Poor Economics – A Radical Rethinking of the Way to Fight Global Poverty, by Abhijit V. Banerjee and Esther Duflo

Review by: JP Kloninger

A very interesting and relevant book written by two accomplished and highly educated MIT economists and co-founders of the Abdul Latif Jameel Poverty Action Lab (J-PAL), with the mission of reducing poverty by ensuring that policy is based on scientific evidence.

While clearly well-researched and with a definite academic, near textbook-like bent, this book remains accessible to the layperson and only sparingly uses a few simple graphs to illustrate important concepts such as that of the “S-shaped curve” plotted on an x-axis representing current income, and a y-axis representing future income. They use this curve to pictorially represent the “poverty trap”, a condition (and position along the S-curve) in which income in the future is lower than income today for a person, illustrating a theoretically irreversible position of poverty.

Poor Economics couples the theoretical models presented with plenty of real-world examples. They explain some seemingly paradoxical behaviors that keep the poor in a state of poverty, for example by presenting the case of Kenyan farmers who, despite full knowledge that usage of fertilizer for their crops will increase yields and subsequently revenues at a faster rate than costs, still abstain from purchasing fertilizer season after season: This occurs because they do not purchase fertilizer right after the harvest, when they have more cash available than usual. When the critical time for fertilizing comes around during the planting season, they have spent most of their cash on other goods and services, and so they remain in a poverty trap.

Another interesting study and successful project mentioned in this book occurred in Rajasthan, India, where immunization rates were very low -- in the order of 6% -- despite their being offered for free by the government. Two changes in the program caused large increases in the vaccination rate: It surpassed 18% with the deployment of mobile units that travelled to residents’ home areas, and further it reached 38% when a free bag of lentils was offered along with the vaccination.

The book is persuasive in highlighting that too often the effectiveness of efforts to alleviate poverty is not measured, and when it is measured it is not done appropriately. One case study that underscores the value of measuring a project's impact accurately and thoroughly, is that of a de-worming medicine distribution effort in Kenya in 1998. The findings were essentially that children treated with such medicine earn in the order of 20% more as young adults, compared to those who do not get treatment. Results such as these support one of the authors' main messages – that poverty alleviation is most effectively and quickly achieved by utilizing a variety of methods (that have been tested and measured to ensure their success) simultaneously, as opposed to taking a single-method treatment approach. Of course, an indispensable tool in this multi-faceted approach is microfinance, though here again Mr. Banerjee and Ms. Duflo reinforce that even microfinance is not a sole, isolated "silver bullet" for the eradication of poverty.