Michael Roberts Blog

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Poverty prize

Abhijit Banerjee, Esther Duflo and Michael Kremer have been jointly awarded the Nobel Prize in economics (or to be more exact, the Sveriges Riksbank Prize in memory of Alfred Nobel) for their experimental approach to alleviating global poverty. Banerjee and Duflo — a couple both at work and in their private life — are professors at the Massachusetts Institute of Technology, while Kremer is a professor at Harvard University.

Duflo, 46, becomes only the second woman to be awarded an economics Nobel, after the US economist Elinor Ostrom who won the prize in 2009 for her work on human co-operation. She is also the youngest-ever laureate in economics: the previous record was held by Kenneth Arrow, who was 51 when he was awarded the prize in 1972.

The three, who often collaborate in their research, were awarded the prize —— for developing new, experimental research methods to identify the most effective policy interventions to fight poverty through field studies. *"Our goal is to make sure the fight against poverty is based on scientific evidence,"* Duflo told a press conference. *"Often the poor get reduced to caricatures and even those [who] try to help them do not understand the deep roots of what is making them poor . . . We try to address problems as scientifically as possible."*

The Nobel committee said the trio's approach had "completely reshaped" development economics, with a clear impact on poverty and great potential to further improve the lives of the worst-off around the world. An example cited by the committee was their work on the "learning crisis", which found that providing textbooks would not by itself help children learn more in school, without better and more tailored teaching.

In the Laureates' field experiments, more textbooks and free school meals had small effects, while targeted help for weak students significantly improved educational outcomes.

Kremer first ran field studies to explore these issues in Kenya in the mid-1990s, while Mr Banerjee and Ms Duflo later conducted similar trials in two Indian cities, Mumbai and Vadodara. Such field experiments have now become the standard method for development economists, the Nobel Committee said. Their approach mirrors those traditionally used in clinical trials for new drugs; but the Nobel committee noted that as well as testing whether a certain intervention worked, they also investigated why it worked, using contract theory and behavioural economics to understand the driving forces behind people's decisions.

In some ways, having the prize awarded to development economists who study the issues of poverty or to be more exact, the problems of the poor and why they stay poor, is good news. It is a move away from awarding the economics prize to neoclassical mainstream economists, usually from the University of Chicago, who have never done any empirical work in their lives, let alone experimental work. Similarly, it was good news, in a way, when Angus Deaton won the prize for his empirical work on global poverty. Now the winners are economists who have 'got their hands dirty' in field work globally to see the issues facing the poor at first hand.

Alan Kremer started the use of randomized trials to evaluate interventions in the social sciences. He created the well-known economic theory regarding skill complementarities called Kremer's O-Ring Theory of Economic Development. This argues that workers with similar skills who work together will deliver higher productivity even if the technology is the same. Perhaps a trivial and simple result, but apparently not obvious before.

Kremer also earlier proposed one of the most convincing explanations for the phenomenon of population growth prior to the early 1970s. He showed that contrary to Malthus, high population spurs technological change and thus accelerates economic growth. From this work, Kremer has advanced various market incentives to encourage the development of vaccines for use in developing countries.

Better service availability and stronger incentives improved vaccination rates.
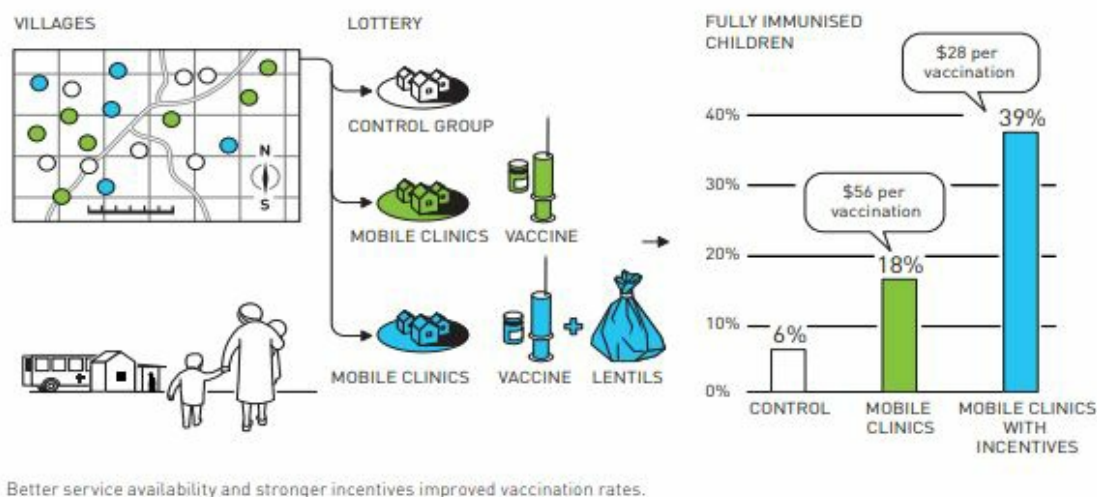
Duflo is a French economist and her research has focused on microeconomic issues in developing countries, including household behaviour, education, access to finance, health, and policy evaluation. In 2003, she co-founded Poverty Action Lab at MIT, which has since conducted over 200 empirical development experiments and train development practitioners in running randomized controlled trials.

Her partner in crime, Banerjee, co-authored with Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* (2011). Banerjee and Duflo claim that their book lays out a middle ground between *"purely market-based solutions"* to global poverty, versus *"grand development plans."* They advocate the use of observation, using *"rigorous randomized controlled testing"* on five continents, and most importantly by actually listening to what the poor have to say. From this empirical approach, the authors believe that the best strategies for eradicating poverty can emerge. They believe that small changes can have big effects.

But again, you could say their conclusions are trivial e.g. "*income per se matters for education decisions: Jamal will get less education than John because his parents are poorer, even if the income gains from education are the same for both".* This finding, they argue, is important, because if parental income plays such a vital role in determining educational investment, rich children will get more education even if they are not particularly talented, and talented poor children may be deprived of an education. Surprise!

Banerjee and Duflo also seem to prefer the charter school model in America. They conclude that "*these schools have been shown, in several studies based on comparing those winners and losers of the admission lotteries, to be extremely effective and successful. A study of charter schools in Boston suggests that expanding fourfold the capacity of charter schools and keeping the current demographic profile of students the same would have the potential to erase up to 40 percent of the citywide gap in math test scores between white and black children."* Many will disagree with that conclusion – see https://progressive.org/public-school-shakedown/charter-schools-have-a-big-problem-and-rebranding-wont-help-greene-190509/ and https://teachingmalinche.com/2018/04/29/whats-wrong-with-charter-schools-the-picture-in-california/.

Duflo, Banerjee and Kremer represent an approach in economics based on evidence and field surveys. That can only be good. But theory must also be relevant and the big picture cannot be replaced by micro studies. Back in 2017, <u>In the Richard Ely ASSA lecture</u>, Esther Duflo reckoned economists should give up on the 'big ideas' and instead just solve problems like plumbers: *"lay the pipes and fix the leaks"*. This ignores whether the plumbing is designed properly in the first place. Far from fixing leaks, economists may be trying to stop a flood with a spoon.

Banerjee and Duflo have a new book out next month, called "Good Economics for Hard Times" <u>Juggernaut Books</u>. The promo says it aims to *"show how economics, when done right, can help us solve the thorniest social and political problems of our day."* That's some claim. The blurb goes on: "*Immigration and inequality, globalization and technological disruption, slowing growth and accelerating climate change–these are sources of great anxiety across the world. The resources to address these challenges are there–what we lack are ideas that will help us jump the wall of disagreement and distrust that divides us."* If that is right and they have the answers to the economic, social and political problems of our day using their experimental research that they have done over the last few decades, then they are certainly worthy winners of the prize.