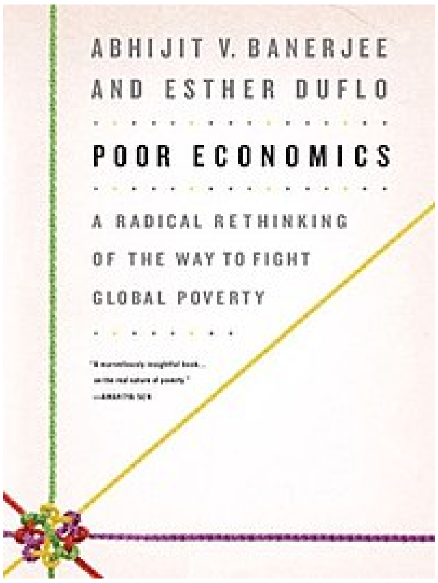
Review - Poor Economics

https://www.e-ir.info/2012/06/19/review-poor-economics/

ALEX STARK, JUN 19 2012

Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty
By Abhijit Banerjee and Esther Duflo
New York: Public Affairs, 2011



Despite the wonkiness of the discipline, the most famous academics in the field of economic development, from Jeffrey Sachs to William Easterly, enjoy a public status akin to rockstars, at least within the economics field. The authors of *Poor Economics: a radical rethinking of the way to fight global poverty* , Abhijit Banerjee and Esther Duflo, are certainly no exception, having racked up accolades from MacArthur "Genius" Grants and Time profiles to TED talks. Banerjee and Duflo co-founded the Abdul Latif Jameel Poverty Action Lab (J-PAL) at MIT, a network of economics professors around the world who are known for their commitment to the use of Randomized Evaluations (REs) to answer the 'big questions' of the development economics field of what kind of aid interventions are the most effective, and why. The terms sound decidedly un-sexy, and yet they represent nothing short of a revolution in the way that academics and policymakers approach the problem of global poverty. By using a scientific process that is modeled on the randomized trials that are used in medicine to evaluate the effectiveness of new drugs, with control and variable groups to determine what kinds of interventions are effective, Banerjee and Duflo hope to ensure that policy approaches are based on scientific evidence for what works rather than the abstract economic models or wishful thinking that so often seem to guide policy.

Poor Economics is an exploration of J-PAL's Randomized Evaluations strategy. Written for a popular audience, the authors seek to sweep aside the broad generalizations about global poverty that economic models tend to create. They use case studies and anecdotes from their work on the ground with NGOs and individuals living in poverty around the world, showing how their evaluation methods provide insight into development and poverty alleviation best practices. The book is also accompanied by a website that provides interactive maps and graphics for each chapter, as well as a list of affiliated NGOs that interested readers can get involved with.

Banerjee and Duflo's system of Randomized Evaluations provides some fascinating-and surprising-conclusions. Perhaps the most interesting chapter in the book seeks to explain why despite the existence of inexpensive health interventions like bed nets or vaccines, the poor don't often avail themselves of such "low-hanging fruit" (Chapter 3, "Low-Hanging Fruit for Better (Global) Health?"). Economist Jeffrey Sachs would argue that the problem is a health poverty trap: being very poor makes it difficult to prevent illness or seek treatment once getting ill, illness makes it more difficult to earn a decent income, in turn perpetuating poverty. The problem with this theory is that even the poorest of the poor should be able to access certain low-cost health interventions. Banerjee and Duflo point for just one example to drinking water: a family of six in Zambia can buy a bottle of chlorine for just $0.18 per month, which would reduce diarrhea in young children by up to 48%- yet just 10% of Zambians actually treat their drinking water with bleach (p. 48-49). The issue is not that poor families don't care about their health: the evidence suggests that when faced with serious health issues, poor households often end up cutting their spending, selling assets, or borrowing money to treat them, often pushing them into greater debt (p.50). The problem, therefore, is that poor households select what amounts to the more expensive option: rather than investing in prevention, they spend more on expensive cures.

Part of the blame lies with governments, which are usually the primary players responsible for setting up local health centers that would provide such cheap prevention mechanisms. Economists like Bill Easterly argue that health interventions like the ones that Jeff Sachs advocates don't work because government health centers are often dysfunctional- health workers don't bother to go to work so the centers are closed when they are supposed to be open, and health professionals are not well educated or don't care enough to treat their patients properly. Yet J-PAL's randomized evaluations found that even high-quality, privately provided health interventions do not significantly increase the numbers of people who choose to access them (p. 56).

According to Banerjee and Duflo, the primary explanation lies in weak beliefs and procrastination. Because the poor cannot afford treatment for major illnesses, but it is human nature to feel like you are doing something positive for your health, even if you can't afford to treat major illnesses. This is why the poor are actually less likely to go to the doctor for potentially fatal conditions like chest pains or blood in their urine than they are for lesser illnesses such as fevers and diarrhea, and why they are likely to go to a traditional healer or preacher for treatment- they "give the patient a sense of doing something" (p. 61).

Time inconsistency is another issue. Psychology research shows that people think about the present very differently than they do about the future, in that people are likely to act impulsively in the present and to avoid unpleasant tasks today that can be put off into the future. Thus, the poor "may want to postpone the purchase of a bed net or a bottle of Chlorin [to treat drinking water] until later, because [they] have better use for the money right now (there is someone frying delicious conch fritters across the street, say). It is easy to see how this could explain why a small cost discourages the use of a life-saving device, or why small incentives encourage it" (p. 65). Banerjee and Duflo are not arguing that the poor are any more lazy or more impulsive than the rich- in fact, they may have more self-control than we do, but "we rarely need to draw upon our limited endowment of self-control and decisiveness, while the poor are constantly being required to do so" (p. 68).

These issues naturally lend themselves to specific aid interventions, and indeed, the authors' provision of interventions to match the problems that they have identified at the end of each chapter is one of the more satisfying aspects of the book. To overcome time inconsistency, governments and NGOs should provide a "nudge" to encourage people to invest in prevention. They can do so by "mak[ing] the option that [they] think is best for most people the default choice, so that people will need to actively move away from it if they want to" and by providing small incentives that encourage people to act in the present rather than putting something off (p. 66). Such "nudges" must be designed to meet the specific circumstances in the environment of developing countries. Banerjee and Duflo give chlorinating water at home as an example: the key challenge is remembering to do it every time someone has a drink of water. J-PAL tested a number of innovative solutions, including a free chlorine dispenser installed at the village well which delivers the correct amount of chlorine with one twist of a knob. Randomized trials show that of all interventions that have been tested, this is the cheapest way to prevent diarrhea (p. 66). Governments and NGOs must also subsidize health interventions, providing them for free or even providing payments to get households to invest in them, while also restricting access to unnecessary drugs in order to prevent growing drug resistance (p. 69).

Banerjee and Duflo conclude with a chapter entitled “In place of a sweeping conclusion,” emphasizing their carefully scientific approach. In it, they offer five key lessons that emerge from their various studies, but caution that when “the fad of the moment (be it dams, barefoot doctors, microcredit, or whatever) is turned into a policy without any attention to the reality within which it is supposed to function,” aid interventions are doomed to fail (p. 271). In a way, *Poor Economics* is a less satisfying read than other development economics books, since it does not provide a neat solution for all aid or development problems. However, the careful and focused attention to tackling each of the many problems that confront the poor and development economists, and the authors’ clear sense of compassion for and empathy with their study subjects, ultimately makes *Poor Economics* a gratifying and fascinating read.

—

Alex Stark *is a Deputy Editor of e-IR.*

About the author:

Alex Stark is an Editor-at-large of E-International Relations and a member of E-IR’s Editorial board. She is a PhD student in International Relations at Georgetown University. She received her MSc in IR from the London School of Economics and BA from Wellesley College, where she was an Albright Fellow. Follow her on Twitter: @AlexMStark