

## Development and Well-Being in Times of Crisis

Remarks by Neva Goodwin

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It is with great pride that the Global Development And Environment Institute presents this year's Leontief Prize for Advancing the Frontiers of Economic Thought to Bina Agarwal and Daniel Kahneman. Coming from two different directions – from inside and outside the field of economics – they have each contributed significantly to widening and refreshing the field.

There is growing recognition of the need for revolution – going beyond evolution – in economics, as demonstrated by a number of recent decisions by the committee that awards the Nobel Memorial Prize in Economic Sciences. After their embarrassing 1997 selection of the mathematical modelers behind the hedge firm, Long-Term Capital Management, whose collapse nearly set off a global financial meltdown, the next year the committee selected Amartya Sen, whose work has increasingly returned to the roots of the field, in moral philosophy – and who was one of the first recipients, also, of the Leontief Prize.

Most recently the Nobel Economics committee recognized the contributions of a political scientist, Elinor Ostrom, implicitly making the point that economics' lopsided focus on competition had left out the economic as well as the societal importance of cooperation. The 2002 selection of Daniel Kahneman recognizes that it is essential for economic theory to be based on a richer understanding of human nature in its social and political settings.

It is not, of course, only in Sweden that the need for new economic understanding is felt. The shakiness of the global financial system, causing ever wider swings between boom and bust over the last two decades, joins with the strains from increasing economic inequality and frightening prospects of economic-ecological mismatch to reveal serious gaps in the profession's understanding, not only of *what's going on*, but also of *what matters*.

A growing number in the profession have recognized the need for economics to pay attention to other fields, such as psychology, neuroscience, philosophy and political science. At the same time, subfields have grown up within the discipline. Feminist economics, ecological economics, behavioral economics, and other alternative perspectives, once barely tolerated, are now increasingly taken seriously.

**Bina Agerwal**, while firmly identifying herself as an economist, has selected, for herself, the places inside of economics from whence she would make her impact. Thus, she has served as Vice-President of the International Economic Association, has been on the editorial boards of several international academic journals, and is a Professor of Economics at the Institute of Economic Growth, Delhi University. Educated at the Universities of Cambridge and Delhi, she has held distinguished positions at many universities in the USA and UK and lectured world-wide.

She has also served as President of the International Association for Feminist Economics, was a founding member of the Indian Society for Ecological Economics, and has received prestigious awards for her contributions to development studies and to agricultural economics – two areas where the contest between realism and a narrow kind of “rigor” have been especially evident. Bina has always opted for using the broader kinds of rigor that are necessary if one is to look with clear eyes at the real world – and especially necessary to make visible the lives of the most disadvantaged.

Bina’s work crosses from theory to action in a number of places, including her current service on the U.N. Committee for Development Policy and the Prime Minister’s National Council for Land Reforms. She served on the Board of the Global Development Network from its inception till 2006, and is currently active on a Commission that was established by President Sarkozy of France, chaired by Joseph Stiglitz, and advised by Amartya Sen; the topic is the Measurement Of Economic Performance and Social Progress. While that will not be the topic of Bina’s talk today, it is an interesting area of overlap between her work and that of Daniel Kahneman.

Bina Agarwal’s publications include eight books and numerous professional papers on a range of subjects: land, livelihoods and property rights; environment and development; the political economy of gender; poverty and inequality; law; and agriculture and technological change. She has received many prizes, including India’s Padma Shri, and three prizes for her book: *A Field of One’s Own: Gender and Land Rights in South Asia* (Cambridge University Press, 1994).

Bina Agarwal embodies the kind of theoretically rigorous, empirically grounded, and policy-oriented economics that the Leontief Prize was created to recognize. Her contributions to both scholarship and policy on economic development, the environment, well-being, and gender have been an inspiration to GDAE for many years. We are eager to hear her thoughts on the changes needed in understanding and action, if the people of the 21<sup>st</sup> century are to receive adequate nourishment.

**Daniel Kahneman** is a psychologist who claims never to have taken an economics course. His official induction into our discipline, by the Nobel committee, recognized the importance of his integration into economics of insights from psychology, including work on judgment and decision-making under uncertainty. In fact, the relevance of his work had already been evident to many – including, I am happy to say, our Institute, which had included a summary of his paper, “New Challenges to the Rationality Assumption” in our selective digest, published in 1997: *Human Well-Being and Economic Goals*. This book was part of a six-volume series entailing a decade of intensive research at our Institute. That, in turn, has served as the backbone for our ongoing Social Science Library project, which will put into the hands of researchers, teachers and students, in thousands of libraries in 136 developing countries, more than 3,000 full-text papers, and an additional 6,000 title bibliography,

The paper of Kahneman's that I just mentioned was originally published in the *Journal of Institutional and Theoretical Economics* – and, in fact, a recent search on EconLit revealed some 100 references; we at Tufts weren't the only ones noticing which way the wind was blowing. He has also published in many other journals, including *Science*, *Cognitive Psychology*, *Psychological Review*, and *American Psychologist*.

He received the Nobel prize for his work developing “prospect theory” – an alternative to expected utility theory which states that individuals evaluate gains and losses beginning from their starting, or reference, point, in an asymmetric manner. An important implication of prospect theory is that how choices are framed has a significant influence on decisions.

A good summary of his insights on economics is found in “A Psychological Perspective on Economics” published in the *American Economic Review* (93(2):162-168, May 2003). He notes how the basic assumptions behind economic models – rationality, selfishness, and stable preferences – are not supported by psychological research. Ample evidence exists that people aren't always selfish, that they rarely behave as predicted by the economic image of rationality, and that preferences aren't stable. However, he states that any progress in integrating psychological research into economics has not filtered down to the level of the introductory textbook. (I hope this is not true for the texts coming out of our Institute.) He has commented, regarding behavioral economics, that “Many economists believe that it is a passing fad, and some hope that it will be.”

That last comment is found in a delightful autobiography which Kahneman wrote to accompany his Nobel acceptance speech. Something that comes out very clearly in that autobiographical piece is the critical role of friendships in Danny's highly productive working relationships. His comment, there, that his book, *Attention and Effort* is his most significant independent contribution to psychology, reminds me of Harvey Leibenstein, who tried to bring in through the front door of economics the important fact that mental effort and attention are limited resources.

Kahneman is a Senior Scholar at the Woodrow Wilson School of Public and International Affairs at Princeton University, and a fellow of the Center for Rationality at the Hebrew University in Jerusalem. We look forward to hearing his thoughts on what contributes to human well-being, and how it may be achieved in the turbulent years ahead.