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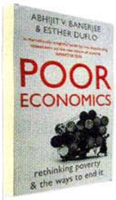
ONE SIZE DOES NOT FIT ALL

Policymakers must shed notions of poor being stupid. Their choices are perfectly rational.



POOR ECONOMICS: RETHINKING POVERTY AND THE WAYS TO END IT
by ABHIJIT V. BANERJEE and ESTHER DUFLO
Random House
Price: Rs 449
Pages: 320

BETWEEN THE COVERS
There are two extreme ways of looking at poverty. The first is based on notions that there is a poverty trap. At the other extreme are arguments that policies shouldn't work against markets and incentives, unless those markets fail to exit.

By Bibek Debroy

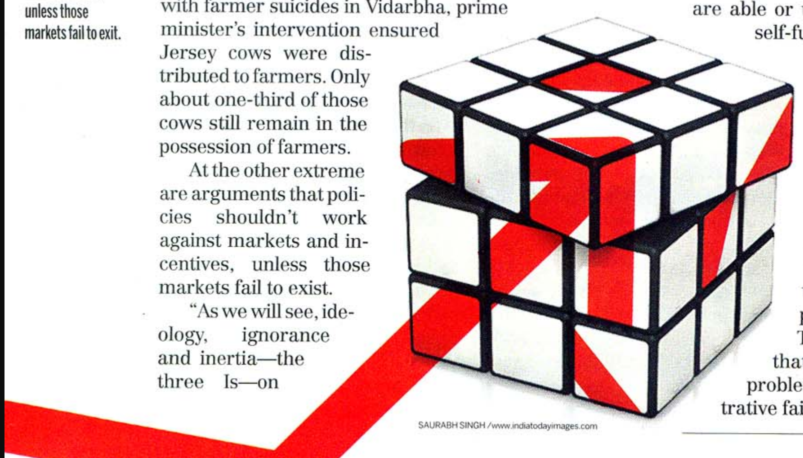
Many years ago, ICICI Foundation tried to introduce cattle insurance. Policyholders falsely claimed cattle had died. As a check against false claims, ICICI insisted ears of dead cows would have to be shown. The result was the development of a market for cow's ears, regardless of whether the animal was dead or alive. This anecdote is recounted in this book, which is a refreshingly different way of looking at the problem of global poverty, with several Indian examples thrown in.

Both Abhijit Banerjee and Esther Duflo are known names and have written extensively, individually and together, through Poverty Action Lab, (MIT), and outside it, and have pioneered use of randomised control trials. A lot of data (and anecdotes) cited in this book are without using this particular statistical technique and there is also a companion website (www.pooreconomics.com). To state it simply, there are two extreme ways of looking at the problem of poverty. The first is paternalistic, based on notions that there is a poverty trap, which justifies intervention from above (through public expenditure, subsidies, aid), so that the poor can get out of this trap. "The field of anti-poverty policy is littered with the detritus of instant miracles that proved less than miraculous." To take a recent Indian example not cited in this book, confronted with farmer suicides in Vidarbha, prime minister's intervention ensured Jersey cows were distributed to farmers. Only about one-third of those cows still remain in the possession of farmers.

At the other extreme are arguments that policies shouldn't work against markets and incentives, unless those markets fail to exist.

"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." The authors' sympathies are towards market-based approaches, but not in a simplistic sense. Instead, a compelling argument is advanced that poor people do make rational choices and it is necessary to understand them, instead of sticking to pre-conceived notions about poor people being stupid. Why would a man in Morocco who doesn't have enough to eat buy a television? Why is it so hard for children in poor areas to learn even when they attend school? Why do the poorest people in Maharashtra spend five per cent of their total budget on sugar? Does having lots of children actually make you poorer? The instances straddle hunger, health, education, financial products and entrepreneurship.

A unified field theory for addressing poverty doesn't emerge. Given the premise that would have been unreasonable to expect. However, there are five key lessons. First, the poor often lack critical pieces of information and believe things that are not true. Second, the poor bear responsibility for too many aspects of their lives (this can be interpreted as missing public goods). Third, there are good reasons that some markets are missing for the poor, or that the poor face unfavourable prices in them (such as negative real interest rates). Fourth, poor countries are not doomed to failure (Policies are wrongly designed). Fifth, expectations about what people are able or unable to do often end up as self-fulfilling prophecies. This doesn't sound like a big bang theory and it isn't. Indeed, the book's argument is against lazy and simple formulae. The 10 chapters (and a foreword and a conclusion aptly titled "In Place of a Sweeping Conclusion") make one think and consider the evidence, essential for those who are formulating policies for inclusive growth. Though the authors don't use that expression, India's poverty problem is primarily about administrative failure in delivery.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