

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



Review by: Morgan Peretti

Written by two MIT professors, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* provides insight into the lives of people living in poverty and why, despite our good intentions of delimitating it, poverty still remains a prevalent issue.

Using randomized samples, Abhijit V. Banerjee and Esther Duflo use scientific evidence to support or debunk theories of poverty alleviation. For example, why in the Udaipur District of India there are many inexpensive and accessible public health centers, yet only 1/4 of people use them, deferring instead to more expensive private facilities with less qualified staff or *bhopas*, traditional healers. Or why those living in poverty choose to use their money on curative measures instead of less expensive preventative ones.

Based on their research they believe that a big part of the problem is that the public-run health system is poorly operated, with absenteeism and lack of care. Another piece of the puzzle is often time misinformed beliefs and theories of civilians about healthcare and healing. Finally, that preventative care doesn't cure a current ailment and thus lowers the correlation between preventative care and good health. For example, if many children are immunized, then even a child who is not runs a low risk of contracting the disease. Therefore, the link between being immunized or not is difficult to see.

I really appreciated gaining insight on things I had never considered, such as why people living in poverty sometimes only send one child to school instead of all of their children. Banerjee and Duflo argue that there is an investment value. For example, in Madagascar parents believed that each year of primary education increases their children's income by 6 percent, each year of junior high education by 12 percent and each year of secondary education by 15 percent. While in reality, it has been shown that each year of education to an increase in earning is much more proportional; essentially, every year of school is beneficial. However, due to their skewed belief system, parents tend to invest all of their money in one child so that at least one makes it all the way through secondary education.

In terms of microfinance, Banerjee and Duflo show that while it is a great tool for poverty alleviation, it is not a silver bullet solution, which in my opinion, is true. The key message of the book is that it takes many tools: health, savings, education and microfinance to really make an impact in terms of lifting people out of poverty.

For someone who has had little real-world experience, it was a nice window into the world of the decisions that people make as well as the things that push them to make decisions be it politics, beliefs or education. When working on ways to alleviate poverty, Duflo and Banerjee strongly recommend running randomized trials so that we can make the best, most educated decisions possible for the highest possible impact.