



Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty

Abhijit V. Banerjee , Esther Duflo

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Winner of the 2011 *Financial Times*/Goldman Sachs Best Business Book of the Year Award

Billions of government dollars, and thousands of charitable organizations and NGOs, are dedicated to helping the world's poor. But much of their work is based on assumptions that are untested generalizations at best, harmful misperceptions at worst.

Abhijit Banerjee and Esther Duflo have pioneered the use of randomized control trials in development economics. Work based on these principles, supervised by the Poverty Action Lab, is being carried out in dozens of countries. Drawing on this and their 15 years of research from Chile to India, Kenya to Indonesia, they have identified wholly new aspects of the behavior of poor people, their needs, and the way that aid or financial investment can affect their lives. Their work defies certain presumptions: that microfinance is a cure-all, that schooling equals learning, that poverty at the level of 99 cents a day is just a more extreme version of the experience any of us have when our income falls uncomfortably low.

This important book illuminates how the poor live, and offers all of us an opportunity to think of a world beyond poverty.

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Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty Details

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Ed says

No this is not about how useless economics had become under the hegemony of the Chicago School of Free Market Fundamentalism. This is about the economics of being poor. And refreshingly instead of focusing on the theories of poverty and the decision making of the poor, it is based on large scale, many country research asking those on less than a \$1 a day how they make decisions on how they spend their money, what food to eat, what health care to seek, what education to try to get their children. And not only asking them but also studying what they actually do and the institutional and situational structures that keep them poor. Above all it uncovers just how rational seemingly counter productive behavior is. And I think the book has massive implications for studying poverty in richer countries using the same methodology. It has some interesting solutions but it tends to see incremental, experimental, see if it works approaches and not the grand plans of its just down to Grameen Banks whatever. Read it if you give a shit about the poor.

Iman Nazari says

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Galina says

Full of individual stories about the way the poor cope with their life. I normally classify such books as "sad". Not this one. The book is offering something that I haven't seen in many other books that are dealing with poverty. It is exploring first the left extreme of the spectrum that focuses on collectivism, then the right that is focused on the individualism, and finally tries to put itself somewhere in between. Each side is backed by examples of its supporters. The main heroes of the book are, not surprisingly, on the left Jeffrey Sachs and on the right William Easterly. Despite this, it has to be acknowledged that Banjeree and Duflo did a really good job when it comes to criticizing Easterly and Sachs' views. However, they conclude that when it comes to helping the poor "details matter" and state that most economists that are dealing with poverty are too general and not specific enough with their recipes for sustaining the development in poor countries. In the same time they do little to come up with concrete suggestions as to what can be done and provide only vague recommendations making it harder for me to see where is this "radical rethinking" that the title of the book is so concerned with.

Francis Kessy says

This Book is generally about how the poor are living in developing countries. The Book is a result of a research that was done in 18 developing countries. This Books shows how the people who are living under one dollar are struggling to eliminate poverty. It depicts why majority of poor people do not succeed in entrepreneurship and why the poor don't see entrepreneurship as something their children should aspire to.

There is also a question on why the poor can not save and the role of Microfinance in supporting the poor. The Book is also rich of the debate of the role of foreign aid in the development of poor countries (Jeffrey Sach against William Easterly and Dambisa Moyo).

Andy says

Disappointing. I was very eager to read about rigorous studies that determine what works for fighting poverty. But the authors somehow kept getting off track from this desperately important concept. I still think the work of the Poverty Action Lab is very interesting, but this just not an exciting book about a "radical rethinking of the way to fight global poverty."

The big five lessons from the authors are:

1. The poor lack information (so tell them the truth artfully)
2. The poor lack control and day-to-day life is more difficult for them (so make good behaviors as easy as possible)
3. The poor get poorer: free market institutions like banks don't work well for people with no money (so make necessary things and opportunities cheap or free)
4. Poor countries are not doomed (so do things that are proven to work)
5. Expectations can be self-fulfilling (so start positive feedback loops)

This doesn't sound new to me. This sounds like basic public health.

The book delivers some valuable information about very specific questions like whether it's effective to give away bed nets to prevent malaria. The answer is yes. But even this message is muddled with much back and forth about political theory and academic hedging.

Much of the book is about economic theories and debates between the left and right. A lot of it is anecdotal. Much of what is data-based comes from their "18-country data set" but all those 18 countries are poor. This violates the basic logic of epidemiological studies or randomized trials (RCTs), i.e. a 2X2 table with +/- input and +/- outcome. None of these countries has the relevant outcome of Rich. It is hard to learn from a data set like this what makes countries Rich vs. Poor. For that, it is much more worthwhile to read the works of Ha-Joon Chang, who writes about how South Korea went from starving mess to high-tech powerhouse.

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The phrase "purchasing power parity" is repeated every time a dollar amount is converted from another currency. This is insanely irritating. That sort of thing can be said once at the beginning of the book. Such a high degree of precision in language is unnecessary or even misleading, because often these dollar amounts are referring to GIGO calculations.

Divya Sornaraja says

A wonderful book: renders clear understanding on the ground reality of well-intended policies for the welfare of the economically challenged. Reading this book helps one realise the complexity and the gravity of the poverty problem.

Most topics explains how one can't throw money or random large scale policies as a silver bullet solution. It all boils down to grooming the poverty-stricken and help them understand their rights, power, potential and option of tools to pick and fight.

A must read to the compassionate and the welfare-driven. Although they covered most of the MFI stories, I was hoping to find the tales of Bandhan Bank, etc. Turns out after this book(2011) they did visit Bandhan Bank in 2013. So, may be they'd write about it in their next book? Also cover the influence of Mobile phones and technology here? Some economists suggest that incentivising access to mobile and internet has improved economic activity and banking on a grand scale. Would love this team's opinion on that.

May be JPAL would cover them in the future? Following their work after this book.

James Van says

I thought I was going to love this book, but I didn't really get much out of it.

It was a summary of "some aid is good aid" which I already believe, so I guess the persuasion wasn't attractive to me. The details, though, were mostly things I'd already heard or read. I think watching Esther Duflo's TED talk might give away most of the information and excitement of this book.

If you're wondering why not everyone agrees with "The End of Poverty" then maybe this book would impress you. Or if you're still super excited about microlending.

Maybe I'm just jaded enough such that I'd rather hear more about the cases where aid seems to be surprisingly helpful, rather than another takedown of aid fads of the past 10 years.

Heather says

I mentioned this book on my blog here, <http://livingeden.blogspot.com/2011/1/...>, and now I finally read it!

I'll admit I was a little disappointed that the book wasn't as detailed as her lecture on the actual experiments the Poverty Action Lab has been involved in. There was much more on larger picture topics and brief summaries of experiments and how they contributed to the dialogue on how to address that particular topic within development circles.

That said, it was still a fascinating read and I felt like it's been the best thing I've read to help me catch a vision of what life is like for the international poor- those living on less than \$.99 per day. (If you want to shed some light on what life is like for the poor in America, I'd suggest Nickle and Dimed by Barbara Ehrenreich or Promises I Can Keep: Why Poor Women Put Motherhood Before Marriage by Kathryn Edin and Maria Kefalas.)

Here's the thing that just drives me crazy when I read about/think about the poor: the little inconveniences and set backs they face. I mean, the little things that can ruin MY day, like not being able to get in to see the doctor that day, or a fee I wasn't expecting, or a price hike on my favorite yogurt, are the kinds of things that determine whether or not the poor get to EAT that day, or whether they'll be able to keep their business open. And those inconveniences are in addition to all the work the poor have to do to make the right choices for their welfare that we take for granted. For instance, they have to chlorinate their own water- every time they

want to drink it or cook with it- if you forget, you can get water-borne diseases which can give you diarrhea which kills millions of children every year. They have to make an effort to buy iodized salt. They can't eat fortified cereals every morning, so getting adequate micronutrients is a chore. There's no social welfare program (like social security) to back you up, and banks are essentially inaccessible to the poor. When they can manage to save money, they have to use their (now very limited) supply of self-discipline to not spend it. It's so unfair that it makes my insides wriggle.

However, this book was full of relatively easy, simple, and inexpensive ways to ameliorate those inconveniences. Like putting cheap chlorine dispensers next to the public water source, or subsidizing iodized and iron rich salt, or simple information campaigns with usable information ("Sex with older men is more likely to give you HIV" decreased the number of high school girls who had sex, got pregnant, dropped out of school, and contracted HIV compared with the control group.) Deworming children, at the cost of about \$1.50 per child per year, increased their average yearly wage by the 10's of percents.

Banarjee and Duflo propose focusing on these small forms of assistance and little nudges towards making the right decision rather than trying to find some large-scale magic bullet to eradicate poverty. Let's get this generation a little healthier and a little more educated, and get some simple policies in place and then we'll be a little step higher for the next generation. I found it hard to disagree. They often mention Jeffrey Sachs and his book "The End of Poverty" (which is currently on my bookshelf) as an opposing view. I'm curious to see what Sachs has to say.

Also, here's the word on microcredit, according to Banarjee and Duflo. It's great for giving small loans to the poor to run small businesses. However, many of these businesses fail because so many of their neighbors go into the same business and there's not enough demand. Microcredit loans do not encourage risk-taking (and bigger businesses mean bigger risks) since most loans have to start to be repaid only a week after taking out the loan, and the other debtors in your lending group don't want you to do anything to jeopardize their ability to make a payment. Microcredit loans aren't usually practical for educational purposes (like a tuition payment) since you may or may not have the money to start paying it back a week later. In studies they did, they found microcredit users purchased more consumer goods, but didn't spend much more on education or health. Essentially, they say, microcredit loans are a way for the poor to ensure they have a job, which is no small thing, and is a useful service, but it's not a cure-all for poverty.

Cait • A Page with a View says

Still one of the better books I've read on economics, international development, sociology, and political science put together. It actually manages to approach everything in a relatively unbiased way & covers how multiple viewpoints would address a situation. The findings of what's happening in each situation are laid out as more of a question as to how to proceed instead of getting lost in utopian plans.

Plus it's NOT BORING.

Too many people who disappear into the world of academia start talking like a pretentious textbook (which is understandable, but still sounds like they're just regurgitating phrases). So this book is something anyone could pick up and not only understand, but ENJOY. It's an entertaining read!

linhtalinhtinh says

A wonderful read. Instead of trying to find a universal, one-time solutions or principles/formulas like other lame books, this one delivers valuable lessons about working from the bottom up, with specific cases. Very informative and challenging material, yet it could have been better if the book can expand its examples' scope.

Ben Thurley says

Banerjee and Duflo have written a great book that aims to see poverty as a “set of concrete problems that, once properly identified and understood, can be solved one at a time.” Using the best economic and observational evidence (often taken from randomised trials) they build a case for what actually works in helping overcome poverty, taking up the fight against what they argue are the biggest barriers – ignorance, ideology and inertia.

It is thoughtful and rigorous, though possibly slightly too technocratic at times. Occasionally I thought they needed a little more sociologist than economist in them (for example when considering the way people internalise and conform to social expectations) to toughen up their analysis, but over all this is a very welcome addition to development literature.

They draw 5 broad conclusions about poverty and ways to address it:

- 1) The poor often lack critical pieces of information and believe things that are not true.
- 2) The poor bear responsibility for too many aspects of their lives. “The richer you are, the more the “right” decisions are made for you.
- 3) Some markets are missing for the poor, or the poor face unfavourable prices for critical goods.
- 4) Most program failures are not inevitable, but the result of a flaw, and one or more of ignorance, ideology and inertia.
- 5) Expectations of what people can and cannot do often end up turning into self-fulfilling prophecies.

Building on 2) above, their take-down of the self-congratulation of the wealthy and concomitant stigmatisation of poor people is outstanding:

Our real advantage comes from many things that we take as given. We live in houses where clean water gets piped in – we do not need to remember to add Chlorin to the water supply every morning. The sewage goes away on its own – we do not actually know how. We can (mostly) trust our doctors to do the best they can and can trust the public health system to figure out what we should and should not do. We have no choice but to get our children immunized – public schools will not take them if they aren't – and even if we somehow manage to fail to do it, our children will probably be safe because everyone else is immunized. Our health insurers reward us for joining the gym, because they are concerned that we will not do it otherwise. And perhaps most important, we do not have to worry where our next meal will come from. In other words, we rarely need to draw upon our limited endowment of self-control and decisiveness, while the poor are constantly being required to do so. (68)

They bring their analysis down to specific recommendations about concrete programs that will make a

difference in the lives of poor people, such as improving the nutritional yields of foods that people like to eat, increasing access to immunisation, giving away bednets and giving cash transfers (conditional or otherwise).

It's a great read, skewering inappropriate poverty diagnoses and poorly-designed interventions, but offering powerful examples of hope and transformation.

I read it in the same fortnight as *Getting Better* by Charles Kenney earlier this year and it really works as a great micro-economic companion piece to his macro-economic take on global development and the fight against poverty.

Paul, says

I really enjoyed Banerjee and Duflo's book! They have interacted with most of the major current opinions on the big issues in development thinking: Sachs, Easterly, Collier, etc. But their focus is less on the "right" aka perfect way to set up and improve the big institutions, and more on what is actually provably working and not working in the field and why.

In their own words, "The positions that most rich-country experts take on issues related to development aid or poverty tend to be colored by their specific worldviews even when there seem to be, as with the price of the bed nets, concrete questions that should have precise answers. To caricature ever so slightly, on the left of the political spectrum, Jeff Sachs (along with the UN, the World Health Organization, and a good part of the aid establishment) wants to spend more on aid, and generally believes that things (fertilizer, bed nets, computers in school, and so on) should be given away and that poor people should be enticed to do what we (or Sachs, or the UN) think is good for them: For example, children should be given meals at school to encourage their parents to send them to school regularly. On the right, Easterly, along with Moyo, the American Enterprise Institute, and many others, oppose aid, not only because it corrupts governments but also because at a more basic level, they believe that we should respect people's freedom—if they don't want something, there is no point in forcing it upon them: If children do not want to go to school it must be because there is no point in getting educated." (p.9)

There are a few very important concepts. One is the concept of a poverty trap, which is mentioned by several development authors, but clarified here in a helpful way.

"There will be a poverty trap whenever the scope for growing income or wealth at a very fast rate is limited for those who have too little to invest, but expands dramatically for those who can invest a bit more. On the other hand, if the potential for fast growth is high among the poor, and then tapers off as one gets richer, there is no poverty trap."

In other words, a poverty trap is a situation where a little bit of input to get people "over the hump" or out of the trap, has an incredible output and solves the problem. But if there is just a potential for fast growth that gets less as people get richer, this is not a trap, it is merely "low-hanging fruit".

The other key concept is the randomized, controlled trial. Long a staple of medical research, Banerjee and Duflo are advocating taking this painstaking method as a way of actually verifying the results of our development work. This empirical verification is notoriously difficult to do, but the RCT methodology seems to be sound. It is producing answers that are surprising, obvious, depressing, and encouraging, all at the same time. They have stepped into the lives of the poor, and asked them why they do things. These is a major break from deciding what SHOULD happen and what poor people SHOULD do philosophically.

Unsurprisingly, Banerjee and Duflo find out that a mixture of the different philosophies (top-down and bottom-up) tends to work best. Because poor people are people. They are good at the same things rich people are good at, and they are bad at the same things rich people are bad at. That's why rich people and poor people both eat too much junk food. The difference is that in richer countries, our wealth and institutions protect us from many of the consequences of our human failings. Great read.

Let's cover some of the material.

On Food - The data shows that even folks living on less than a dollar a day spend only half of that money on food. Further, when they receive extra money, they increase their expenditures on tasty foods rather than nutritious foods. (Side note: Banerjee and Duflo's understanding of nutrition is quite flawed)

"The poor often resist the wonderful plans we think up for them because they do not share our faith that those plans work, or work as well as we claim. This is one of the running themes in this book. Another explanation for their eating habits is that other things are more important in the lives of the poor than food."

"Generally, it is clear that things that make life less boring are a priority for the poor. This may be a television, or a little bit of something special to eat—or just a cup of sugary tea."

"As we saw in India, the poor do not eat any more or any better when their income goes up; there are too many other pressures and desires competing with food. In contrast, the social returns of directly investing in children and pregnant mother nutrition are tremendous. This can be done by giving away fortified foods to pregnant mothers and parents of small children, by treating children for worms in preschool or at school, by providing them with meals rich in micronutrients, or even by giving parents incentives to consume nutritional supplements.

...

Developing ways to pack foods that people like to eat with additional nutrients, and coming up with new strains of nutritious and tasty crops that can be grown in a wider range of environments, need to become priorities for food technology, on an equal footing with raising productivity.

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Their conclusion: Food is NOT a poverty trap, but there are some great returns to be had by simple low cost solutions like providing free salt fortified with iodine, iron supplements, and other micronutrients.

On Health

The primary problem is not the adequacy or expense of the solutions, it is the poor who are unwilling or unable to use them. Examples being chlorine to purify water, bed nets, etc. In addition, the poor like most people, tend to spend their money on expensive cures rather than cheap prevention.

"By contrast, it is not natural to attribute causal force to inaction: If a person with the flu goes to the doctor, and the doctor does nothing, and the patient then feels better, the patient will correctly infer that it was not the doctor who was responsible for the cure. And rather than thanking the doctor for his forbearance, the patient will be tempted to think that it was lucky that everything worked out this time but that a different doctor should be seen for future problems. This reaction creates a natural tendency to overmedicate in a private, unregulated market. This is compounded by the fact that, in many cases, the prescriber and the provider are the same person, either because people turn to their pharmacists for medical advice, or because private doctors also stock and sell medicine."

"Our natural inclination is to postpone small costs, so that they are borne not by our today self but by our tomorrow self instead. This is an idea that we will see again in future chapters. Poor parents may even be fully convinced of the benefits of immunization—but these benefits will accrue sometime in the future, while the cost is incurred today. It makes sense, from today's perspective, to wait for tomorrow. Unfortunately, when tomorrow becomes today, the same logic applies. Likewise, we may want to postpone the purchase of a bed net or a bottle of Chlorin until later, because we have better use for the money right now (there is _____

someone frying delicious conch fritters across the street, say). It is easy to see how this could explain why a small cost discourages the use of a life-saving device, or why small incentives encourage it. The 2 pounds of dal works because it is something that the mother receives today, which compensates her for the cost she bears for getting her child immunized (the couple of hours spent bringing her child to the camp or the low fever that the shot sometimes causes). If this explanation is correct, it suggests a new rationale for mandating specific preventive health behaviors or for providing financial incentives that go beyond the traditional economic argument we have already suggested, which is that it makes sense for society to subsidize or enforce behaviors that have benefits for others. Fines or incentives can push individuals to take some action that they themselves consider desirable but perpetually postpone taking. More generally, time inconsistency is a strong argument for making it as easy as possible for people to do the “right” thing, while, perhaps, leaving them the freedom to opt out. In their best-selling book *Nudge: Improving Decisions About Health, Wealth, and Happiness*, Richard Thaler and Cass Sunstein, an economist and a law scholar from the University of Chicago, recommend a number of interventions to do just this."

This is a solid argument for the intervention of the government into private affairs and an abrogation of perfect freedom. People are not good at doing the right thing for the future Is it patriarchal/matriarchal ... yes? But is it helpful and necessary? It seems to be, at least in countries that are experiencing incredible poverty.

And this point is key: we have a limited amount of self-control. The less often we have to use it to make good decisions for the future, the better off the society as a whole will be.

"Our real advantage comes from the many things that we take as given. We live in houses where clean water gets piped in—we do not need to remember to add Chlorin to the water supply every morning. The sewage goes away on its own—we do not actually know how. We can (mostly) trust our doctors to do the best they can and can trust the public health system to figure out what we should and should not do. We have no choice but to get our children immunized—public schools will not take them if they aren't—and even if we somehow manage to fail to do it, our children will probably be safe because everyone else is immunized. Our health insurers reward us for joining the gym, because they are concerned that we will not do it otherwise. And perhaps most important, most of us do not have to worry where our next meal will come from. In other words, we rarely need to draw upon our limited endowment of self-control and decisiveness, while the poor are constantly being required to do so."

On Education

Banerjee and Duflo state problem well. Parents bear the costs now in terms of money, students bear the costs now in terms of effort, and both are rewarded far, far in the future.

"Misperception can be critical. In reality, there should not be an education-based poverty trap: Education is valuable at every level. But the fact that parents believe that the benefits of education are S-shaped leads them to behave as if there were a poverty trap, and thereby inadvertently to create one."

"At the broader, societal level, this pattern of beliefs and behavior means that most school systems are both unfair and wasteful. The children of the rich go to schools that not only teach more and teach better, but where they are treated with compassion and helped to reach their true potential. The poor end up in schools that make it very clear quite early that they are not wanted unless they show some exceptional gifts, and they are in effect expected to suffer in silence until they drop out. This creates a huge waste of talent. Among all those people who drop out somewhere between primary school and college and those who never start school, many, perhaps most, are the victims of some misjudgment somewhere: Parents who give up too soon, teachers who never tried to teach them, the students' own diffidence. Some of these people almost surely had the potential to be professors of economics or captains of industry. Instead they became daily laborers or shopkeepers, or if they were lucky, they made it to some minor clerical position."

B & D set up the goals of education as twofold: give everyone a basic set of skills and identify talent.

What are the solutions?

"A first factor is a focus on basic skills, and a commitment to the idea that every child can master them as long as she, and her teacher, expends enough effort on it. This is the fundamental principle behind the Pratham program, but it is also an attitude that is encapsulated by the "no excuse" charter schools in the United States.³⁷ These schools, such as the Knowledge Is Power Program (KIPP) schools, the Harlem Children's Zone, and others, mainly cater to students from poor families (particularly black children), with a curriculum that focuses on the solid acquisition of basic skills and continuous measurements of what children actually know."

On Family Size

There is no evidence to show that large families are bad for their members. Which makes top-down family planning a poor choice (and also unlikely to work anyway)

"They can have the number of children they really want, and if it turns out that none of them are willing or able to take care of them, there is always the public fallback. The most effective population policy might therefore be to make it unnecessary to have so many children (in particular, so many male children). Effective social safety nets (such as health insurance or old age pensions) or even the kind of financial development that enables people to profitably save for retirement could lead to a substantial reduction in fertility and perhaps also less discrimination against girls"

The second part of the book is on institutions.

It recognizes that the poor face incredible amounts of risk, which reduces their ability to think clearly (because of the amount of stress) and their ability to cope with disaster. The poor are ingenious in their diversification to reduce their risks.

"Another way the poor limit risk is by being very conservative in the way they manage their farms or their businesses. For example, they may know that a new and more productive variety of their main crop is available but choose not to adopt it. One advantage of sticking to the traditional technology is that farmers don't need to buy new seeds—they just save enough seed from last season's crop to replant—whereas the new seeds often cost a significant amount of money. Even if the new seeds repay the investment many times over when things go well, there is always a small chance that the crop will fail (say, because the rains don't arrive) and the farmer will lose the extra investment he has made in new seed. The family is also used in creative ways to spread risk. Farming households in India use marriage as a way to diversify the "risk portfolio" of their extended families. When a woman moves to her in-laws' village after marriage, this creates a link between the household she came from and the household she married into, and the two families are able to call on each other when in trouble."

B & D see a clear role for government intervention here as well.

"For these reasons, micro insurance may not become the next billion-client market opportunity: There seem to be deep reasons that most people don't yet feel very comfortable with the kinds of insurance products that the market is willing to offer. On the other hand, the poor clearly bear unacceptable levels of risk. There is thus a clear role for government action. This does not mean the government needs to substitute for a private insurance market, but for a real market to have a chance to emerge, the government will probably need to step in. Private companies could continue to sell exactly the kinds of insurance they are currently willing to sell (catastrophic care with a strict cap, indexed weather insurance, and so forth). But for the time being, the government should pay a part of insurance premiums for the poor. There is already evidence that this could work: In Ghana, when weather insurance was offered to farmers with a large subsidy on the premium, almost all farmers to whom it was offered took it up."

Poor people, like the rest of us, hate spending money on insurance that only pays when something goes terribly wrong. They want a regular return on investment. but the only way to give that is to make insurance too expensive for poor people. Thus: government intervention.

On Loans

The poor pay incredible interest premiums. This makes micro-finance seem a godsend, and it is to a certain extent. but the fact of the matter is that not all people are entrepreneurs with the skills and desire to expand a business enough to move out of poverty, just like in the developed world. Therefore, micro-finance will help people who do have t those skills, which is great. But it won't help everyone, which is okay too. Micro-finance is just one tool in the development toolkit.

An interesting conclusion is that micro-finance also works against entrepreneurship in that it is set up to make people invest as safely as possible.

"The rigidity and specificity of the standard microcredit model mean, for one thing, that since group members are responsible for each other, women who don't enjoy poking into other people's business don't want to join. Group members may be reluctant to include those they don't know well in their groups, which must discriminate against newcomers. Joint liability works against those who want to take risks: As a group member you always want all other group members to play it as safe as possible.

...

One way to summarize all these results is to observe that, in many ways, the focus on "zero default" that characterizes most MFIs is too stringent for many potential borrowers. In particular, there is a clear tension between the spirit of microcredit and true entrepreneurship, which is usually associated with taking risks and, no doubt, occasionally failing. It has been argued, for example, that the American model, where bankruptcy is (or at least was) relatively easy and does not carry much of a stigma (in contrast with the European model, in particular), has a lot to do with the vitality of its entrepreneurial culture. By contrast, the MFI rules are set up not to tolerate any failure."

However this is a necessary part of micro-finance

"Opening the door to defaults, even as a way to encourage necessary risk taking, may lead to an unraveling of the social contract that allows them to keep repayment rates high and interest rates relatively low. The necessary focus on repayment discipline implies that microfinance is not the natural or best way to finance entrepreneurs who want to go beyond micro-enterprises. For each successful entrepreneur in the Silicon Valley or elsewhere, many have had to fail. The microfinance model, as we saw, is simply not well designed to put large sums of money in the hands of people who might fail. This is not an accident, nor is this due to some shortcoming in the microcredit vision. It is the necessary by-product of the rules that have allowed microcredit to lend to a large number of poor people at low interest rates.

"

On Saving

The central problem with saving is that it requires self-control. And though there are ways around these self-control problems (like social savings groups), they require an INITIAL act of self-control too.

"This effect is reinforced by the fact that a lot of the goods that the poor might really look forward to having, such as a refrigerator or bicycle or admission to a better school for their child, are relatively expensive, with the result that when they have a little bit of money in hand, the temptation goods are in an excellent position to stake their claim (You'll never really save enough for that refrigerator, the voice in your ear insists. Have a cup of tea instead . . .).The result is a vicious circle: Saving is less attractive for the poor, because for them the goal tends to be very far away, and they know that there will be lots of temptations along the way. But of

course, if they do not save they remain poor.

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INTERESTING: "Everywhere we have asked, the most common dream of the poor is that their children become government workers ... The poor don't see becoming an entrepreneur as something to aspire to. The emphasis on government jobs suggests a de"

Ronald Barba says

Poor Economics doesn't simply offer a unilateral view of how to fight global poverty; rather, this book offers views from both sides of the foreign aid debate (e.g. Sachs v. Easterly) and provides examples of different organizations that have dealt with attacking poverty on both small and large scales.

There are five key takeaways from Poor Economics, with regard to any localized campaigns attempting to improve the lives of the poor:

- 1) Individuals/communities inherently believe that outside organizations/companies claiming to help their economic/health statuses do not make true claims. Info campaigns must educate the poor on critical facts/information, and this information must come from a legitimate & reliable source (i.e. the press) AND must be attractive (e.g. presented in a TV drama).
 - 2) The poor bear responsibility for most/all aspects of their lives. Unlike individuals in the First World or people in the middle- and upper-classes, the poor do not have direct access to proper banking or credit institutions, government aid, etc. Certain institutional/Institutional changes must be made to give the poor better access to these resources (e.g. ease access to banks or offer savings accounts as default options).
 - 3) There are good and legitimate reasons that some markets are missing for the poor or face unfavorable prices in certain markets. This provides the opportunity for technology or institutional organizations to develop a market (such as the case for microcredit lending). Local and national governments need to create conditions to allow such markets to emerge, of course.
 - 4) It should not be assumed that poor countries are destined to fail because they are or have been poor, or that it's because of a long-running history with failure. The failure can be solved through an overhaul of public policy, greater monitoring of workers and politicians, and greater education & involvement of the people themselves within this public sphere.
 - 5) Expectations matter. If we expect people to fail, then they will fail based on the low expectations expected of them and consequently low expectations they expect for themselves. In order to create changes in the lives of the poor, expectations must be changed.
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Vipassana says

How do you get people from rural Udaipur to use the free vaccination service for their children? You give them a bunch of lentils each time. It seems a silly way to go about getting people to vaccinate their kids but the beauty of the solution is that it identifies the problem rather than saying the poor are idiots. The truth is, they distrust their governments, don't understand the benefits of the program and so just don't see the point of trudging across town to vaccinate their children.

This book is full of small revelatory experiments called Randomized Control Trials (RCTs) and how they can be used better in combating poverty and its many offshoots. Written in a very easy to understand manner, it's an excellent way to get acquainted with the world of developmental economics.

Greg Stoll says

Poor Economics is about the world's poor (living on the equivalent of 99 cents a day, not including housing) and how best to help them. There are basically two broad schools of thought on how to help: for example, in education one group (the "supply wallahs") says we just need to get kids into schools with good teachers, and the rest will take care of itself. (i.e. ensuring the supply of education will solve the problem) The other group (the "demand wallahs") says there's no point in doing this if the parents don't believe there's value in education, and it's a waste of money (and possibly screws up the free market) to spend aid dollars on it.

It should come as no surprise that people generally are in one group or the other based on ideology. This book was written by the cofounders of the Poverty Action Lab, which conducts randomized control trials to actually figure out what ways of helping the poor are the most effective.

One of the big questions is whether a "poverty trap" exists with respect to a particular issue. A "poverty trap" means that if you're stuck at a very low income level, there's no good way to increase your income without getting an infusion of cash. "Supply wallahs" generally believe that poverty traps exist, and giving aid will help people get out of the trap and support themselves, while "demand wallahs" generally believe that poverty traps don't exist and aid will be wasted.

Now, to randomly call out parts I found interesting: (yay for Kindle highlighting!)

- A nutrition poverty trap would be if people were hungry enough to make them weak and unable to work, and thus spiral down into making less and less income. This does not seem to be the case for most adults, as when the poor get more money to spend on food they tend to spend it on better-tasting calories instead of more calories, thus indicating that they weren't seriously short on calories in the first place. However, getting proper nutrients to children is a problem, and giving away food with lots of nutrients does make children develop better. Each year of improved nutrition for a child increases their average income as an adult.
- Malaria is a serious problem in a lot of poor countries, and one simple preventative measure is to sleep under a bed net to keep out mosquitos. Poor people seem to realize this is a generally good idea, but bed nets are rather expensive (equivalent of \$10) and the effects are hard to see immediately. (it's hard to quantify not getting sick in the short term) Poor people, like all of us, are prone to procrastination in these sorts of circumstances, and so giving away bed nets does help to break the cycle. In fact, after being given a free bed net, they're more likely to buy one at full price when given the opportunity later. More developed societies have lots of ways to force us to do things that are good for us but that we might put off otherwise - for example, schooling is mandatory for children, and vaccination is mandatory to enroll in school; our drinking water is chlorinated for us; and our sewage is piped away. This lessens our cognitive load so we don't constantly have to make important decisions and fight the urge to procrastinate. Research has shown that we have a limited supply of willpower that gets drained when we have to have decisions, and it's no surprise it's harder to make good ones when you have to make them all the time.
- In Brazil, the state doesn't promote family planning, but when telenovelas (soap operas) with female characters with small families (none or one child) first became available in an area, the number of births would drop dramatically.
- Microfinance does help people make money, but the effects weren't as radical as many had hoped.
- A study in Uganda showed that only 13 percent of money allocated by the government for schools actually was received by the schools. (presumably the rest was lost to corruption, etc.) This, of course, is depressing and is why some think most foreign aid is useless without good governmental institutions. However, these

results were reported in Uganda and there was an uproar, and when the study was repeated 5 years later, the number was up to 80 percent, showing that just having people care about corruption can be powerful in itself.

There's more good stuff in the book, but I'm all summarized out. You can read more about it at the book's website pooreconomics.com.

Hadrian says

Well this is a welcome breath of fresh air into the dreary little world of development economics.

The contemporary debate over the questions of aid and poverty reduction have been restricted to two equally excitable schools - Jeffrey Sachs's 'clinical economics', where he asserts that massive increases of aid are necessary across a broad spectrum of problems, and William Easterly's focus on locally-driven reforms. Easterly has a vicious criticism of Sachs, mocking its paternalistic tone and similarity to past colonial projects. To quote one of his more memorable phrases, he calls highly visible public aid projects the 'white band's burden', after Bono's publicity efforts in the early 2000s for Sudan. Another minor offshoot of this is the work of Dambisa Moyo, who argues that almost all aid should be cut off, except for purely technical advice on the restructuring of financial markets. Although both have some interesting proposals in their respective books, the public debate often devolves into meaningless polemic and abstract criticism.

What separates Banerjee from these new approaches is (gasp!) a compilation of statistical analyses on the effectiveness of aid, and bringing up new methods of behavioral economics in attempts to find the more irrational trends present in human behavior. To list a very simplified example - the very poor are often stressed by financial constraints. This leads to impulse spending, or attempts to make back payments on outstanding debts.

Another major target of criticism is the recent push for microfinance campaigns. Although they have been useful in some circumstances and have had a positive impact in the formation of local businesses, many of the loans go towards the payment of debts or for other needs which do not include entrepreneurship. Even worse, some of these microfinance institutions charge high interest rates and further worsen the borrower's financial situation.

Even though this book is rather disorganized at times, it has a great deal of compassion for the difficulties of the very poorest in the world, and the staggering difficulty in trying to alleviate their position. It is very difficult to offer any 'big solutions' to these contextual problems, and even the general guidelines and studies that the authors use could easily be misinterpreted for other situations. (It is important to note that very many of these studies take place in India, a very large place already. The scale of these conclusions is also problematic - Could studies which take place in one village work in another?)

But let's be fair. This is an attempt to present complex economic research to a willing public. For that, the authors deserve credit.

Sumirti Singaravel says

(Note to Self to include this when writing a full blown review for this book).

I recently read an article* published in NY Times on how women economists are NOT recognized for their work when they co-author it with another a male economist. The article goes on to explain how the bias is deep entrenched in the field of economics. Recently, I was having a conversation with a friend, working in the field of finance, on the Indian economy and more particularly about the drought which has hit most states (check the second link**), and I made a reference to this book on how Indian institutions are going weak. He instantly recognized the book and told me the name of the author as Abhijit. When I told him that the book has another author named Esther, he just quipped almost spontaneously that perhaps the co-author would have just helped the other author in finishing up the main work, and perhaps that's why her name almost never shows up. Even good reads shows the author only as Abhijit V. Banerjee (if you find it changed, have it done by me).

This has nothing to do with this book, but says a lot about the field of finance and economics.

If people can make cliches and sweeping assumptions on the work of an author just on the basis of their *gender*, just consider how grave and ignorant their assumptions would be on the topic of poverty, which most of us just read, see and empathize about, but never have underwent it ourselves, or have studied about it from the ground. This books helps one to break all such cliches, rhetoric and generalizations, and provides an honest account and solutions to what goes on in the ground reality.

Very Highly Recommended!

* NY Times article - (<http://www.nytimes.com/2016/01/10/ups...>)

** About the drought on India - <http://indianexpress.com/article/opin...>

Van says

Cu?n sách ch? ra nh?ng khía c?nh thi?t y?u trong cu?c s?ng c?a ng??i nghèo và cách h? ??a ra l?a ch?n c?a mình, t? ?ó, cho chúng ta cái nhìn toàn di?n v? cách th?c ti?p c?n v?n ?? thoát nghèo. Nhi?u l?m t??ng t? tr??c ??n gi? v? cái nghèo ??u b? ?ánh ?? qua nh?ng nghiên c?u và phân tích c?a hai tác gi?. Sách không ch? di?n gi?i v?n ?? d??i góc nhìn s? li?u c?a m?t nhà kinh t?, mà còn th? hi?n cái nghèo v?i tâm lý h?t s?c ??i th??ng c?a m?t con ng??i c?ng nh? qua nh?ng t?p quán xã h?i ?ã ?n sâu bám r?.

Monika says

I recommend everyone reads this book if only for the fact that it makes you think of "the poor" as actual PEOPLE rather than some nebulous and far-off entity.

It highlighted the difficulties that these people face in their lives everyday but also how they can be rash and foolish and unable to make the right decisions in life. This may be because they are ignorant and stubborn and idle procrastinators, partly because of their unfortunate situation and partly because they are human. Like all humans they are fallible and shoot themselves in the feet, but importantly the repercussions are much more far reaching for them than for us.

Conversely, some of them are innovative and intelligent enough to be the next Bill Gates if only they were

given the correct opportunity and circumstance. It is sobering to think these thoughts but unfortunately there is no one-size-fits-all solution to end poverty in the world. Furthermore there are many different and opposing solutions, for example when considering whether to give out cash or assets for free (the prime example used is bed nets) or whether to encourage the poor to invest in them. In the villages where both approaches are tried (in Asia, Sub-Saharan Africa, and South America) there are consequences of both that surprised me, not to mention the charities and organisations that carried them out!

Perhaps that takeaway message of this book is that small changes should be implemented in the margins of troubled societies. In these places are so many individual problems tangled up in a huge web, which are to do with food, nutrition, education, health, infrastructure, corruption, businesses, enthusiasm, work rate, geography, technology, governance, distribution of money: the list goes on; but by addressing one individually even a few people may be brought out of poverty today, and hopefully some sort of virtuous circle will follow.

EDIT: I am not an economist, nor have I ever learnt economics, but the first half of this book was thoroughly enjoyable (the graphs were particularly fun). However, the beginning of the second half delved into the world of entrepreneurship, policies, finance, macro- and micro-economics and I started to fade. A month of no further progressed followed before a surge in enthusiasm before New Years. If you are like me and you lose interest POWER THROUGH. It's worth it.

Paola says

This is one of the best "pop-economics" books I have read in a very long time. Such books typically follow the same recipe: top academic seeks recognition outside the profession and writes *the* book propounding *the* theory, enlisting in support loads of evidence consistent with the theory, and curiously brushing off/forgetting to mention most of any evidence even vaguely incompatible with the main argument of the book. The book tends to go on forever repeating the same score in all possible tonalities, and in spite of most attempt to either humour or literary effects is generally rather boring to read. Length seems to be necessary to establish the authors credential with the layman.

This book is very different: Duflo and Banerjee do not try and shovel down the readers' throats the ultimate theory of poverty. They present the evidence, explain how to think about it, and show where a remedy works and where the same approach to the same problem fails miserably. But in all this, they suggest to the reader how to go about thinking of poverty, of its causes and of its consequences and how to approach the evaluation of policies to alleviate it. Yes, the double handed economists approach will be unsatisfactory for anyone looking for the silver bullet, but as we all know in most situation in life silver bullets do not exist, and ther is no one universal solution to problems that have plagued us for centuries.

Above all, this book is interesting and engaging, a very good read, recommended to anyone with even a passing interest in poverty.
