypothesis cannot be confirmed, help is sought from additional theoretical assumptions, rather than from turning to real world patterns such as uncertainty or the norms and values that guide agents' behaviour.

I was surprised when I read this article published in 2010. Not because of its uncritical positivist stance, with which I am very familiar, having been trained as a neoclassical economist. But I am surprised to still find such a firm belief in positivism and the deductive method today in development economics. First because, apparently, the failure of positivism in the sciences as well as in economics, as demonstrated so clearly by Wade Hands and many others, has not reached the ears of a major development economist like Deaton. And I find myself not alone in my amazement. The greatest development economist of today, Nobel Prize winner and honorary fellow of ISS, Amartya Sen, has remarked recently that 'economists remained stuck for many decades in the quagmire of positivist non-comprehension' (Sen, 2008: 622). Second, I was astonished because development economics tends to be a much more pragmatic, empirical and policy-oriented field of economics as compared to some other fields in the discipline. Development economics, hence, in my view, needs to broaden its methodological tool box, away from the narrow confinements of positivism. A more open mind to development economics is what matters now, I would argue. Fortunately, there are a few initiatives around to broaden development economics, variations on the earlier calls for pluralism. Let me draw on two initiatives that have sketched a pluralist landscape for development economics.

The first one is by Joe Stiglitz, a former World Bank Chief Economist who criticized both the Bank and the IMF for their ineffective and sometimes worsening reactions to the Asian financial crisis in 1997 (which led him to give up his job at the Bank). In a paper given at an UNRISD meeting held in South Africa on the need to rethink development economics, Stiglitz (2001) gave two empirical arguments for broadening development economics, away from the Washington Consensus agenda filled with neoliberal policy prescriptions. First, he suggested that development economics should focus on the specificities of particular developing countries rather than trying to apply developed country analysis on the developing world. Second, he emphasized the importance of studying institutional change during development processes. These two empirical foci, Stiglitz argued, would help to analyse economies beyond a narrow concern with GDP growth, towards evaluations of poverty, the environment, democracy and sustainability. To quote him, 'in these new perspectives, development is seen as a transformation of society, not just an increase in physical and human capital' (ibid, p. 3). A major way to get to such a much more diverse development economics is through education, as Stiglitz points out.

This is one of the ways in which I have tried and still aim to contribute to pluralist development economics. In 2009, I contributed to a book entitled *The Handbook of Pluralist Economics Education*, edited by Jack Reardon, with a chapter on teaching pluralist macroeconomics (van Staveren, 2009). In that chapter I included a course outline that would cover a wide variety of theoretical perspectives on the macro economy. I also included a do-it-yourself version of the world trade game, in which students represent countries with particular endowments and are left in the free market to trade with each other. They quickly find out that with very few endowments and an oversupply of primary products by fellow countries that are equally poorly endowed with financial, natural and human resources, trade can be a loosing game. I also put in an effort to make my own courses pluralist, and feel stimulated when reading comments from students in my course evaluations stating that it is indeed a diverse course but may be made even more diverse! Clearly I have not yet fully achieved my own standards of pluralism in my teaching… Moreover, I am writing, with two former ISS colleagues, Haroon Akram Lodhi and Nicky Pouw, a textbook on economics and gender, contracted by Routledge three years ago, covering all the traditional areas of an economic textbook, from the theory of the firm and consumer behaviour, to macro economics and trade theory. But I have to admit that it is progressing very slowly. Again, it appears not to be an easy task to genuinely work on teaching pluralist development economics against the tide of development economics that is still largely defined in a narrow neoclassical way, as Angus Deaton's plea for positivism has illustrated. One easily falls into the trap of contrasting neoclassical economics with heterodox economics, at the risk of turning the first into a caricature, or, the opposite, the risk of starting from neoclassical economics then moving to mainstream innovations and extensions, without being able to really get across genuinely different perspectives because of the rather restrictive neoclassical methodological framework one starts from. I do hope that you will all have a little more patience with my pluralist economic teaching and textbook efforts, which are surely part of the work I plan to undertake as Chair of Pluralist Development Economics.

The second initiative towards pluralist development economics that I would like to mention here is a recent document from the São Paulo School of Economics, the Getulio Vargas Foundation, resulting from a meeting held in Brazil in 2010 and signed by 80 economists, the majority from the developing world. It is a set of 10 propositions, including recognition of the importance of the state for economic development and the need to aim for full employment and sustainability rather than just GDP growth and simply assuming a trickling down of economic growth to provide sufficient jobs and climate-neutral technology. Another issue that the document emphasizes in several propositions is financial fragility that needs to be lowered by reducing currency overvaluation and by putting capital controls in place to discourage speculative inflows of foreign capital looking for short-term profit. The 10 propositions are in my view a good example of pluralist development economics because they are rooted in the actual problems that developing countries face rather than stemming from theoretical assumptions or a single policy orientation – it follows what Stiglitz advises making development economics more relevant.

Let me give here an example of my own work to illustrate how a pluralist approach to development economics may be useful. In a chapter that I wrote last year for a book on the impact of the financial crisis on developing countries, initiated by three colleagues, Peter van Bergeijk, Arjan de Haan and Rolph van der Hoeven, I analysed the impact of the volatility of foreign capital inflows in developing countries[2]. Foreign Direct Capital (FDI) is capital inflow into productive capacity such as factories, rather than financial capital such as investments in stocks or trading in currencies. Much of FDI goes through multinational companies, setting up new production units (greenfield investment) or taking over or merging with existing units (mergers & acquisitions – M&A). The neoclassical theory of the relationship between capital and economic growth is straightforward: $Y = f(K)$. This is a standard version of the Solow model, in which economic growth (Y) is explained by an increase in the stock of capital (K) (both divided by labour to give the level of productivity in an economy). But since labour tends to be abundant while capital tends to be scarce in developing countries, it is capital that is regarded as the binding constraint on growth. Because savings rates are rather low in developing economies, the inflow of foreign capital may compensate for the scarcity of domestic capital, so that FDI is assumed to increase economic growth. This hypothesis has been tested widely, and indeed has been confirmed most of the time: regression analyses have shown that FDI inflows have a statistically significant positive effect on economic growth. So far, falsificationism seems to work well: the econometrics show that in this case the theory is not falsified, although there are a few exceptions which are published in less well known journals[3]. But, the confirmations of the relationship between FDI and GDP growth cannot say to what extent it is better or weaker than other explanations of relationships between economic development and FDI.

So, let's take a look at one such a different perspective. This is a Post-Keynesian perspective, in which markets, in particular financial markets, are seen to be inherently uncertain, with unpredictable volatility as a consequence. Moreover, let's also include a socio-economic perspective in which economic development is not limited to GDP growth, although that is an important dimension of it, but is also taken to refer to stability, sufficient state finances through tax revenue, and to reduced vulnerability of people's livelihoods, for example. The empirical literature that takes volatility of finance into account has shown that there is actually a statistically significant negative relationship between FDI and growth: the more volatility of FDI inflows, the lower GDP growth (Choong and Liew, 2009; Lensink and Morrissey, 2001). In my own bi-variate regression analyses, I found that for greenfield investments, there is no positive impact of FDI on growth[4], though I did find a statistically significant positive relationship between FDI inflow and vulnerable employment for men and women, and between the volatility of FDI inflow and vulnerable employment for both groups of workers. This implies that both the FDI inflow as such and its volatility seem to make jobs more vulnerable for men and women. Moreover, I found that volatility in greenfield investment has a statistically significant negative impact on tax revenue. This suggests that either foreign investment generates less tax revenue for governments in developing countries as compared to domestic investment, or that governments provide tax cuts and tax holidays to new investments coming from abroad in an effort to attract foreign investment to their country.

The example does not prove neoclassical economic growth theory to be wrong. But it does show that econometric analyses into other relationships between economic development and foreign direct capital, other than only a theoretically derived relationship between volumes of FDI and GDP growth, are relevant to undertake. They provide a complementary picture of what foreign capital may and may not do to help development in times of globalization and financialization of economies when volatility of trade and finance tends to increase. And of course I invite many more such analyses to improve our knowledge of the role of foreign capital for development, which in turn is necessary to inform policies that contribute to more economic stability and to poverty reduction. This argument for pluralist development economics takes me to the next section in which I will review examples of pluralist development economics from my own work – a move from mind to matter.

3. Let's mind some matters: examples of pluralist development economics

The same journal that published Deaton's article, the *Journal of Economic Perspectives,* has a section called 'Anomalies'. That section briefly discusses economic puzzles that cannot be explained with neoclassical economic theory. However, they have been solved already, or can be addressed rather easily, with a different economic perspective. So, whereas they are anomalies from the neoclassical point of view, they are good examples of what the width and depth of economics can explain if one allows for other theories, methodologies and empirical methods. Now, let me take you through three economic puzzles, or anomalies from a positivist-neoclassical perspective, that I have addressed in my own research over the past few years and that I plan to elaborate further in my future research. These matters, as well as many others, require different economic perspectives to engage with each other, and each matter has a different configuration. These three are only examples and many more such configurations are possible and necessary in order to further build a pluralist development economics, which serves the challenges of development.

3.1 The matter of women's empowerment: asymmetric institutions

To address the puzzle of women's empowerment in the developing world, I will draw on institutional economics and feminist economics. Let's go straight to the heart of the matter: gender equality and women's empowerment have become important goals in development policy worldwide. The Millennium Development Goals, MDGs for short, agreed by the world's major institutions for development, such as the World Bank, the IMF, the OECD and the United Nations, seek to reduce poverty by 50 per cent over the period 2000-2015. The MDGs include the objective to have equal school participation for boys and girls. Today, however, many developing countries still have many less girls in school than boys. The World Bank has made considerable effort to increase girl's school enrolment, next to support for other ways to improve women's economic position in the developing world, notably through access to credit and labour force participation. Education, work and credit are undoubtedly three major resources that help people to improve their wellbeing through markets. The neoclassical view in economics, as well as policies by major international economic institutions and donors, therefore gives priority to providing the poor, whether they be men or women, with access to resources.

Figure 1: A simplified neoclassical microeconomic flow chart

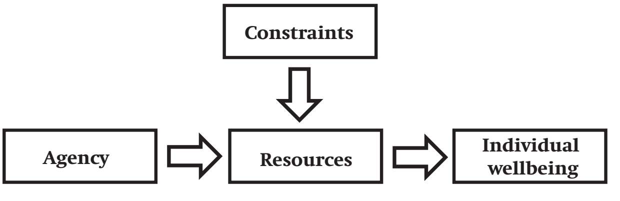

Figure 1 pictures a simplified neoclassical flow chart of individual behaviour. The starting point is agency, with given preferences and an algorithm of utility maximization. This then is applied to the allocation of resources, such as labour, raw materials and capital, under the constraints of one's budget, some legal constraints and possible market distortions such as minimum wages or taxation. This allocation process of resources results in the agent's level of wellbeing. When it is done through a free market, the outcome is assumed to be efficient, because the agent expresses her demand which is signalled through prices and met with available supply at the market price, for the various goods and services that maximize her utility. This is obviously a very simplified reflection of the much more sophisticated neoclassical analysis of individual economic behaviour. But what matters for this presentation are the main ingredients, their function and their sequence in the decision making process: resources are the key variable, the rationality principle as utility maximization is how agents allocate these resources, under the constraints they face from budgets, laws and prices. With non-negative resources and under non-prohibitive constraints, this leads to an increase in the agent's wellbeing. As a consequence, the policy implication for increased individual wellbeing is that increased access to resources will result in increased wellbeing.

Let's now go back from theory to the real world and see what empirical research may say about women's access to resources and their wellbeing, or broader, their empowerment. Several studies show that the causality from resources to wellbeing does not always work. Rather, access to resources seems a necessary but not sufficient condition for women's wellbeing and empowerment. Even more worrisome is that in some cases, more resources actually make women worse off: they constrain women's capabilities to become better providers or better entrepreneurs. For example, when microcredit is given to women who have no control over the money when they come home. Husbands may spend the money, and force their wives to pay back the loan in order to be eligible for a new one (Goetz and Gupta, 1996). Some of these women have to take on extra wage work in order to be able to pay back what they have neither spent nor invested. And than the whole cycle of disempowerment rather than empowerment starts all over again with a new loan to the woman.

3.1.1. Gender norms in Nigeria

In a study I did with a former PhD student here at ISS, Sunbo Odebode, we found that gender norms in Nigeria seemed symmetrical. But they actually appeared to advantage men's position, backed up by legal inequalities and sustained by contradictory beliefs about what is considered to be a good man and a good woman. To illustrate this, I give a few quotes from the interviews that Sunbo Odebode did among Yoruba women in the city of Ibadan (van Staveren and Odebode, 2007):

'A woman who has children – not one or two but many – and waits for the man to meet all her needs and the children's without generating an income herself is "dead".'

'It is definite that the man will be regarded as being the one meeting all the needs of the wife, the children and the household in general. Her in-laws will even complain that she is not allowing their son to "see" them as everything he earns is being spent on the wife.'

But Yoruba women have their own strategies to cope with financial insecurity in polygamous marriages:

'A sane and wise woman will never try to do joint savings account with a man because it is the day a man dies that you actually know the number of children he has.'

In our study, we found that quite a number of women who managed to increase their incomes experienced no improvement in their living conditions because as soon as they started to earn more, their husbands reduced their own contribution to household expenditures, such as for schooling for children. This shows that more income for women does not necessarily improve their bargaining power in the household, nor reduces their financial burdens or increases their consumption or opportunities to save or invest in their businesses.

3.1.2 Gender norms in Ethiopia

In an article that I recently published with another former PhD student, whom I supervised at Radboud University Nijmegen, Ramzi Mabsout, we found that in Ethiopia women's decision making power in households is negatively affected by gender norms. In particular, one of our models showed that women's decision making power in the household increases when women are more likely than their husbands to support wife beating. In other words, if women challenge the norm of wife beating when their husband supports this norm, their position in the household weakens (Mabsout and van Staveren, 2010). Hence, in such a context women's capabilities are constrained by institutions when they stand up for themselves, trying to follow a standard rationality principle: the paradox that more autonomy results in less empowerment. So, only when women give support to discriminatory norms such as wife beating, can they have some say over household decisions, such as large purchases, family visits or seeking health care. In the same paper we were also able to link gender norms to ethnic groups. We found that in ethnic groups with very unequal gender norms, women with higher education had less decision making power than women with lower levels of education. Apparently, when women become educated in such groups, men seem to reassert their masculinity by behaving in a more authoritarian way in the household. So, again, gender norms have been shown to have an important negative influence on women's wellbeing even to the extent that the more resources women have, like education, the less empowered they are.

3.1.3. Cross-country gender norms

In order to find out whether this may be a generalizable pattern or only relevant for a few individual countries or ethnic groups, I recently published a cross-country analysis in which I used data that has recently become available on gendered institutions for a large number of countries across the world (van Staveren, forthcoming). The data concerns the social and cultural norms that provide asymmetric opportunities and constraints to men and women. The variables are expressed as an index number, between 0 and 1, which allows the data to be used in quantitative analyses. My multiple regression analysis found that women's relative wellbeing achievements vis-a-vis men, like literacy, life expectancy and political representation, are significantly negatively affected by gendered institutions, even when women have access to resources. Sometimes formal institutions are more influential, such as laws on women's land rights, while other times informal institutions appear to be more constraining, such as the practice of girls' marriage at an early age (18 years or younger), often with men who are considerably older. In Ethiopia, for example, the household survey data indicated that the average age difference between husband and wife was seven years, with some women marrying at the age of 15 or younger, and quite a few forced into marriage through abduction. Interestingly, the initiators of the wonderful cross-country database with the gendered institutions data published an article in which they only analysed the extent to which the asymmetric institutions prevent women's access to resources. This reflects the neo-classical economic view that access to resources should have priority in development policy oriented towards the reduction of poverty and the empowerment of women. They found a negative effect of gendered institutions on women's access to resources, but their study also shows how easy it is to get locked-up in the logic of a simple causal model from access to resources, through the rationality principle and free markets, to increased wellbeing. The authors did not study the question whether gendered institutions would constrain women's empowerment *even when they have access to resources*. This was the reason why I focused my own analysis on that question and found that, among others, the positive effect of education is reduced to zero by fathers' say over daughter's lives[5] and by women's limited land rights. Since resources for achieving the MDGs are scarce, and the current financial crisis has led to reduced budgets for development aid, I think it is important to find out not only what constrains women's access to resources, but also whether access to resources will automatically result in improvements in empowerment and wellbeing or whether institutional reform may also be required and perhaps more urgently.

3.1.4. Conclusions on gendered institutions and resources

The conclusions from these three examples of my research, on Nigeria, Ethiopia, and cross-country, are first that access to resources is not the binding constraint for women's wellbeing in a context of very unequal gender norms. If women don't have the agency to allocate the resources as they want or don't have the agency to benefit at all from these resources, attention may be better shifted to what inhibits their agency. The second conclusion is that policies that focus on providing access to resources for women are relatively ineffective as long as the cultural norms, social patterns and legal structures that reaffirm women's subordinate position remain unchallenged. Policies that simply give priority to access to resources over institutional change are likely to be relatively inefficient, which may lead to disappointing progress in achieving the MDGs.

Figure 2: A simplified feminist institutional microeconomic flow chart

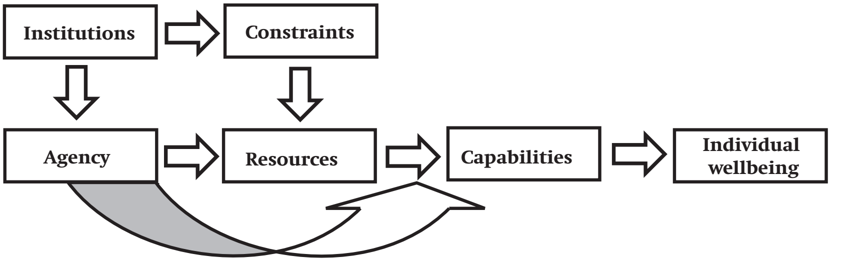

Figure 2 shows an expansion of figure 1 with institutions and capabilities. Institutions now affect each stage of the economic decision making process, an insight that can also be found in the capability approach and which is even further developed there with attention to variations at the level of the individual. Institutions, here, are more than constraints on access to resources. Institutions here also go beyond externally given constraints, but are recognized to affect agency, that is, the ends that people pursue, their beliefs that affect these, the strategies they follow in pursuing their ends and the extent of rationality and self-expression that they exhibit as a consequence. This is what the capability approach adds to pluralism, focusing on what people have reason to value and the extent to which they are capable of realizing these ends, affected by various interferences including from formal and informal institutions. So, the figure shows a pluralist view of economic behaviour, drawing on institutional economics, the capability approach and feminist economics. Let me briefly explain the three roles of institutions in the figure.

First, institutions affect agency through beliefs, attitudes and cultural patterns, thereby making the ends that agents pursue endogenous: they are open to change and to social norms. Referring to women's preferences that may seem irrational, Amartya Sen (1990) has spoken about 'adaptive preferences', that is, adapted to dominant gender norms. For example, the acceptance of wife beating, a belief which, as was discussed above, may be rational in a very unequal context because it helps women to improve their wellbeing more than if they refuse to accept such a norm. They, in fact, seem to trade-off wellbeing and capabilities, in favour of the first, perhaps for their survival, perhaps for the sake of their children, or simply because they see no alternative in the cultural context in which they have been raised. Second, institutions affect the allocation of resources as additional constraints. For example when inheritance laws allocate land only to sons or when cultural norms lead parents to give their daughter away in marriage at the age of 15 to a much older man, perhaps for economic benefit in the short run, like a bride price, or in the long run, for old age support. Here, institutions limit women's access to land, education, credit and other resources. Third, institutions again play a role in the transformation of resources via agency, through capabilities into wellbeing. This is because social norms may affect the agency through which women try to transform their resources into wellbeing. Their decision making power may not be supported by their access to and control over resources, but rather be determined by their conformity to gender norms, which affects their capabilities. In such a context, women with resources may challenge masculinity, such as male breadwinnership, so that men may feel threatened and find other ways to keep women in their place, in line with the dominant gender norms. As we have seen above, this may be through violence, withdrawing money from the household pot, or appropriating women's credit. So, the third role of institutions is right within the agency process of transforming resources into capability fulfilment and wellbeing, either in markets, trough the state, firms, the care economy, in communities or households. It is probably the least visible role that institutions have, but probably the most powerful and most difficult to change, and therefore in dire need of more attention from policy makers.

My research agenda will therefore further elaborate on how gendered institutions affect women's capabilities, wellbeing and empowerment, and what types of policies would be required to turn these institutions into more symmetrical ones for women and men, so that access to resources will more likely result in improvements for women and will hopefully bring the realization of the MDGs closer.

3.2 The matter of human capabilities for the labour market: meaningful rationality

The second puzzle that may be treated as an anomaly in neoclassical economics but as a feasible research question in a pluralist economic approach, concerns the concept of rationality in relation to human capabilities that make an economic agent fit for and effective in the labour market. To solve this puzzle, I draw on hermeneutical economics and the Capability Approach. Whereas in neoclassical economics, rationality is understood as utility maximisation under constraints, in which utility may include non-material ends such as friendship or the warm glow of doing good to others, this notion of rationality is still methodologically individualist. It relies on the view of an autonomous individual who may need others to feel happy, but who regards these others as instrumental to his own happiness and not as ends in themselves, and hence, not as human beings with dignity. I have approached this topic in various ways in my research and would like to refer here to one particular way in which I have done so more recently (van Staveren, 2007). This is through an engagement with the arts, namely literature. I have analysed the famous theatre play by Arthur Miller, *Death of a Salesman* and employed that in a hermeneutical approach to economics. In this play, Willy Loman, a salesman, has never been very successful in his job and now makes less and less money on his trips selling stockings. He believes firmly in the heroic endeavour to earn a living by selling goods, always on the road, always trying to convince clients that his stockings are just what they need. But the harder he tries to increase his sales, the worse things get. He treats others as instruments, betrays his wife, tells his sons to become successful businessmen and nothing less, refuses a job offer from his best friend out of pride and lies about his earnings to his wife. Until one day he is fired and forces even more strongly than before his dream of becoming big in business upon his sons who now realise that this is an illusion, that it alienates one from oneself, and therefore makes one unfit for any regular job because of the arrogance implied by the illusion. In the end Willy hangs himself in complete disillusion, leaving debts behind, a wife in shock and two sons who are completely unfit for the labour market. Willy himself is the strongest believer in this dream, as we see from the beginning of the play, when he comes home and tells his sons about his successes (Arthur Miller, 1976):

Willy: Because the man who makes an appearance in the world, the man who creates personal interest, is the man who gets ahead. Be liked and you will never want. You take me for instance. I never have to wait in line to see a buyer. 'Willy Loman is here!' That's all they have to know, and I go right through. (p. 33)
Linda, his wife, appears on stage and inquires about his earnings on the trip.
Willy: I'm telling you, I was sellin' thousands and thousands, but I had to come home ... I did five hundred gross in Providence and seven hundred gross in Boston.
Linda: No! Wait a minute, I've got a pencil. That makes your commission ... two hundred – my God! Two hundred and twelve dollars!
Willy: Well, I didn't figure it yet, but ...
Linda: How much did you do?
Willy: Well, I – I did – about a hundred and eighty gross in Providence. Well, no – it came to – roughly two hundred gross on the whole trip. (pp. 34-35).
His friend Charley takes pity on Willy, giving his friendship, lending him money, and offering him a job. In the meantime, Willy is broke, all consumer goods are bought on credit and Willy just got fired. But still, he prefers to keep up appearances.
Willy: Business is bad, it's murderous. But not for me, of course. (p. 51)
Charley: You want a job?
Willy: I got a good job, I told you that. What the hell are you offering me a job for?
Charley: Don't get insulted.
Willy: Don't insult me.
Charley: You want me to go? (p. 49)
(....)
Willy: I – I just can't work for you Charley.
Charley: What're you, jealous of me?
Willy: I can't work for you, that's all, don't ask me why.(pp. 98-98).

The play shows the irrationality of Willy Loman's businessman attitude, in his pride even choosing death over a job offer and chasing away his sons who get scared by his phony dream. He becomes a tragic hero of the stereotype neoclassical rational economic man, of utility maximization into death, trading off everything of value in life against his dreamed business success. My research agenda into rationality will look further into the relationship between rationality and values, or ethics more generally. I work with two former colleagues at Radboud University Nijmegen on an experimental study testing beliefs about cooperation and agent's strategies following those beliefs, which are, as we ourselves believe and test, affected by gender. I am also doing research on the moral attitudes of financial professionals during the financial crisis, through an online survey among Dutch financial professionals, trying to answer questions about the relationship between financial behaviour, moral rules, responsibility, informal institutions and, again, on gender, testing the Lehman Sister's hypothesis: possible gender differences in attitudes that led to the crisis.

3.3 The matter of efficiency: the law of diminishing marginal returns

The third anomaly, or better, puzzle, concerns a theoretical discourse about welfare economics. Welfare economics deals with efficiency and equity and states that the first is value-free (also called positive economics, derived from the positivism that was discussed earlier) and the second is normative, involving policy choices. In order to address this puzzle I will make use of neoclassical economics, in its broader sense, without requiring positivist foundations, and social economics. The key concept in welfare economics is Pareto Optimality. It provides an abstract definition of efficiency and says that a welfare optimum is reached when no one can be made better off without making anyone else worse off. Only with a different initial distribution of resources, may higher efficiency be reached and/or an optimum in which there is more equality. But from a given starting position it is the free market that determines the optimum, however unequal it may be. It is defined in this way because neoclassical economics measures welfare in terms of utility, which is a purely subjective measure of satisfaction. Hence, no one can know how much utility loss a rich person would experience if we took away one euro from her to give it to the poorest member of society, and no one knows how much the happiness of that poor person would increase[6]. The logic behind this trade-off between efficiency and equity is the rationality principle that I discussed earlier. This rationality principle implies that if the state taxed the income of the rich and passed it on as subsidies to the poor, this would create disincentives. The rich would no longer be willing to invest, to innovate and to expand production, as much of the marginal benefits of that effort would be taxed away. The poor, on the other hand, would no longer do their best to find work, be entrepreneurial and invest in their human capital, because they would receive welfare support anyway[7]. Obviously this assumption is not value neutral, but takes the libertarian view that whatever market outcome is reached we should not interfere with it because it has been reached through voluntary exchange by autonomous individuals maximising their utility and is therefore righteous, irrespective of each agent's means of exchange, purchasing power or demand for what she happens to have on offer.

3.3.1 The value of efficiency

So what about the value of efficiency? Can this be a neutral evaluative criterion? I think it cannot. Voluntary exchange may involve involuntary losses when there is too much inequality in bargaining power between market parties. That is why genuine voluntary exchange can only exist when there is a feasible non-exchange option as has been argued by others already (Sen, 1981a; Walsh, 2003). Without such a fall-back, exchange of one's last resource or even of non-economic goods such as one's children or bodily integrity, will not be voluntary, but simply the only option available for short-term survival. So, paradoxically, voluntary exchange will only be voluntary with what Sen (1981a) has labelled a feasible option for autarky, that is, survival without exchange. Distress sales or underinvestment may be regarded by libertarians as voluntary in a static sense, but they undermine an agent's resource base and, hence, crowd out productive capacity in the long run. This is clearly not chosen voluntarily by agents, nor is it efficient in a dynamic sense, making people dependent on others or on the state[8]. For sheer survival, poor agents with very limited endowments may sell their last assets, crowding out their productive potential for own use or exchange, or disabling their children's human capital formation, while those with abundant endowments may acquire factors of production in excess to what can be put to its most productive use, simply for reasons of status, as the founding father of institutional economics, Thorstein Veblen (1931), argued more than a century ago. At the same time, the surplus thus acquired by advantaged groups may serve to fulfil wasteful desires as well as enable them to accumulate power, which would further distort an efficient allocation of resources. That is why Aghion, Caroli and García-Peñalosa (1999: 1656-1657) have argued that efficiency requires not just a one-time redistribution, but sustained redistribution, calling for '...permanent redistribution policies in order both to control the level of inequality and to foster social mobility and growth'. Therefore, only a social embedding of markets that acknowledges basic entitlements and other mechanisms that prevent inequality-inducing accumulation will be able to reflect genuine free trade and, hence, promote the efficient use of resources. For this reason, Pareto Optimality and some other assumptions stemming from the positivist foundations of neoclassical economics 'should be shelved in the museum of utopian designs', according to Samuel Bowles and Herbert Gintis (2000: 1425). I agree[9]. But this archival advice is not necessary for all the neoclassical concepts of the past, as I will argue in dealing with the next problem with welfare economics.

3.3.2 The inefficiency of the Pareto criterion

The other problem with Pareto Optimality is that it defines efficiency in an unnecessarily limited way. This has been recognized by a variety of economists, but nevertheless Pareto Optimality still controls much of economic evaluation, also in development economics. Amartya Sen, for example, has argued that it is 'a very restrictive informational basis for welfare economics' (Sen, 2008: 623). Why? Well, the origin of neoclassical economics[10], also called the marginal revolution, which took place at the end of the 19th century, gives an answer to this. It implies that what matters in economic choices are changes at the margin, that is, choices about the last unit added. The marginal revolution has led to one of the most beautiful neoclassical laws in my view, namely, the law of diminishing marginal returns. This law states that each additional unit yields smaller returns than the previously added unit. This continues with every unit added until marginal returns become zero or even negative, meaning there are no more efficiency gains from producing or consuming more. Let me illustrate this with my favourite dance song, *Wild Thing,* played by the Troggs for the first time in 1966. It has been my favourite song with which to knock myself out on the dance floor for 25 years now, when garage rock had a revival in the 1980s. As a busy academic I do not have much time to go out dancing, so when I do go and I hear it (mostly after begging the DJ to dig it up), I am absolutely thrilled. But when I sometimes cannot resist the temptation and play it at home with the repeat button on the CD player, I have to admit that after a couple of times my satisfaction with the song declines every additional time I hear it, until finally my marginal utility has come down to zero and I put on an entirely different tune (to the great joy of my children).

The choice for individual utility as the unit of measurement in welfare economics implies that it is not resource-use which forms the measure for evaluating efficiency. Rather, the assumption is that when utility is maximized, this can only mean that resources must have been used to their maximum, otherwise someone's utility could have been increased without hurting anyone else. This assumption, however, is debatable because there is no one-to-one relationship between utility and resources. Mainstream economics has recognized that preferences may include psychological desires, relying on feelings of jealousy and other emotions, or on status, leading to the consumption of positional goods as well as non-rival, non-excludable goods that are produced in households (warm glow feelings), communities (social capital) or by nature (a beautiful sunset). The space in which Pareto Optimality is measured is not resources, but desire fulfilment, including desires that are only partly related or even completely unrelated to resources (enjoying listening to birdsong or someone taking pleasure in humiliating his employees) as well as desires that are highly resource-intensive or even wasteful (status symbols and other positional goods) or preferences that are harmful for oneself but indulged in because of myopia, limited information or weakness of will (from smoking to over-eating – also referred to as preference pollution by David George, 2001). As a consequence of the weak, irregular or sometimes even absent relationship between resource-use and utility, utility maximization does *not* necessarily imply that resources are being used in their most efficient way, not at the individual level, nor in the aggregate. Yes, utility may be maximized with a given distribution of resources, so that no one can be made better off without making anyone else worse off, but such an outcome does not necessarily imply a minimization of the use of resources: utility and resources are two different units of measurement and should not be confused when analysing efficiency.

3.3.3. Examples on the efficiency of equity: the law of diminishing marginal returns

The following example draws on the literature on determinants of land productivity and serves to illustrate the inefficiencies implied in the Pareto criterion, with help from the law of diminishing marginal returns. We assume a big landowner A and landless rural labour B_i, in which i = 1 .... n, a proportion (0< < 1) of whom are hired on-and-off as day labourers or seasonal workers, depending on agricultural production cycles and market demand for agricultural products. The rural wage rate is at subsistence level while labour supply exceeds labour demand, resulting in unemployment of the size of (1-). A mainly grows cash crops for export and buys part of the food for his own consumption at the market, including imported food. The labourers consume local and imported food depending on what is available at the market for their wages. The example now focuses on the use of the last hectare of A's land, which I will refer to as the marginal unit of land. There is a free land market and the current situation of production by A, with the use of labour of B_i (i = 1....n), is Pareto-efficient in the sense that no one can be made better off without hurting either A or B_i. There may be, however, sources of inefficiency that are not captured by the Pareto criterion. Some imply that the theoretical conditions for Pareto efficiency have not been met (in particular the presence of market failures), while others go beyond these and even hold true under the restrictive assumptions for Pareto efficiency. I will only go into the latter sources of inefficiency.

Situation 1: status derived from surplus land
A may keep the marginal land unused because his marginal utility from signalling wealth is higher than the marginal utility from earnings derived from the sales of additional crops, even when the marginal net value of production exceeds the market price. This under-use of land arises from a preference based on status in a rural social context in which status is signalled by owning surplus land.

Inefficiency arises from underproduction of crops due to informal institutions that result in wasteful preferences. This source of inefficiency was signalled several decades ago by the agricultural economist Margaret Reid (1943), who referred to decadent and luxury consumer patterns as implying waste of productive resources such as land. More recent research on psychological utility and endogenous preferences suggests that such unproductive uses of resources in traditional and modern societies (Bowles, 1998) are not uncommon.

If land was redistributed from A to B_i, agricultural production would increase, because land would not yet have been used up to the point that marginal returns became zero: both land and labour are still under-used. Hence, with land redistribution towards more equity, resources would be used more efficiently.

Situation 2: low marginal productivity without property rights
Labour productivity of B_i would be higher if workers owned the land, because they would then have full control over the surplus value of their labour (Sen, 1981b and 1981c; Taslim, 1989). Hence, the productivity of the marginal land is sub-optimal, *not* so much due to lower investment in technology or material inputs such as fertilizer, but in particular because of sub-optimal labour productivity and costs of supervision by A which lowers net revenue.

If land was redistributed from A to B_i, marginal productivity would be higher because workers would have control over the land. Hence, resources would be used more efficiently if B_i had property rights, or at least control over the land for a reasonable period of time. Now, with insecurity about control over the land, labour productivity remains sub-optimal.

Situation 3: capital subsidies leading to under-use of labour
A may not hire additional B_i even though B_i is offering labour at or below the going wage rate, because A's capital/labour ratio is set in response to subsidized prices for tractors and other investment goods. Marginal productivity of capital is biased by the subsidy, which leads to an inefficient allocation of capital and labour. Hence, labour is under-used and the proportion (1-) of B_i that is not hired by A lacks the entitlements to provide themselves with a basic livelihood, let alone to invest in their and their children's human capital, having no access to land or employment. The problem here is the state's agricultural policy that is influenced by the lobbying activities of big landowners. The capital subsidies are generally not available at the same favourable conditions to small scale producers, as van den Brink et al. (2006) have argued in a World Bank overview study on countries such as South Africa, India, and Brazil. 'Large farmers are often well-organized and well-connected, and are able to lobby governments for special tax breaks, subsidies, and other special distortions. The consequence of these distortions is invariably that they face lower effective capital costs relative to labour costs, and therefore over-invest in more machines that replace labour than they would have had they not been able to obtain the tax breaks, subsidies and cheap credit' (van den Brink et. al, 2006: 21).

If capital subsidies for A were abolished, resource allocation in agriculture would be more efficient. And if the subsidy to A for inputs like fertilizer or irrigation on the marginal lands where tractors are useless were redistributed to B instead, efficiency would increase even more because it would help to make labour become more productive on marginal land.

In all three cases, redistributive land reform, and redistribution of subsidies from the resource-rich to the resource poor, would generate efficiency gains. The literature on the inverse farm-size productivity relationship points out that small scale farms are more productive than large scale farms through the high labour productivity on such family farms (van den Brink et al., 2006). Labour is used to such a high extent that some even speak of self-exploitation – but when the reservation wage is very low and current and future livelihood is insecure due to uncertainties around food prices, child survival, non-farm employment and migration, maximizing labour productivity by using all available farm labour to its physical limits is a rational strategy for B_i[11].

In conclusion, it is important to note that although market failures often play a role in the inefficiency of large scale production, market failure is not the main cause of inefficiencies in many developing economies. The underlying problem is the highly unequal distribution of land and other resources – precisely the issue that the Pareto criterion excludes from efficiency evaluations. It is the law of diminishing marginal returns that helps to make efficiency a useful evaluative criterion for development economics, where the main objective is not the maximization of utility in an economy given existing unequal distributions, but the reduction of poverty and waste of natural resources, which requires an efficiency criterion that does not exclude a redistribution of resources as a source of efficiency gains.

4. Let’s mind the matter: a conclusion

Pluralist development economics, as I have tried to explain in this inaugural lecture, is not something that we should discuss endlessly in philosophical terms like falisification, utility maximization and truth, but in terms of what we need to do. It is useless to try to do this in order to bring neoclassical economics closer to the truth. There is something much more important at stake, namely to bring poor people’s lives closer to minimally acceptable standards of living, whether they are measured as capabilities, incomes, security of resources or genuine agency in their economic lives. This requires that we use concepts and techniques in a pragmatic way, adapting and combining them to the puzzles we are trying to solve. The coherence in such pluralism does not lie in deductivist hypothesis testing, but is anchored in a focus on the real world problems that developing countries face. This, in turn, implies that pluralist development economics necessarily has a policy focus rather than a theory focus.

This policy focus, as Stiglitz' agenda and the São Paulo propositions have made clear, needs to look beyond economic growth and analyse how developing economies can be protected from the instability that globalization and financialization brings. It forces us to look into the binding constraints for reducing poverty among the most marginalized groups in society beyond access to resources. And, finally, it will guide us to how we can distribute resources in the most efficient way to achieve these goals. So, to conclude, pluralism is needed for development economics to make it development relevant.

5. Matters beyond the mind: acknowledgments from my heart

I first want to thank the teaching team of which I am part - Work, Employment and Globalization: Freek Schiphorst, Karin Astrid Siegmann, Lee Pegler, John Cameron, Rolph van der Hoeven and Tanya Kingdon. Also I am grateful to many other colleagues, my MA students and PhD students and scholars in my network all around the world for having inspired me, challenged me and supported me, in good times and in bad times. I also thank the ISS, the Erasmus University and the Vereniging Trustfonds of the Erasmus University for their confidence in me as a professor at ISS, and for providing me with an open, interdisciplinary institutional environment, which is precisely the context in which pluralist development economics can flourish.

I am privileged to have the opportunity today to thank both my parents, Piet and Lydia, for their support for the choices I have made in my life, which sometimes meant unexpected childcare tasks when my travelling was simultaneous with that of my children's father. On other occasions my life path meant less contact for you with your daughter and grandchildren when I felt too exhausted to pay a visit. I am happy that you are both here today to witness the results of your support and your patience, now with a full professorship, after the dress rehearsal six years ago in Nijmegen with a part-time professorship. I sometimes wonder what the result would have been if I had pursued my initial ambition, inspired by the British TV series James Herriot, to become a veterinarian. I certainly regret that I am not driving a Landrover and do not have an excuse to get my cloths dirty every day. And, although he is not here today and we are no longer together, I would like to express my gratitude to the father of my children, Pablo, for having given me the freedom to develop my academic career, next to his own busy job and our equal sharing of the care for our children for so many years.

And here and now, with so much joy as well as a bit of the blues, I want to express my gratitude to my children, Sam and Paula, for enduring a mother who was different from the mothers of their friends in school. Who was home only one day in the working week – working, travelling regularly and always

surrounded by books and articles and a laptop not far out of sight. I realize it must not have been easy for you when so many Dutch mothers are housewives or working part-time, and certainly not trying to be funny by telling their self-made economists jokes ....[12] I am so proud that both of you became who you are, two wonderful young adults with great plans for your lives, and fortunately no ambitions for becoming economists – one per family should be enough.

Let me end now by recognizing that there is a time for everything. There is a time to speak and a time to be quiet; a time to plant, and a time to harvest; a time to grieve, and a time to dance – so let's go and celebrate the result of the hard work that I could not have achieved without those who have been, and are, so dear to me[13].

Notes

1 In a useful recent volume on economic pluralism, William Waller (2010) has similarly plead for a further engagement among different schools of thought, while Fred Lee (2010) has given a few dozen examples of such pluralist economic research, including an article written by me on the intersections of Post Keynesian economics and feminist economics (van Staveren, 2010).

2 Van Staveren (2011).

3 This is not entirely true, though, because some studies have indicated that the relationship does not hold in the long run or for the poorest developing countries (Sarkar, 2007; Rajan, 2008).

4 I did find a positive, statistically significant impact of FDI volatility in M&A and total FDI volatility on GDP growth, which contradicts the literature and which I cannot explain. The unexpected result has probably to do with the fact that I did only a binary regression analysis, whereas the inclusion of control variables would have changed the results.

5 This is termed parental authority, and the more biased it is in favour of fathers and against mothers, the lower women's life expectancy is relative to men's (van Staveren, forthcoming).

6 In happiness research this stumbling block has been circumvented by surveying people about their perceived levels of happiness. This may give empirical foundations for redistributions that would increase equity as well as efficiency. However, this has not yet been integrated in welfare economics.

7 The second fundamental welfare theorem, or Kaldor-Hicks compensation, is a later addition to Pareto Optimality which allows for some form of redistribution. This is limited to a lump-sum redistribution or resources from winners (those who gain from free markets) to losers (those who, temporarily and/or due to exogenous shocks to the economy, do not gain from exchange), to the extent that winners keep a net-advantage, in order to buy the losers' cooperation, that is, their voluntary exchange. The objective of such redistribution is not so much *fairness* between winners and losers in the optimum but the *feasibility* of reaching the optimum from a political economy perspective. In the real world, however, it is unlikely that winners will sufficiently compensate losers, because of the difference in bargaining power between the two groups. So, it will be very unlikely that prices will change in order to seduce losers into the exchange (for example, higher wages), or that the winners will accept a tax raise for the benefit of the losers. The existence of winners and losers in free markets already creates a difference in bargaining power, so that the losers, without having adequate trade independent security, are not likely to be compensated for their cooperation with the winners.

8 Most people who experience a disadvantaged exchange position have very few resources to provide for themselves, except their labour power. And even this may not be in demand, as it may be only potential rather than actual labour power, due to lack of nutrition and health (Dasgupta, 1993), or it may not earn sufficient market value to survive (Kurien, 1996), or a combination of factors including lack of aggregate demand keeping the demand for labour low at any wage rate (Walsh, 1996).

9 Economic agents do not always pursue their self-interest (Fehr and Gächter, 2000), they appear to care for efficiency as well as equity, even helping the worse-off at their own expense (Charness and Rabin, 2002; Engelman and Strobel, 2004 and 2006), attaching intrinsic value to equality (Lutz, 2001) and treating a particular level of rewards as entitlements (Falk, Fehr, and Zehnder, 2006). Their behaviour is influenced by various psychological and social effects which give their actions meaning (Klamer and McCloskey, 1995; Akerlof and Kranton, 2008), while incomplete contracts and principle-agent problems lead to impacts of uncertainty, interactions, transaction costs and power on efficiency (Bardhan, Bowles and Gintis, 2000; Bandiera, Barankay and Rasul, 2005), and agents appear to behave along various ethical routes next to utility maximization, in particular following the principled morality of deontology (White, 2004) as well as the contextual morality of virtue ethics (McCloskey, 2006; van Staveren, 2007).

10 The marginal revolution was widely spread through Alfred Marshall's famous 1890 textbook, *Principles of Economics*, which is generally regarded as the first textbook in neoclassical economics, It is therefore closely connected with Marshall's name, although it had other founding fathers as well, in particular William Stanley Jevons, Carl Menger and Leon Walras.

11 An important note to this is that in most parts of the developing world, the majority of such farmers are female, who on top of limited access to land also tend to be discriminated against in access to human capital, technology and other resources. Following a traditional gender division of labour in households, female farmers tend to specialize in food production to feed their families, while trying to produce a surplus for local markets or export in order to generate the necessary cash for investment in technology, non-food consumer goods and services for the household, and investment in the human capital of their children.

12 When the sub-prime crisis broke out, I thought I was very funny asking my children why so many snails today go without a home. When they frowned at me and I said it was because they could not afford their mortgage anymore, I found myself to be the only one laughing.

13 From the *New Living Translation of the Bible*, Ecclesiastes 3, verses 2, 4, and 7.

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