# Book Reviews

**Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty**

Abhijit V. Banerjee and Esther Duflo. 2011. New York: Public Affairs. ISBN 978-1-58648-798-0, $17.81.

**More than Good Intentions: How a New Economics is Helping to Solve Global Poverty**

Dean Karlan and Jacob Appel. 2011. New York: Dutton. ISBN 978-0-525-95189-6, $15.96.

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As a development economist, I very much enjoyed reading and learning from these books. Both are cut from the same cloth, cover similar material in similar ways and move beyond sterile debates on development assistance by carefully examining what actually works to help the poor escape their poverty. I appreciate them not only because I learned a lot about development work, but also because both books are–I'm not kidding–page turners. I had a hard time putting either of them down, a rather remarkable thing to say about substantive books on economics and poverty. The writing is crisp and engaging, full of fascinating stories of real people that are intermixed with hard core data analysis, thus allowing readers to put human faces onto the data and the analytical reasoning. Especially delightful is the unmitigated focus on the positive.

After years of reading and listening to fierce attacks on each other's ideas (and at times on each other) by the likes of Easterly, Sachs, Collier and Moyo, I find it refreshing to get beyond these increasingly tiresome debates by discovering some path-breaking work that involves actual field testing, followed by humble interpretations of what actually seems to work well. Neither book tries to provide an overall argument for that elusive final answer to the scourge of poverty. As Banerjee and Duflo say, they offer us no "sweeping conclusion," only some important lessons that allow us "to improve institutions and policy at the margin" (p. 264), or, as Karlan and Appel put it, we can "make progress in the fight against poverty if we use tools that are proven to work" (p. 235).

That they are cut from the same cloth is hardly surprising when one realizes that Banerjee was one of Duflo's thesis advisors, that both Banerjee and Duflo were thesis advisors for Karlan, and that Karlan hired Appel to work in data gathering and analysis for Innovations for Poverty Action (IPA), a research organization that Karlan founded to engage in precisely the sort of research and testing that he learned from Banerjee and Duflo. Moreover, Banerjee and Duflo were originally on the board of IPA, and Karlan join Banerjee and Duflo on the board of a similar research organization called J-PAL (Jameel Poverty Action Lab) that is also directed by Banerjee and Duflo. The mission of both organizations is to use randomized testing to evaluate programs, policies and issues in the effort to alleviate poverty. So similar are these two books in approach, style, method, topics, rhetoric and findings that there are times when you read a sentence in one book and are certain you read pretty much the same sentence in the other. Still, in spite of the great similarity, there are also some notable differences too, mostly that Banerjee and Duflo drive their analysis to a deeper level that do Karlan and Appel , who stick more to a practical evaluation of which programs work better than others.

All four authors describe themselves as behavioral economists, meaning that they believe human beings behave in ways that are sometimes rational, sometimes irrational, and sometimes rational according to different criteria than economists capture with their typical assumptions about rational maximizing behavior. Karlan and Appel borrow from fellow behavioral economists Thaler and Sunstein in referring to the efficiency-oriented *homo economicus* of neoclassical fame as "econs," and to the people who have values other than efficiency, who do not always do cost-benefit analyses to make decisions, and who are sometimes "shockingly inconsistent," as "humans" (p.6). If we really want to understand human behavior as it is actually lived, researchers must observe what people actually do when confronted by real choices. Such real choices can be understood only with reference to culture, social norms, religion, psychology, brain structure and any number of other factors that might influence real life behavior patterns. If we can understand the reasons behind the choices people make, we can be much better at devising and/or testing interventions that can actually foster better choices, better systems and, ultimately, better lives for the poor.

As behavioral economists, the authors reference some of the previous work done in developed countries on how to help people improve their choices to more accurately reflect how they would really like to live, lessons which are then applied to situations in developing countries. This work includes such issues as "the last mile problem," our need for "nudges," our troubles with accurately assessing present versus future needs, our trials with temptations, and our efforts to rise above them. In societies where poverty is rampant, education is weak, and poor health widespread, these same issues show up with frequency, for example in efforts to get people to use Oral Rehydration Therapy (ORT), treat their water with chlorine, or use bed nets. These practices are highly effective and incredibly cheap. Any rational "econ" would rush to use them. Yet the poor do not use them nearly as much as seems obvious that they should. The authors want to know why and what kinds of interventions will help the poor improve their choices. Similarly difficult choice issues also show up in decisions about saving, taking out loans, buying insurance, applying fertilizer, sending children to school, having sex with sugar daddies, and using condoms.

The major contribution that both books bring to these familiar and vital topics is testing, which they make every attempt to do through carefully planned randomized control trials (RCTs). In case after case, the authors manage to randomly separate sizeable populations into trial groups and control groups, collect data, and interpret the results. Their tests and interpretations have proven to be extremely useful to the range of NGOs, for-profit and government institutions that have been their collaborators and clients. Such evaluative testing leads organizations to drop practices that are not working well and increasingly to pursue those that really do work better.

Both books are divided in chapters by topics. Karlan and Appel present a chapter each on education, health, farming and sex. Banerjee and Duflo have individual chapters on education, health and family size/population (which also addresses the choices people, especially girls, make about sex). In these topics there is much, though not perfect, overlap. With farming issues, for example, Banerjee and Duflo cover many of the issues under other headings than farming. One topic that is intentionally covered by Banerjee and Duflo, but not by Karlan and Appel, is institutions and government policy, a topic that is much more of a running theme throughout Banerjee and Duflo than in Karlan and Appel (more on this below).

About half of each book revolves around financial and business decisions, particularly the arenas of microcredit, insurance, saving and microenterprise. Karlan and Appel devote five chapters to these topics, Banerjee and Duflo four. As with the other topics, a main purpose is to share the findings of RCTs and other empirical studies on questions of importance. Here is a sampling of questions and findings on financial and business issues. Both books concur on all these points:

- Do high interest micro loans really help? Yes, but not as much as if often claimed.
- Should loans be tightly restricted to ensure the loans are used appropriately? No, such restrictions do not help and may actually keep borrowers from making important expenditures, like fixing a motorcycle to get to work.
- Do individual gains made by microenterprise owners bring poverty alleviating change to whole communities? No, such gains are not discernible.
- Does training help borrowers engage in better business practices? Yes, but not to the extent that there are many leaps into small and medium enterprise activities. Microenterprises generally stay very small.

- Does group liability for loans encourage higher payback rates? No, but meeting in groups is still helpful even if members are not responsible for each other's loans.
- Is meeting frequently in lending groups important? Yes, weekly meetings lead to higher payback rates than monthly meetings.
- Do people save more when they are nudged periodically? Yes, simple reminders to save made a big difference in people's saving habits.

One apparent objective of their extensive examination of microenterprise is to take the whole microenterprise movement down a notch. In spite of being quite affirming in their assessment that microcredit/microenterprise programs are helpful and good, they also point out that they are not as good as often portrayed. We need to consider many other ideas and interventions in addition to this one. As Karlan and Appel say, "The problem with microcredit is the way it has been pitched: as a one-size-fits-all solution to poverty… For all its merits, it is not that" (p. 82). Banerjee and Duflo conclude that "microcredit and other ways to help tiny businesses still have an important role to play in the lives of the poor…. But we are kidding ourselves if we think that they can pave the way for a mass exit from poverty" (p. 234).

As the books come to a close, both conclude with a final chapter that lays out the major takeaways from their research. For Karlan and Appel these come in the form of seven highly practical findings that they hope increasingly integrate the work of development practitioners. These takeaways are (1) saving is important (probably more important than credit); (2) people save more if they are reminded to save; (3) farmers use fertilizer more effectively if they can buy it for next year when this year's harvest is sold; (4) deworming is almost magical (and very cheap) in its effects on health and school attendance; (5) remedial/tutorial education can be very effective; (6) convenient chlorine dispensers have a big impact on clean water and health; and (7) commitment devices work (pp.273-275).

Banerjee and Duflo also lay out their final lessons, but in these lessons we can also witness one of the key differences between the two books, for while Karlan and Appel focus laser-like on practical questions of effectiveness, Banerjee and Duflo get more reflective and general. Banerjee and Duflo's five lessons to remember are: (1) "the poor often lack critical pieces of information and believe things that are not true," (2) "the poor bear responsibility for too many aspects of their lives," (3) "there are good reasons that some markets are missing for the poor," (4) "poor countries are not doomed to failure because they are poor," and (5) "expectations about what people are able or unable to do all too often end up turning into self-fulfilling prophecies" (pp.268-271).

Whereas Karlan and Appel remain intensely practical, Banerjee and Duflo probe their findings for more generalized insights that go beyond specific programs into national and international policy. For example, responding to the Sachs-Easterly debate, Karlan and Appel recommend that the best way to get beyond it is simply to find examples of assistance that work. These are the aid programs worthy of support. In contrast, Banerjee and Duflo enter into the debate by trying to discover who is right in which cases. As such, they are on the hunt for true poverty traps, which Sachs says are frequent and which Easterly denies. They are also on the lookout for when planned interventions can help, which would support Sachs, and when unhindered markets yield the better result, an outcome that would favor Easterly. Using the Indian term "wallah," which means "purveyor of," Banerjee and Duflo refer to Sachs as a "supply wallah," and to Easterly as a "demand wallah" (pp. 72-73). Sachs wants government and other organizations to supply goods and services to people to help lift them out of the various poverty traps into which they've fallen, while Easterly, believing such methods lead to stunning failures, prefers to rely on people making their choices known in the market so that entrepreneurs can respond to their demand.

Striking a reconciling tone, Banerjee and Duflo find that the evidence supports both to some degree and in some instances. On the one hand, the evidence for real poverty traps is thin at best, which seems to favor Easterly. On the other hand, there are plenty of situations where outside aid can make powerful contributions. For example, Sachs wants bed nets given away; Easterly believes free bed nets will be wasted, because when people want bed nets they demand them and local suppliers produce them. After a look at the evidence through RCTs, Banerjee and Duflo conclude that the supply wallahs win this one. Free bed nets are indeed widely used and have had huge impacts on health and economic well-being. Raise the price to market level, however, and people use them much less than they should. In another case, the use of contraception for birth control, Banerjee and Duflo discover that free contraception does not make a difference if people do not want to use it. Score one for the demand wallahs. There are numerous examples of this sort of analysis.

As they think more deeply about what explains the way people behave in these situations, Banerjee and Duflo are led to posit some barriers that keep people from making good choices that would clearly be to their benefit. Sometimes poor choices result from well-understood market problems, like principle-agent issues (as when parents choose whether their children go to school), moral hazard and adverse selection (as in insurance markets), but all too often poor choices arise from an unholy trinity of what Banerjee and Duflo refer to as the "three Is," i.e., ideology, ignorance, and inertia. These barriers show up frequently, for example when parents seem to have false understandings of the value of schooling, to the point that their false beliefs lead them to "create a poverty trap even where none exists in the first place" (p.92). Because parents wrongly believe education does not have much value for some of their children, they keep them out of school and unnecessarily consign them to lives of poverty. In another case, they study why nurses do not come to work and discover it is not because the nurses are lazy or immoral, but because their jobs have been so ridiculously structured that they are essentially undoable. As Banerjee and Duflo explain,

> The nurses' workload was based on an *ideology* that wants to see nurses as dedicated social workers, designed in *ignorance* of the conditions on the ground, that lives on, mostly just on paper, because of *inertia* (p.259, emphasis in the original).

Because the "three Is" plague both the poor and also policy makers and NGO leaders, Banerjee and Duflo offer two main remedies. One is to increasingly employ programs that manifestly work to overcome the three Is and thus provide the rationale and encouragement to people to make better decisions, like sending their kids to school, using bed nets, and saving. A second remedy comes in the form of their advice to aid programs, which is to structure their interventions more wisely. Based on their research, programs should give away bed nets, sell fertilizer at harvest time, and remove restrictions on microloans and conditional cash transfers.

Reflecting on the three Is leads them into another major difference with the pragmatism of Karlan and Appel, which is paying more attention to politics and policies and the overall structure of institutions. Banerjee and Duflo see a number of arenas in which government intervention could play an especially helpful role. Governments need to supply quality education, help the poor pay for health insurance and regulate insurance markets, regulate markets for saving so that the poor have more opportunities to save, and provide social safety nets to reduce the incredible risk the poor must cope with every day.

Banerjee and Duflo are of course aware that many governments are plagued by corruption, and they are not starry eyed when suggesting such government involvement. Instead, they argue that in the political arena too we can continually make improvements at the margin, even when big issues like government corruption are widespread and serious. They know that powerful people, including those in government, often behave in ways inimical to the well-being of the poor, but they insist that "there is scope for improving the functioning of institutions, even in relatively hostile environments" (p. 254). If we work at the margins, improving policies and the functioning of programs in proven effective ways, then gradually the politics will also be affected, starting what they call a "quiet revolution" (p. 265). They have discovered, for example, that holding elections had positive impacts on service provision and accountability, even when the outcome of the election is predetermined.

Economists committed to ending poverty and working for a world in which everyone can flourish will do well to read these books and perhaps even join the authors in the conduct of RCTs. Undoubtedly this includes Christian economists, who in many ways can give a collective "amen" to the work of these four scholars. In addition to their excellent research work on the ground to find out what actually works to help people, there are two other major positives Christian economists will find in this work. One is the assumptions of behavioral economics that acknowledge that people behave in all sorts of ways for all sorts of reasons. Sometimes people make good choices, but they make poor choices too. Such a view of the human condition is much closer to Christian understandings than the traditional neoclassical anthropology.

Second, and a contribution especially evident in Banerjee and Duflo, is an empathy for the poor that represents a desire to be helpful rather than judgmental. Banerjee and Duflo point out that the poor must repeatedly make decisions about basic areas of life, like ensuring their own clean water supply (ours is piped in), eating nutritious food (we have vitamins, iodized salt and fortified breakfast cereals), saving for the future (many of us have social security and pension plans), how to secure their assets (we have well-regulated financial systems), and so on, that we in developed countries rarely have to think about. All of this the Christian economist will find compelling and right.

Still, our "amen" will likely be a qualified, for at least three reasons. First, both books establish their ethical foundation on Peter Singer's idea that we should help people in need who we are able to help. But such a foundation is weak compared to the rich Christian understandings of image bearers, human solidarity and deep moral responsibility that arises from the second great commandment, "Love your neighbor as yourself" (Matthew 22:39b). A second weakness is the top-down character of the research that casts foreign academics as the experts and the poor as objects to be manipulated. Yes, there is empathy for the poor and the struggles they face, but where are the attempts to listen to the poor, to encourage their own investment and ownership in the management of their own lives? Instead, though I say this lightly, there is a tendency to see the poor as variables to be manipulated to ensure choices that lead to the somewhat narrow goals of economic well-being. Which leads to the third concern, which is that there is little attention to what Christian development theorists refer to as a holistic understanding of development, one that includes not only economic well-being, but also restored relationships with God, with self, with others, and with creation (see Myers 2011and Corbett & Fikkert 2009). As it is, these two books are mostly occupied with health and wealth. Both of these, seen in a proper light, are good goals, but for the Christian economist they do not tell the whole story.

None of these weaknesses is a deal-breaker. These are both excellent books that Christian economists will do well to learn from. In addition to all the valuable lessons about what works and what does not, there is an important modeling lesson to be gleaned here as well, which is that Christian economists and Christian development organizations can follow this lead and engage more intentionally in the practice of scientific testing, even RCTs, to find out which of their own interventions are the most effective at achieving a full range of development goals.

## References

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