Poor Economics by Esther Duflo and Abhijit Banerjee

According to Michael Modimba, a Kenyan farmer, "When we have money, they don't have fertilizer. When they have fertilizer, we don't have money (194). Michael's problem is explored in Abhijit V. Banerjee and Esther Duflo's book, Poor Economics: A radical rethinking of the way to fight global poverty. The title's double meaning perfectly captures Michael's problem. First, this is a book about the economic life of the poor. Secondly, the economy described functions quite poorly. The poor are paying high prices for everything from food to healthcare to credit. They frequently have to make tough choices without adequate access to information. Compare those conditions to the western economy where not only are incomes higher, but the "right" decisions - such as chlorinated water piped into your home or automatic deductions to your savings account - are the default. The result, "For the poor, every year feels like being in the middle of a colossal financial crisis" (138).

To accompany this book, I've been auditing an EdX Course called "The Challenges of Global Poverty." The course is co-taught by both authors and the main reading is Poor Economics. During the 15-week course, students watch lectures by both authors at MIT covering Poverty Traps & Experiments, Food, Health, Education, Family, Risk and Insurance, Credit, Savings and Entrepreneurship. Lectures are divided into 10 minute segments followed by a couple of multiple choice questions so you can make sure you're following the arguments. I've especially enjoyed the additional reading links to blog articles and interviews with economists quoted in the book. Poor Economics was written a few years ago and this course makes it more relevant. (You can find the course work at EdX.org, course number 14.73x, registration is free to audit the course.)

Both the book and course begin with a description of the poor's economy and how the poor make careful decisions based upon their perceived realities and priorities. Their decisions might not however be the ones that westerners think are best for them. (For example, the fact that some poor choose entertainment over nutrition.) One excellent example Duflo delves into is the problem of early pregnancy and school dropout. When girls don't have enough money for uniforms or school fees it is possible to turn to an older, wealthier man who can pay for those expenses in exchange for sex. However, if the girl ends up pregnant, she will probably have to drop out of school. What is perhaps not taken into account is the idea that for a girl who is unable to pay for a uniform, becoming pregnant by somebody with the means to take care of her and her baby is an acceptable risk, perhaps even a good outcome (115). This is something I witnessed firsthand in Cameroon. It was especially upsetting to me when the older man was in fact a teacher at the girl's school. It is frustrating and terrible that turning to a "sugar daddy" is perceived to be – or in fact might be – their best choice.

Beyond the harsh realities of the life of the poor, Duflo and Banerjee also describe an economy which is functioning poorly. The poor have developed many adaptations for coping with their poverty, but it is often these very strategies that then block them from advancing. For example, the poor tend to engage in temporary migration of some family members to access work in cities while still maintaining village ties. Unfortunately this practice will never build the skills or relationship with a steady employer that would lead to promotion or advancement to a better paid job. In addition, planning for all these contingencies and constantly worrying about your financial situation creates stress and depression. Stress makes it harder to focus, causes less productivity and interferes with making strong long-term decisions (139).

The authors' research finds a large percentage of households with at least one member of the family owning their own business; however entrepreneurship is not a common aspiration of the poor. What they really want is for their children to land government jobs – such as teachers (226). Duflo recounts a very interesting anecdote about the correlation between Mexican maquiladoras (manufacturing centers) located in a mother's village, and strongly increased nutrition of her children. The additional income the mother earned at the maquiladoras was not enough to explain the substantial increase in the children's nutrition. Instead she proposes that "Perhaps the sense of control over the future that people get from knowing there will be an income coming in every month – and not just the income itself – is what allows these women to focus on building their own careers and those of their children" (229). A predictable, dependable income separates the poor from the middle class and alleviates the stress that was so additionally detrimental.

The unfortunate reality is that most villages don't have maquiladoras where women can access work for a reliable paycheck. While they might prefer a steady income, people end up as entrepreneurs by default. Even if the absolute income earned by a small entrepreneur is minimal, profits used to send children to school hold out the hope of a generational shift to those promised government jobs through education. I wonder, when people hope that their children will become government workers, do they hope that they will be the teachers and nurses who show up and do their jobs, thereby bringing health and education to their villages? Or do they envision their children ascending to the elite corrupt club where they can collect their salary and bestow favors on their network?

Duflo and Banerjee articulate their argument somewhere between the total aid ideology of Jeffery Sachs and the free market modal of William Easterly. They view microcredit as an innovation which allowed the market to develop (270). But when the market is not there for solutions to emerge on their own, they argue that the government may need to create the correct conditions or provide a service that nobody else is willing to provide, such as loan guarantees for SMEs. They also think that some interventions are simply the most cost effective when distributed for free, such as malaria nets, because they not only protect the person sleeping under the net but reduce the transmission of the disease and therefore bring tremendous value to a community. Duflo advocates the development of a robust toolkit – one that allows the free market to develop solutions and encourages the government to provide services that are not naturally emerging.

Duflo and Banerjee argue that previous poverty alleviation interventions have been blocked by the 3 I's: ideology, ignorance and inertia. Poorly implemented programs have had poor results. She advocates careful research to identify the poverty traps that exist and thoughtful strategies for addressing them (272). Sometimes their solution is providing education – a more impactful response to early pregnancy was moving beyond the routine sex-education "ABC" mantra (Abstinence, be faithful, condom) to bringing to light the risk that an older man is more likely to be HIV positive and therefore a risky sexual partner.

I would caution against her assertion that all problems can be boiled down to the right randomized control trial and the proper ultra-specific intervention. RCTs – such as the iron fortified fish sauce trial in India which Duflo discusses in her lecture cost an enormous amount of money to properly administer. Is there any guarantee that the results are accurate or that the findings will be applicable in different communities or different countries? Could that money have been put to better use, perhaps through microfinance or SME investment, or even in an unconditional cash transfer?

While most of this summary has focused on what is poor about poor economies, I want to share my favorite anecdote from the book because it points out what is rich about poor economies. Duflo and Banerjee describe a situation in Bangladesh involving neighboring Muslim and Hindu families. One family falls on hard times and steals some small items, such as fruit from their neighbor's yard. The neighbor replies, "'If I were in her position, I would probably steal, too. When little things disappear, I try not to get angry. I think 'The person who took this is hungrier than me'" (146). The village entity has a remarkable capacity to understand each other's needs and accept them; the poor would be reluctant to sever ties with that support system in the hopes of a salaried job in the city.

Positive, yet more difficult to measurable interventions happen in locally based organizations such as villages, religious groups and women's groups. In those situations the fact that the hand-up in happening from within the community, not outside of it, builds a more confident and empowered group. I see that group / village being the place where the next generation leaders who actually want to lead, teachers who actually want to teach and health providers who provide real access to health would come from. It is important to focus poverty alleviation interventions around supporting and improving existing behaviors, networks and institutions.