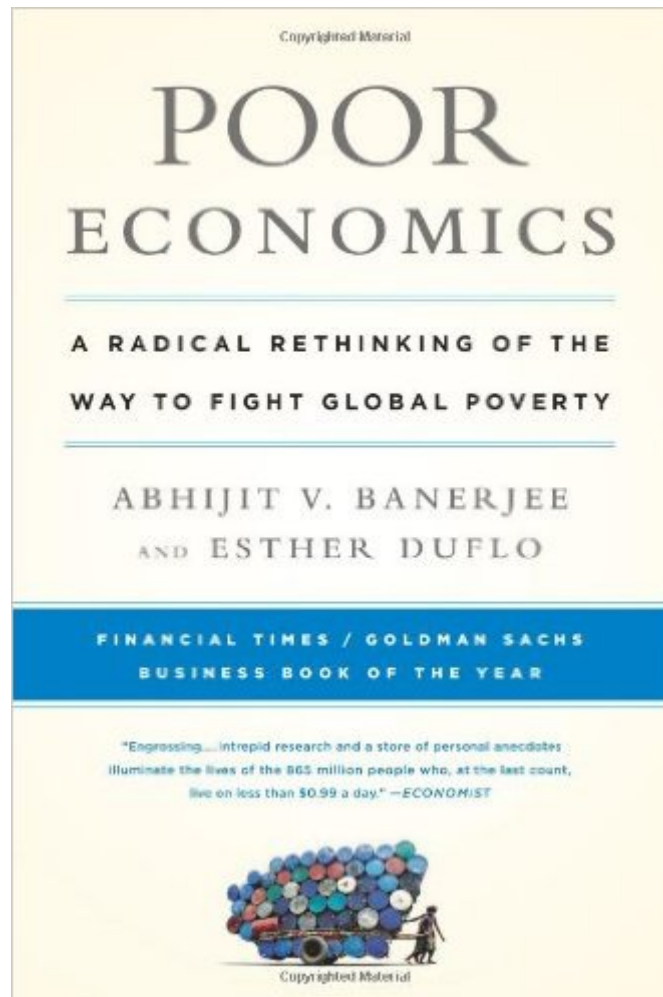


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Poor Economics: A Radical Rethinking Of The Way To Fight Global Poverty



Synopsis

Why do the poor borrow to save? Why do they miss out on free life-saving immunizations, but pay for unnecessary drugs? In *Poor Economics*, Abhijit V. Banerjee and Esther Duflo, two practical visionaries working toward ending world poverty, answer these questions from the ground. In a book the *Wall Street Journal* called "marvelous, rewarding," the authors tell how the stress of living on less than 99 cents per day encourages the poor to make questionable decisions that feed—not fight—poverty. The result is a radical rethinking of the economics of poverty that offers a ringside view of the lives of the world's poorest, and shows that creating a world without poverty begins with understanding the daily decisions facing the poor.

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Customer Reviews

The authors identify three major approaches to dealing with world poverty, suggest that whatever their virtues and faults, there is a very piecemeal and pragmatic approach through which significant gains can be made without addressing the systemic obstacles identified by the three approaches. Their analysis is brilliant, focused, rooted in first-rate data sets, yet rich in social detail and anecdotal vignettes. I believe there are probably right, and their approach deserves to be widely studied and evaluated by policy makers in the advanced and developing countries. The dominant school of thought is probably the supply-side theory, most visibly represented by Jeffrey Sachs (the authors call him a "supply wallah"). According to this theory, the poor are poor because they lack money and

resources, and there is a "poverty trap" such that investment in productive technologies must be very large in order to have a positive and sustainable effect. Because poor individuals, and even poor countries, lack the capacity to finance such investments, they are trapped in a low-level economic equilibrium. For this reason, Sachs and the supply theorists advise that the rich countries transfer a large lump-sum amount of money to a poor country, so it can get over the poverty-trap hump. A second salient school of thought is the demand-side theory, represented by William Easterly and many others. Demand-siders (the authors call them "demand wallahs") believe that the poor are poor because they do not want to undertake what would be necessary to move out of poverty and there is no poverty trap. Thus, if you throw money and resources to the poor, they consume it immediately rather than using it for long-term betterment.

Although I am an economist by training and have studied economics for many years, I admit that in reading this book I have learned a great deal about the complexities of both the theory and the practice of anti-poverty policies in developing nations. Why are people so interested in the issue of global poverty? Well, to list a few of the many aspects about poverty addressed in this book, every year about 9 million children die before they reach their fifth birthday, usually in the poorest countries. In the developed world, a woman has a one-in-5,000 chance of dying while giving birth, but in many sub-Saharan Africa countries the odds are one-in-30. There are at least 25 countries in the world with life expectancies of 55 years or less. If these sorts of situations capture your mind and lead it to ask what can be done, one of the first things you might consider doing is learning more about the conditions and circumstances that lead to these revealing statistics. That's where this book comes in. So, is this book one you should buy? Presumably that's why you are reading this. Here are a few observations that may help you decide whether to buy this fine book: In the authors' own words, the book "is ultimately about what the lives and choices of the poor tell us about how to fight global poverty." That may not sound too sexy or exciting, but if you have an interest in facts, theories and observations about global poverty, then this is your book. On the other hand, if what you seek are simple theories and, especially, strong advocacy of a few preferred solutions, then you are probably barking up the wrong tree. Don't get me wrong; I like the book just as it is. There is so much information to consider and so many approaches to fighting poverty to contemplate.

Development economics is a comparatively new field of study and it has changed considerably in its roughly fifty years of existence. "Poor Economics" represents a significant change, namely a move

away from the sweeping generalizations of scholars such as Jeffrey Sachs and William Easterly, and a realization that we actually understand very little in development economics. The proof of our lack of understanding can be found in our lack of success in actually bringing about wealth in the developing world (either that or a hidden lack of intent). In any case, Banerjee and Duflo start with the premise that, given the inaccuracy of past models, the best we can do is start on a micro level and see what works. They do this through randomized control trials (RCTs), in which groups are subjected to different treatments, such as subsidies for food, education campaigns, or reorganization of village committees. The groups are randomized, with some groups receiving the treatment (experiment group) and others not receiving anything (control group). Using the results from numerous RCTs around the world, as well as hundreds of other experiments, surveys, case studies and more, "Poor Economics" is incredibly well researched. One thing the authors don't justify, however, is whether RCTs are good predictors of real life choices. For example, how similar are the treatments used in RCTs to the actual policies implemented in real life? I won't summarize the contents of the book. But I can say that the conclusions within are indeed "radical" in the sense that they take very little for granted. They are based off of micro level data and offer very interesting insight into the incentives that shape the lives of the poor.

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