

# NEOCLASSICAL ECONOMICS AS A BARRIER FOR GENDER EQUALITY IN A HUMAN CENTRED WORLD ECONOMY

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## I. Introduction

The purpose of this paper is, to show how economic theory, especially the dominant neoclassical theory, influences daily economic life. I thereby find myself in the company of Keynes, who stated that the influence of the ideas of economists are stronger than generally is acknowledged, irrespective whether those ideas are good or bad ideas. And if those ideas are gendered, and they are gendered, they will have an extra problematic influence on women, I would like to add to Keynes insight.

## II. Economic theories

Economic textbooks and university lecturers do generally not speak of economic theories, in plural, but of the economic theory. This is an indication of the dominance of one economic theory, namely the neoclassical theory.

The classical economic theory was founded by Adam Smith two centuries ago, who introduced the concept of the 'invisible hand', the process of the market which, motivated by egoism, would lead automatically to the highest level of welfare for a nation (Smith, 1776). The markets are assumed to be perfect, i.e. in equilibrium, which means that the price always brings supply and demand together. So, unemployment will not exist according to the classical theory. Another assumption for the functioning of markets is that production factors can move around freely: resources, capital, products, technology and labour.

The neoclassical theory came up one century ago, with the work of William Jevons, who changed the classical paradigm with marginal analysis (thus more mathematics) and who thereby shifted the economic value from national level to individual level (Jevons, 1871).

The neoclassical theoretical assumptions has on the economic policy side, a result in a policy advise of laissez faire: no government interventions in the market.

In neoclassical economics, welfare is reduced to economic growth and measured by GDP: Gross Domestic Product. Economic growth is supposed to be created by capital accumulation, which in turn is assumed to be stimulated by high profits for capitalists and low wages for labour. An unequal income distribution in favour of capitalists is therefore regarded as a necessary condition for economic growth. Other important economic theories are Keynesianism and Marxism.

The general theory of Keynes, a variant of the classical theory, acknowledges that markets are not perfect and unemployment can exist (Keynes, 1936). Keynes therefor, was a supporter of government policy, in the form of investment and employment policies. Keynes did not believe in the optimist ideology of market equilibrium. He recognised the existence of disturbing factors and acknowledged the need of poor groups and countries to increase their welfare relatively to other groups and countries with higher welfare levels. His theory is reflected in the Marshall-plan, which triggered welfare growth in after-war Europe through large government investments, with help of foreign (American) aid.

Marxism analyses the classical capitalist economic system and describes how a socialist economic system will evolve from the built-in collapse of the capitalist system (Marx, 1867).

Neoclassical theory has undergone refinements, alterations and extensions since Jevons, but its basic concepts were not violated since, although scholars of the 'new home economics' (Becker, 1981) try to make believe otherwise. Neoclassical theory has never been so hegemonic in the academic world and

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in economic policies, as nowadays, since its declared victory over Keynesian economics in the seventies and the collapse of communism at the end of the eighties. Nowadays, there are no equally strong accepted alternative economic theories. Alternative approaches are simply disregarded by most economists and policy makers.

### III. The gendered assumptions of the neoclassical paradigm

Many of the assumptions of neoclassical economics are not gender neutral. I will shortly mention some of these assumptions, without having the pretention of giving more than a sketchy overview.

1. As a first assumption of neoclassical theory which I would like to comment upon here is **self-interest**: the crowned motive for economic acting. According to Adam Smith, it is not by the charity of bakers that we get our bread, but by the self-interest of the bakers. Of course, there is nothing wrong with a baker making and selling bread in order to earn an income instead of giving all the bread she bakes to the poor. And of course there is nothing wrong with a consumer preferring to buy bread at bakery B because in bakery A it costs 5 cents more. The problems with self-interest as a motive for economic acting are related with the fact that it is so dominant and overshadowing other values and that it pretends to lead us to happiness (i.e. maximum utility). Greed dominates over other behavioural motives.

At least, four lines of criticism could be formulated against the neoclassical assumption of self-interest.

- Firstly, it seems that in daily life, economic and non-economic, this assumption has become a self-fulfilling prophecy. The egoist motive for acting can be found in pollution, in circumventing tax-paying, and in many other fields. The calculating person is - at least partially - a product of neoclassical economics. A small example of the dominance of this behavioural concept in public life, was recently given in an article in NRC Handelsblad. A conductor on a crowded trolley in a city in the Netherlands kindly requested the standing passengers to move forwards to make room for people outside. Nobody moved, until she said, that the trolley would not continue its route to the central station, unless all new passengers had got in (Vuijsje, 1994).
- A second and related criticism on self-interest, is that it legitimises egoism and drives other behavioural motives, like solidarity and care, more and more to the margin, while at the same time lowering it's status. The minister of social affairs has a weaker vote in economic matters than the minister of economic affairs, and is only assumed to clean up the mess by band aid policies, caused by the short sighted policies of the ministry of economic affairs, like unemployment and poverty.
- A third criticism on the hegemony of self-interest, is that it claims to be the only behavioural motive to lead to maximum welfare. But it only takes into account the monetary welfare, and not the unpaid welfare and neither negative side-effects of markets.
- A last criticism is that self-interest is not only of limited use concerning fields within society, but also in time and for people who do not have (enough) money. Next generations who are not yet born and poor people, often women, who do not have purchasing power, are not able to express their demand on markets, so they can simply not join the neoclassical game and are thereby excluded from the process of generating and distributing welfare.

2. Adam Smith explicitly, and most of his followers implicitly, assumed that outside the market economy exists a natural order in society which is supposed to be superior to any arrangements devised by people, namely, basic harmony or sympathy. He assumes the availability of care, solidarity, responsibility and emotions in society, and especially within families. So, where both opposing fields of behaviour, in the economy and in the family, are connected, the egoist who earned an income on the market is expected to share his wealth (his, because the economic theory implicitly assumes a male breadwinner and a female care taker) with the members of his household in which he lives. The new household economics (Becker, 1981) explains such a contradictory behaviour with a second motive for action, next to self-interest, namely altruism. Altruism is defined as 'doing good to someone else, because it will make you feel better yourself'.

A couple of problems are related to this assumption of a **dichotomy between egoist behaviour in the**

### **economy and altruism within the family.**

- In the first place, we can wonder whether this is a realistic assumption, because the sharing of welfare is made totally dependent on the goodwill of the person who is earning the income. The others are forced into a dependent position. Reality shows, that such altruist income sharing does not automatically occur.

- Secondly, the dichotomy raises the question of the valuation of both sectors of welfare: the dichotomy bears the risk that the market sector will receive higher status than the wider welfare sector. This is reflected by undervaluation of human capital of women as housewives, children rearers and care takers, compared to human capital acquired through formal education and training on the labour market.

- Thirdly, in reality it are mainly women who behave altruistically, sharing their income in the household and generating non monetary types of welfare, such as care. Several studies have shown, that women spend their income more on household needs and less on personal consumption than men do. A Nigerian economist, Ekejiuba, proposes to rename the household therefore as hearthold, which is centred around women and their dependents, because this is much closer to the reality of women taking responsibility for the welfare in households, whether formally female headed or not (Ekejiuba, 1993). A Finnish economist, Tuovi Allèn, concludes from the altruism assumption outside the market, that it results in the feminization of poverty (Allèn, 1992).

3. A third assumption of neoclassical economics which can be criticized from a feminist point of view, is **rationality**, which is reduced to simple cost-benefit calculations and excludes any other approach towards decision making.

- Also here, firstly a comment on its reality can be given. Non-rational motivations, which are not translated into variables in the economic model, are considered to be irrational and therefore not relevant. So, buying Max Havelaar coffee (which is more expensive than normal coffee because it guarantees small producers a higher price) is considered to be irrational according to this assumption, because a similar quality of coffee is available for a lower price. But, if the economic model does take into account that some people will prefer Max Havelaar coffee, it can only do that, if it brings that preference under the heading of rationality, i.e. self-interest. Neoclassical economics is unable to regard a preference for Max Havelaar coffee as based on a different motive than self-interested rationality, like, for example, solidarity.

- Secondly, the rationality assumption also disregards many costs by shifting them towards the private sector, where women have to cope with an increased unpaid labour burden.

- Thirdly, rationality is opposed to the emotional behaviour outside the market and generally attributed a higher status, together with other values which can be put under the heading of 'hard' values or masculine values. F.e.: efficiency, mathematical method, independence and self-interest. These values are opposed to, and valued higher in the economy, than so called 'soft' values, or feminine values, according to feminist economist Julie Nelson (Nelson, 1993). The so called feminine values are equity, qualitative method, interrelatedness and altruism or solidarity: they have no place in the neoclassical economy. By choosing its values only from the masculine category, neoclassical economics is male-biased although it presents itself as gender neutral, as development economist Diane Elson found (Elson, 1993).

4. **Impossibility of interpersonal utility comparison** is a fourth gendered assumption in neoclassical economics. It means, that the economy is not able, and therefore should not try, to compare the utility of one person to that of another. Utility remains undefined, and is something like joy, happiness or well-being. Utility can not be measured. But, at the same time, the economy uses income as a measure of utility. Income can be compared between persons, but neoclassical economics declares such comparisons as irrelevant.

- Firstly, this assumption inhibits an unclear relationship between utility as the strive for pleasure and the avoidance of pain as Jeremy Bentham defined it, on the one hand, and the widely used measure of economic welfare, namely income.

- The second problem with this assumption is, that it denies (the comparison of) different levels of utility between persons, among other things, based on gender (England, 1993).

- A third criticism is, that the utility-concept, which leads in macro-economics to the strive for national or international GDP-growth, is immune for the problem of who shares in it and who doesn't. The new GATT-treaty is an example of this strive to maximise macro-level utility. Research has showed, that in practice, GATT will be more profitable for the North than for the South, while the African continent will not enjoy any welfare increases in terms of income growth from GATT. According to OECD and World Bank, the African continent actually will lose 2.5 billion dollar yearly from 2002, as a consequence of GATT (OECD/World Bank, 1993). Also, GATT generates differences of welfare between men and women. For example in the labour market, where wage competence in export processing zones results in a process in which employers replace male workers by cheaper female workers.

This very short listing of gendered assumptions of the neoclassical economic theory needs much more elaboration, but at least it can function as a sketch of gender in that theory.

#### **IV. Neoclassical economics translated into the free market economy**

The free market economy, with or without complementary social provisions by the state, strives just like the underlying theory, for maximisation of welfare. In practice, that means maximisation of GDP. It also adheres to a particular task division between the state and the market: laissez faire, eventually complemented by welfare measures in the social field.

The market process not only leads to the desired effect of welfare growth, but also to some unintended results, which can seriously reduce welfare in other terms. Such unintended effects of the market process are called in economics external effects or externalities. Important negative externalities of present day economies in the North and in the South are:

1. poverty
2. discrimination of women, minorities, migrants, e.c.
3. unemployment
4. environmental damage

When we relate these externalities to the above mentioned gendered assumptions of the neoclassical economy, it follows, that not only the intended results of the economic process will be gendered, but also the unintended results of the free market process will be gendered. This can be illustrated by the fact that among the poor women are a majority, and that women are directly confronted with the effects of environmental damage, as it is generally their responsibility to collect water and firewood in the South.

When we take a look at what economists and policy makers, especially ministries of economic affairs, OECD, G-7, World Bank, IMF, e.c., undertake to prevent or resolve the four mentioned externalities, we end up in great disappointment. Because economic policy makers just are negating their responsibility for these externalities. Presidents, ministers of economic affairs, international economic bodies like the OECD, IMF and G-7, are advised by neoclassical economists, who strongly believe in the free market ideal. The Milton Friedmans and Onno Rudings have replaced Keynesian policy advisers, and they seem able to keep their influence, despite acknowledgement of the increasing external effects of their policy advises by large parts of society in North and South.

So, ministries of social affairs, of women's affairs and of environment, UN-bodies and NGO's, are left with the task of implementing costly band aid policies for the welfare losses created by the free market economy. This task is particularly left over to the private sphere, as is, for example, the case with Structural Adjustment Programmes which significantly increase women's unpaid labour burden.

Interesting is, to look now for a moment at the basic themes of the upcoming Social Summit, which will be held in Copenhagen in 1995. A comparison shows that exactly the same externalities as listed above, are chosen as main themes for the conference. Except environmental damage, which was the object of the UNCED-conference in Rio de Janeiro in 1992. The Social Summit thus, is about cleaning

up the mess of the neoclassical based free market system and will be attended by ministers of social affairs and development co-cooperation and is left aside by ministers of economic affairs as not being part of their concern.

The task division between economic policy makers who follow the neoclassical theory and other policy makers is not only short-sighted, but can also lead to an illusionary sense of welfare which will appear to have been build on air.

- Firstly, because economic growth in terms of GDP growth can be less than the welfare losses in other terms, i.e. environmental damage and a growing gap between rich and poor. An environmental economist, Herman Daly, has demonstrated that the welfare growth in the USA is in fact negative since halfway of the eighties, if environmental damage is weighted against GDP growth (Daly & Cobb, 1990).

- A second reason why the dichotomy is illusionary, is because we get stuck in a vicious circle when more attention to economic growth generates less and less welfare in a broader sense and if the recipe continues to be more growth. The shift of costs from the formal to the informal economy as a result of SAP's in the South is decreasing the welfare of the poor, especially among women who bear the highest burden of unpaid labour in combination with very low quality jobs on the market. In Northern economies we face a jobless growth, which puts the minimum wage under debate. Abolition of the minimum wage is advised by neoclassical economists in order to reduce unemployment, but it is blind for the fact that it thereby increases another external effect, namely poverty.

#### **IV. How to get out of the dominant economic system**

Roughly, we need to pursue two lines: a theoretical and an policy line.

##### **1. Theory:** research

We need an alternative economy, based on alternative assumptions and new relationships between people as economic actors. Changes within the boundaries of the present economy are also needed, in order to diminish the gendered effects of neoclassical economics which are unfavourable to women. But a complete different economic paradigm would be necessary to prevent any unfavourable situation to exist for women, minorities, the South and for the poor within the North and the South.

Several non-neoclassical economists are working on new approaches. Sometimes within an organisation like DAWN, or individually or in networks, like, for example Amartya Sen, who replaces economic growth as the target for economies for increasing people's choices (Sen, 1984), Julie Nelson, a well known feminist economist, who is analysing male biases in economic theory and who proposes different combinations of femininity and masculinity in economic relationships (Nelson, 1993) and Susan Feiner who works in the field of radical economics (Feiner and Roberts, 1990). In the Netherlands Bob Goudzwaard proposes the 'economy of enough', opposed to the economy of growth (Goudzwaard and de Lange, 1986).

These directions towards new economic theories do not try to find a compromise between the free market and the centrally planned systems like Keynesian economists do, but instead, search for a synthesis which will be better than any of the old economic systems. The new approaches try to describe new relationships between the state and the market, between capital and labour, between nature and economic resources and new gender relations within economic acting. They address one or more of the problematic assumptions of neoclassical economics and one or more of its externalities. For example, feminist economics introduces next to self-interest (egoism) and altruism (doing good for others, in order to feel good yourself) a responsibility motive for economic acting by men and women: 'doing something for someone else or society, which is not in your own interest, also not through a feeling of a 'clean consciousness', but which you do, just because you feel it is right to do' (Woolley, 1993).

##### **2. Policy:** lobby and actions

Policies for economic change, also those especially aimed at improving the position of women, are, when they come from the economic establishment, generally small adaptations within the boundaries of

the neoclassical paradigm. For example, development projects aimed at increasing women's labour market participation without changing the unequally divided unpaid labour burden they carry on their shoulders. The 1991 OECD report 'Shaping structural change' gives more fundamental proposals for improvement of women's economic position, by not only addressing women's paid labour, but also their unpaid labour tasks. A criticism is, that the OECD report is primarily aimed at integration of women in the economy which for a large part is accepted as it is (OECD, 1991). Some initiatives go still a bit further, like the Human Development Report by the UNDP which challenges the dominance of GDP as the only measure of welfare. Still Further reaching proposals are only found in NGO's and in the women's and environmental movements, f.e. in DAWN or the ecotax-plus by Actie Strohalm, e.c. DAWN is a Southern network of feminist researchers and works for about ten years already on development alternatives for women from a feminist starting point, which is defined on basis of women's experiences in the South (Sen and Crown, 1985). The eco-tax plus idea of Actie Strohalm strives for a combination of environmental taxing with tax reduction on labour, which would generate a fundamental shift in the allocation of production factors (van Arkel, 1990). This expert meeting hopes to stimulate more work on economic change, especially here in the North, where the neoclassical economy was founded and exported.

To conclude, I would like to suggest that we try to influence both levels for economic change: the theoretical and the policy level. Although the gender analysis by Caroline Moser has received criticism in the women's movement in North and South, her distinction between practical and strategic gender needs could maybe serve as a tool in the search for alternatives (Moser, 1993). See also the scheme by Moser, in the appendix.

**Practical economic gender needs** then, identify improvements in the situation of women, given their economic position and economic responsibilities, so, within neoclassical economics. **Strategic economic gender needs** then, identify changes in the economy as a whole, in favour of the poor, the discriminated, the unemployed, the excluded, often women, so, a different economic system, opposed to the neoclassical one.

Most probably, we need to work out economic strategies in both lines of gender needs, the practical line in the short run and the strategic line in the longer run, as well as in research, as in lobby and actions.

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