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Abhijit V. Banerjee and Esther Duflo, ***Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty***, Public Affairs, New York, 2011,pp. 303, ISBN: 978-1-58648-798-0.

Introduction

One of the most hotly debated topics in international development is global poverty and policies that need to be implemented to solve it. Eliminating poverty and hunger by 2015 is the number one goal of Millennium Development Goals (MDG). Up until now, billions of dollars have been devoted to eradicate poverty in Africa, Latin America, and Asia. Although some progress has been achieved, the problem remains and needs a rethinking of the nature of poverty to implement better and effective policies.

In "Poor Economics," Banerjee and Duflo (both are economists at Massachusetts Institute of Technology) force us to rethink about global poverty. The first step of rethinking about poverty is to truly understand the nature of poverty. To this end, the authors used surveys, spoke to poor people, and collected data. Their aim is to understand the basic insights and incentives that guide poor people's decisions and lives. They argue that these people are not irrational. Instead, they are perhaps more rational than most of us because they have to live with little resources.

The book discusses lives of the poor in developing countries. More specifically, it discusses how the poor make decisions regarding food consumption, health, education, family size, financial services, etc. What are their motivations in their decisions? Are these decisions making them poor or do they have to make these decisions because they are poor? To answer all these questions they used a new method called randomized control trial (RCT). They collected a rich body of evidence, running hundreds of RCTs that they pioneered at the Abdul LatifJameel Poverty Action Lab (J-PAL). For instance, through this new methodology, they randomly chose two sets of schools to examine the effects of free text books. The test group is given free text books and control group is not. Then, the mean of average test scores is compared to see the effects of free text books on test scores. This method gave them the chance to implement large-scale experiments designed to test their theories.

Lives of Poor People

Before discussing the lives of the poor people in developing countries, the book discusses contrasting approaches by Jeffrey Sachs and William Easterly. According to Jeffrey Sachs, a professor at Columbia University, poor people in developing countries are poor because they live in a hot climate, their land is infertile, people are exposed to malaria, and / or their countries are landlocked. This makes it hard for them to be productive without an initial large investment in infrastructure, health and education. In other words, they are stuck in a "poverty trap." The main policy implication for developed countries is that they should give more aid and they should invest more in poor regions until these regions get out of the poverty trap. William Easterly, professor at New York University, disagrees with the way of thinking proposed by Sachs. He argues that aid does more bad than good, because it prevents people from searching for their own solutions, while corrupting and undermining local institutions and creating a self-perpetuating lobby of aid agencies. His idea is simple: When markets are free and the incentives are right, people can find ways to solve their problems. Based on this debate, Banerjee and Duflo are investigating whether there is a trap as argued by Jeffry Sachs by looking at food consumption and access to both health and education.

Food Consumption

Previous studies focused on income as the main determinant of food consumption and calorie intake. However, the authors argue that income is not the most significant determinant of malnutrition in developing countries. When people have more income, or receive subsidized food, they either spend the extra money on luxury goods such as festivals, or weddings or they consume less healthy food which tastes better. In other words, there is no trap in terms of food consumption and hunger. Banerjee and Duflo argue that "*Most people, even the very poor, are outside of the nutrition poverty trap zone. They can easily eat as much as they need to be physically productive"*(p.38). However, they do not do this. The following anecdote from the book best illustrates this.

> *"We asked OuchaMbarbk, a man we met in a remote village in Morocco, what he would do if he had more money. He said he would buy more food. Then we asked him what he would do if he had even more money. He said he would buy better tasting food. We were starting to feel very bad for him and his family, when we noticed a television, a parabolic antenna, and a DVD player in the room where we were sitting. We asked him why he had bought all these things if he felt the family did not have enough to eat. He laughed and said, "Oh, but television is more important than food!"* (p.36)

Health

Regarding health, Jeffrey Sachs argues that the problem is that the poor lack money to visit a doctor and lack medical facilities close to where they live, which causes small health problems to become big health problems. Money and access are certainly significant challenges but Banerjee and Duflo show that they are not the full story:

> *"Some of these technologies are so cheap that everyone, even the very poor, should be able to afford them. Breast-feeding, for example, costs nothing at all. And yet fewer than 40 percent of the world's infants are breast-fed exclusively for six months. …A bottle of Chlorine costs $0.18 US PPP and lasts a month. This can reduce diarrhea in children by up to 48 percent…Yet only 10 percent of the population actually uses bleach to treat their water…Demand is similarly low for bed nets."* (pp.48-49)

Education

Education is another social sector that has been examined in depth to investigate whether people are in a poverty trap or not. The findings of the authors are similar to those of the health sector. Investing huge amounts of money into education by building schools, hiring teachers and providing textbooks and other materials does not solve the problems in education. In their own words,

> *"(…) [b]uilding schools and hiring teachers are useless if there is no strong underlying demand for education; conversely, if there is real demand for skill, a demand for education will naturally emerge and supply will follow."* (p.72)

Institutions

The last issue that the authors stress is that the institutional environment shapes the beliefs of poor people and hence shapes the decisions regarding food consumption, health care and education. Their argument is that although there may be bad institutions which cause poor people to be poor, careful understanding of the motivations and the constraints of everyone can lead to better designed policies and institutions.

Conclusion

In general, the authors do not say that there are no poverty traps. They agree that there may be traps. Moreover, they do not say that no aid should be given to the poor as suggested by Easterly. The authors argue that both may be right. The problem is that both Sachs and Easterly are oversimplifying the problems in developing world. In their own words,

> *"The message of this book, however, goes well beyond poverty traps. As we will see, ideology, ignorance and inertia-the three is-on the part of the expert, the aid worker, or the local policy maker, often explain why policies fail and why aid does not have the effect it should."*(p.16)

I like the way the authors write. They support their arguments with data sets, and they base their policy implications on solid empirical evidence. As the title of the book suggests, they force readers to rethink poverty problems. From this perspective, it goes far beyond Sachs-Easterly debate and provides a third dimension of the problem by focusing on the decisions of households on food consumption, health and education. They not only draw a sketch of the problem but also offer policy alternatives that may be effective in solving them. Their arguments are also supported by true stories and anecdotes of people they surveyed. In my view, some photographs

of poor people's lives might have been useful and illustrative in visualizing their lives for readers. The website of the book (www.pooreconomics.com) contains many pictures. It would be a good idea to also include them in the book.

References

William Easterly, *The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done so much Ill and So Little Good*, Oxford University Press, 2007.

Jeffrey Sachs, *The End of Poverty: Economic Possibilities of Our Time*, Penguin Press, 2005.

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