

**Development Economics: Theory, Empirical Research, and Policy Analysis**

Julie Schaffner. 2014. Hoboken: John Wiley & Sons. ISBN: 978-0-470-59939-6. \$169.95.

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Commenting on the 2015 Nobel Prize in Economic Sciences, Justin Wolfers (2015) wrote,

A generation ago, development economics was a field populated by ‘country doctors’—globe-trotting macroeconomists willing to make house calls to any country . . . so that they could proffer their preferred prescription, be it a more muscular industrial policy, a big push of infrastructure development, increased national savings or a faster shift to a market economy. The countries varied, but the prescriptions rarely did. Today, development economics is a far more interesting and nuanced field, with practitioners focused on understanding the lives of the poor, and in uncovering the subtle ways in which immature economic institutions hinder their development. Rather than studying a few dozen countries, modern development economists are likely to pore over data describing the economic lives of thousands of families within each country.

The field of development economics has come a long way, and Julie Schaffner’s textbook, *Development Economics*, is a most refreshing and much needed contribution to the study and teaching of this subfield of economics. Not only is the text written in a pedagogically clear, engaging, and rigorous way, but more importantly, the book presents a systematic and coherent framework with which to analyze economic phenomena and policies pertaining to poverty and development, a framework that is not readily seen in other development economics textbooks.

Schaffner’s textbook builds on the current frontiers of research in development economics. The key strengths of the text are: (1) It presents the study of development economics as not just a random lumping together of different topics such as health, education, trade, and micro-finance, but a coherent field of study with a coherent analytical framework; (2) Within this framework, the unit of analysis starts not at the country level (unlike macro growth studies a generation ago) but at the individual, household level. Micro foundations are emphasized; (3) Even

though the analytical framework is based on microeconomic theory, the textbook argues that standard microeconomic theory is not enough when studying developing economies. Additions to and departures from standard microeconomic models need to be considered, including deviations from neoclassical rationality, the presence of information and transaction costs, and recognizing the prominence of nonmarket interactions; (4) The textbook argues that understanding theory is not enough. The study of development economics is by definition policy-oriented, and it also reflects the fact that modern economic research has become increasingly empirical in nature. The textbook presents an excellent interplay between theory, empirical research, and policy analysis; (5) Last but not least, the author takes pains to emphasize the importance of differentiated effects and context-specific analysis, and to caution the reader against jumping to conclusions or making blanket policy statements without understanding the nuances.

## 1 Coherent Analytical Framework

The organization of the book showcases the author's approach to the study and teaching of development economics. The textbook is organized into four parts with 22 chapters. Part I (one chapter) gives the introduction and Part II (four chapters) lays out the development objective and the big picture. Part III (eight chapters) and Part IV (nine chapters) are the main course. Part III fleshes out the analytical framework, presenting theories and models to guide the study of the decisions, markets, and institutions that shape development outcomes. Part IV applies the tools of Part III to the analysis of eight classes of policies related to targeted transfers, workfare, agricultural markets, infrastructure, education, agricultural technology, microfinance, and health.

I see the coherent analytical framework presented in Part III and the way it is tied to Part IV as the most valuable contribution of the textbook. Schaffner (2014b) has set forth her understanding of the analytical framework with which to approach development economics, a framework that she expands admirably in her textbook. I highly recommend reading her article prior to using the textbook. As Schaffner remarks in the article:

One of the most important developments in the field [of devel-

opment economics] is the emergence of a coherent analytical framework, which brings the field's many strands into conversation with one another and renders research more relevant to policymaking. The framework is built on basic microeconomic instincts about how to break socioeconomic systems down into analytically tractable pieces, but pays more attention to the connections between pieces (thereby linking micro-, meso-, and macro-level concerns). (Schaffner, 2014b, p. 1)

## 2 Emphasis on Micro Foundations

Schaffner sees the fundamental moving parts of a socioeconomic system as the people themselves. This is very consistent with the state of the field of development economics and its current heading. Regarding the Economics Nobel Prize awarded to Angus Deaton last year, the Royal Swedish Academy of Sciences (2015) noted in its press release that “to design economic policy that promotes welfare and reduces poverty, we must first understand individual consumption choices.” As Deaton (2015) said in his Nobel Prize interview, “It’s about people in the end . . . you have to understand what makes people tick.”

Understanding the individual’s choices regarding consumption, time allocation, production, saving, lending, investment, and others is therefore the first order of business, and this is ably argued for and demonstrated in Schaffner’s textbook. In the analytical framework (and I would even venture to use the word “worldview”) presented by Schaffner, “development isn’t something that just happens to people. People are active participants in development. Their choices help determine the speed of economic growth and how the benefits of growth are distributed” (2014a, p. 108). I applaud such an emphasis on people in developing countries as active participants in the development process. It gives power to the individuals, and does not treat them as objects upon which development policies are simply being enacted.

One of the goals of the textbook is to help students “build bridges from the micro study of choices and the meso study of markets and institutions to a coherent macro understanding of economic growth, poverty reduction, and development” (Schaffner, 2014a, p. xix). I believe the textbook does a great job introducing the micro study of choices and the meso study of markets and institutions, but the link to a macro under-

standing is less obvious. The bulk of the textbook focuses on the study of households with diverse assets and interests, who interact with one another in markets for goods, services, labor, credit, savings instruments, and insurance, and who also interact with one another in nonmarket settings. These market and nonmarket interactions are governed by institutional rules and norms.

However, even the discussion of institutions is at the micro or meso level, rather than at the macro level. Schaffner focuses on the study of community-level institutions, such as institutions governing common property resources, informal insurance institutions, and customary land rights institutions (2014a, p. 316). Less attention is given to the kind of macro-level institutions that Daron Acemoglu and James Robinson (2012) are known for examining. The textbook also does not tackle macro topics in development like international trade, balance of payments, financial crises and stabilization policies, foreign investment and foreign aid, or fiscal policies, some of which may be found in other development economics textbooks. I see this as a conscious decision on the author's part to focus more on the micro and meso levels of analyses, given the constraints of the scope and length of a textbook.

### **3 Additions to and Departures from Standard Microeconomic Models**

While Schaffner emphasizes micro foundations in the study of development economics, she also makes it clear that standard microeconomic models and standard economic assumptions about how people make choices may not readily apply to the study of developing economies. For example, the assumption that decision makers have accurate and complete information often does not apply to people in developing countries. Schaffner gives a number of examples to illustrate this, drawing from the topics of agricultural development (people fail to take advantage of a new and improved agricultural technology because they do not know about it), investment and market expansion (people fail to sell grain in a lucrative distant market because they lack up-to-date information about the price of grain in that market), and education (people fail to send their children to school because they lack accurate information about the benefits of education).

Another example is the failure to model transportation and trans-

action costs. Schaffner points out that the “standard model of market equilibrium is based on the often-unstated assumption that transporting goods and carrying out transactions are costless activities. The standard model also makes no distinction between local and longer-distance transactions or between more- and less-sophisticated transactions” (2014a, p. 175). Sometimes it may feel too dry or too theoretical to students to think through whether there should be transaction costs in a model, but Schaffner demonstrates that such a consideration can be very policy-relevant. After modifying the standard model to account for transfer costs that vary with distance and across transactions of different types, Schaffner applies the model to the study of food distribution for humanitarian aid, and shows that the relative merits and demerits of cash versus food distributions are not as clear-cut as one would have believed. The nuances of the impacts of cash and food distributions on local markets would not have been made clear absent the consideration of transfer costs.

Apart from imperfect information and transaction costs, the textbook also highlights the importance of mobility costs, liquidity constraints, insurance constraints, risks, and institutional rules and norms, as well as insights from behavioral economics such as present bias, learning, and persuasion in the study of development economics. While this is not an exhaustive list of the ways the study of developing economies may differ from standard microeconomic theory, I find this to be a very comprehensive list that covers a lot of ground and can be applied broadly to different topics ranging from education to health, investment, savings, and agricultural markets.

Finally, the textbook also emphasizes nonmarket interactions, which include cooperation, communication, bargaining, sharing, respect of property rights, fulfillment of promises, and informal dispensation of rewards and punishments. As Schaffner notes, “Development economists now recognize that non-market interactions are at least as important as market interactions in determining the level and distribution of well-being in a society” (2014b, p. 3). Through the treatment of nonmarket interactions, as well as the introduction of complexities to standard microeconomic models, the textbook makes a strong case that development economics is not just the mechanical application of labor or public economics to the study of developing countries, but that it has earned its own place as a standalone subdiscipline in the field of economics.

#### 4 Interplay between Theory, Research, and Policy

One of the goals of the textbook is to help students “think about development in a way that is disciplined by economic theory, informed by empirical research, and connected in a practical way to policy” (Schaffner, 2014a, p. xix). It aims not just to help readers gain familiarity with development issues, but also to train them to acquire the skills and instincts necessary for rigorous, context-specific analysis of development problems, so that they can be involved in development as “researchers, policymakers, entrepreneurs, voters, program officers, or donors” (Schaffner, 2014a, p. xix). I believe this text achieves this goal very well.

The textbook emphasizes the important interplay between theory, empirical research, and policy analysis. It demonstrates how empirical research can shed light on the practical implications of a theory’s assumptions and can identify reasons why policies may fail to improve certain development outcomes. For example, in discussing child labor, the textbook first uses a basic labor supply model to identify and question the assumptions implicit in the call for child labor prohibitions, arguing that such prohibitions may not necessarily lead to an increase in children’s education and may not necessarily make children better off. The book then cites empirical evidence to back up the theoretical argument, citing 16 studies within four pages of text and focusing in detail on one paper that examines the impacts of rice price increases on child labor in Vietnam (Schaffner, 2014a, p. 130). The book then goes back to the labor supply model to explore alternative policies that may reduce child labor and at the same time increase child welfare and school enrollment rates. These include efforts to raise family incomes, improve the rewards for schooling, reduce the cost of schooling, and reduce the time families must spend collecting water and fuel (Schaffner, 2014a, p. 127).

Throughout the textbook, the author demonstrates again and again how empirical studies are used to inform and refine theory, and how theory in turn is used to inform the design and implementation of policies at the micro level. It is not helpful to just make blanket statements saying that “child labor is bad” or that “we should prohibit child labor,” but it is important to understand how we can actually implement policies to encourage child schooling and raise child welfare. As Schaffner notes, the framework presented in the textbook

... could steer debaters away from unhelpful discussions of over-generalized questions such as “Is aid good or bad?” or “Is growth the best thing for reducing poverty?” It would require debaters to get more specific about the policies they are debating and about the mechanisms connecting policies to benefits and costs, and could help them clarify whether their disagreements rest on differences in beliefs about how the world works or on differences in values. (Schaffner, 2014b, p. 20)

One thing to note about the discussion of empirical research in the text is that the book is written without assuming that students have had econometrics. Appendix A of the book gives an overview of the basic econometric concepts that students would need. But this means that the discussion of empirical research in the text is often focused on the result and not on how researchers get to that result. Some instructors may want to make this up by assigning the actual empirical paper for students to read. The references section after each chapter of the book provides an excellent choice of papers from which to select.

## **5 Emphasis on Differentiated Effects and Context-Specific Analysis**

An important theme of the book is that “people are diverse, and diverse people experience differentiated impacts of development policies” (Schaffner, 2014a, p. 142). The book defines diversity along the dimensions of gender, ethnicity, land ownership, geographic location, and education, and argues that most development policies have differential impacts on various groups, whether intended or unintended. For instance, seemingly gender-neutral policies can have significant gender-differentiated effects. One example is that “general improvements in income and time endowments, and reductions in distance to school, might generate larger improvements in consumption and school attendance for girls than for boys” (Schaffner, 2014a, p. 168). Difficulties arise, however, from the fact that these differentiated impacts can be hard to predict, even when researchers are familiar with local norms and institutions. The author gives an example in which food crops have become more lucrative but norms and institutions have changed, such that the conversion of food crops from “women’s crops” to “men’s crops” ended up benefiting men more than would have been expected (Schaffner, 2014a, p. 168). This

points to the importance of micro-level study to tease out differential impacts. Since the objective of development is not just to raise the *average* rate of growth in society but to raise the well-being of diverse groups throughout society, including and especially the poorest groups, there is a great need to push for disaggregated and context-specific study, a point that is well-argued throughout the textbook.

## 6 Some Practical Observations on Using the Textbook

The author intends the book's primary audience to be "upper-level economics undergraduates and master's-level students in public policy, international relations, economics, evaluation, and other social sciences" (Schaffner, 2014a, p. xx). The text is written for students who have taken intermediate microeconomics, and it does not require the use of calculus. The text engages deeply with empirical research, but is accessible to students who have not yet taken econometrics.

The whole book is intended to be taught in two semesters. Instructors can also develop a one-semester course by going through Parts I through III in order, or by picking and choosing specific chapters from Parts III and IV and interweaving the analytical tool chapters with the policy application chapters. I have tried the latter and found it successful. There is a section on "Organization and Uses" of the textbook in the preface (p. xx–xxii) that is very helpful for the instructor planning out a syllabus. The problems and solutions manual are also well-written and are helpful resources for teaching.

## 7 For the Christian Economist

This textbook is worthy of serious consideration by the Christian economist. As Christians, we should be concerned about poverty and development. This textbook tools one up for the study of poverty and development, and informs one's thinking, teaching, writing, and engagement with development issues, whether in the classroom, church Sunday School, missions, disaster relief, or social justice work.

Since I teach in a Christian institution, I have found it helpful to highlight certain themes that come up in the textbook and to supplement the discussion of those themes with other readings. One theme is the definition and measurement of human well-being. The book sees the in-

crease in well-being as the main goal of development, with well-being defined as “a summary assessment of how good or bad [a person’s] life circumstances are, paying attention at a minimum to the quantities and qualities of the goods and services she consumes, the activities to which she allocates her time, and her hopes and fears regarding the future” (Schaffner, 2014a, p. 18). I appreciate the inclusion of hopes and fears in the definition of well-being, as it expands the definition of well-being beyond simply material or economic measures. I have found it helpful to supplement class discussions with readings from *Voices of the Poor* (World Bank, 2000) and writings by Latin American theologians such as Rene Padilla and Gustavo Gutierrez to stimulate students’ reflection on other dimensions of well-being, such as spiritual, emotional, psychological, and relational.

Another theme that comes up in the textbook is the idea that different values and beliefs may lead to different development targets. Some development actors may argue for policies that lead to more rapid growth, while others may want to trade off reduced growth in exchange for more widespread poverty reduction. While the textbook deals a lot with differences in beliefs about how the world works (beliefs about facts), it is relatively silent on why people may have different values and how those values come about. I find it helpful to ask students to read *Walking With the Poor* (Myers, 2011), and to discuss different development objectives that arise from different values. For instance, is the goal of holistic development the reconciliation of one’s relationship with God, with others, with nature, and with oneself?

In sum, I find Schaffner’s *Development Economics* an excellent and much needed contribution to the study and teaching of development economics. The coherent analytical framework, the emphasis on micro foundations, the additions to standard microeconomic models, the interplay between theory, empirical research, and policy analysis, as well as the emphasis on differentiated effects and context-specific analysis all add to the reader’s understanding and grasp of an important field of applied economics. Students, researchers, development agency workers, policymakers, program officers, and donors would all benefit greatly from this textbook.

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