

Book Review

Book: Poor Economics

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In *Poor Economics*, Banerjee and Duflo¹ offer an alternative way of approaching global poverty. Rather than looking into “big development” questions such as whether aid works, what the ultimate cause of poverty is, or if democracy is good for growth, they suggest the approach of tackling one issue at a time on a smaller scale, relying on experimental evidence from randomized control trials (RCTs), and engaging the poor to understand why they make certain decisions and choices. According to the authors, big development questions are hard to implement through experiments and are often fraught with contention. Therefore, tackling such questions does not offer tangible ways of addressing global poverty. It is better to think of global poverty as a set of concrete problems that can have specific solutions rather than as a complex system of issues that are impossible to fully comprehend or solve.

The authors posit that the three I’s of Ideology, Ignorance, and Inertia are responsible for the inability of current development policy to effectively tackle poverty. Ideology refers to differences in belief systems of policy makers on how to address poverty. For example, there are policy makers like Jeffrey Sachs² who think that foreign aid is useful for poor populations because they need a one-time big push that would take them out of poverty. Other policy makers such as William Easterly³ argue that foreign aid is detrimental to local institutions and that it hinders people from searching for solutions to their problems. Ignorance touches on the fact that many development policy makers are unaware of the on-ground realities of the lives of the poor or the implications of the policy decisions they make. This “I” implores policy makers to rely on experimental evidence when making policy decisions that impact the poor. Inertia addresses policy makers’ obstinate need to abide by outdated policy methods that have insufficient results. Inertia addresses the unwillingness to change how development policy is done within policy implementation structures.

Poor Economics covers a variety of poverty related topics such as nutrition-based poverty traps, health, education quality and quantity, population growth, microcredit institutions, saving behavior among the poor, and the politics of poor societies. In each of these topics, the authors show how and why policies affecting the poor should be informed by evidence and why they should rely on a deeper understanding of the lives of the poor. For example, the authors explore the concept of a nutrition-based poverty trap in the context of an experiment. It is often suggested that a nutrition-based poverty trap exists. This idea is based on caloric consumption.

¹ Banerjee, A.V., Banerjee, A. and Duflo, E., 2011. *Poor economics: A radical rethinking of the way to fight global poverty*. Public Affairs.

² Sachs, J.D., 2007. *The end of poverty: economic possibilities for our time*. Langara College.

³ Easterly, W. and Easterly, W.R., 2006. *The white man's burden: why the West's efforts to aid the rest have done so much ill and so little good*. Penguin.

The basic caloric amount needed for survival is 2000 calories a day. Being in a nutrition-based poverty trap, it is often argued, would keep individual caloric consumption below the minimum 2000 calories a day. Policy makers often suggest that getting this number of calories or more improves productivity and hence is crucial for poverty reduction. Therefore, there have been a lot of policies targeted at increasing the caloric intake of poor people by giving them subsidies for cheap (but not necessarily good-tasting) foods. Banerjee and Duflo argue that if poor people know that more calories would increase their productivity and consequently raise them out of poverty, they would invest every additional income they get on more calories. However, citing evidence from India⁴, the authors note that this is not the case. Evidence showed that additional income was used to buy better tasting foods as opposed to more calories of cheaper foods that were not necessarily good tasting. In their conclusion on the topic, the authors show that a nutrition-based poverty trap does not exist. They argue therefore that policies that enhance nutritional value of food, for instance iodine supplements for expectant mothers, are better at addressing poverty than policies targeted at increasing calorie consumption. Through this example, the authors show why policies affecting the poor could be more effective when informed by evidence and rely on understanding the lives of the poor.

The idea of approaching global poverty as a set of concrete problems with specific solutions is not necessarily a revolutionary idea, but I think it has great power to transform the world's outlook of poverty. It suggests small scale investments in experiments to find answers to real problems, then scale the solutions universally to address global poverty. This in my opinion is a more feasible approach to global poverty than for instance, looking for the main cause of poverty which would be impossible to identify given the multitude of confounding factors. For example, malaria poses a major threat to populations in many parts of Africa. It is also known that sleeping under a treated bed net largely reduces chances of getting malaria infections. However, many families fail to sleep under treated nets, even when the nets are offered to them for free. An RCT in East Africa⁵ which randomly gave treated nets to families at difference price subsidy levels and offered informational campaigns on the importance of sleeping under treated nets found that offering the nets at a low cost led to more use of the nets than offering them for free. Offering bed nets to expectant mothers at highly subsidized costs was therefore taken up by policy makers and has led to a global reduction of malaria incidences by about half. This shows just how effective the methods recommended by the book are and their great potential for solving poverty.

However, the main limitation of the book could be the extent of reliance on RCTs. In a critique of the book by Martin Ravallion⁶, he notes that the assumption of external validity of

⁴ Deaton, A, and Jean, D. 2009. "Food and Nutrition in India: Facts and Interpretations." *Economic and Political Weekly* 44 (7): 42-65.

⁵ Alaii, J.A., Hawley, W.A., Kolczak, M.S., Ter Kuile, F.O., Gimnig, J.E., Vulule, J.M., Odhacha, A., Oloo, A.J., Nahlen, B.L. and Phillips-Howard, P.A., 2003. Factors affecting use of permethrin-treated bed nets during a randomized controlled trial in western Kenya. *The American journal of tropical medicine and hygiene*, 68(4_suppl), pp.137-141.

⁶ Ravallion, M., 2012. *Fighting Poverty One Experiment at a Time: A Review of Abhijit Banerjee and Esther Duflo's "Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty"*.

RCTs might not necessarily hold in all cases. Banerjee and Duflo suggest that we would identify universal solutions to specific problems through experiments. In most of the cases illustrated in the book, it is assumed that the experiments are generalizable, i.e. that we would expect to see similar outcomes from similar experiments conducted in different places. This might not necessarily be the true. For example, the book mentions a deworming experiment in Kenya⁷ that targeted young school children. The experiment resulted in huge health and education benefits, not only on the treated children but on their untreated peers as well. However, a similar experiment in India⁸ found small and insignificant effects, given the difference in worm infection rates in the two places. For instances where experiments are not generalizable, it is implied that different RCTs that take into account regional heterogeneity would have to be conducted. Such a venture would be incredibly expensive, not to mention time consuming and not effective for development policy given its small scale of operation.

While the methods suggested by the book have their limitations, the advantages largely outweigh the limitations and the book has a major significance for development practice. It provides the best way (as of today) to tackle global poverty. It uses simple language to address complex ideas and thus provides an easier way for development practitioners to reach their audience. I would recommend the book because there are large potential impacts of RCTs when rolled on larger scales and applied to policy practice.

⁷ Miguel, E. and Kremer, M., 2004. Worms: identifying impacts on education and health in the presence of treatment externalities. *Econometrica*, 72(1), pp.159-217.

⁸ Bobonis, G.J., Miguel, E. and Puri-Sharma, C., 2006. Anemia and school participation. *Journal of Human resources*, 41(4), pp.692-721.