

Book Reviews

Abhijit Banerjee and Esther Duflo. *Poor Economics: Rethinking Poverty and the Ways to End it.* Gurgaon, India: Random House. 2011. 499 pages. Indian Rupees 279.00

In “Poor Economics”, Abhijit Banerjee and Esther Duflo have put forward an interesting perspective on how to view the issue of poverty and innovative ways for its alleviation. The lessons in the book are rooted in the 15 years of authors’ research in different developing countries across the globe. They advance the debate initiated by Jeffrey Sachs and William Easterly and prudently bring out the way the poor think and behave. Based on randomised controlled trials, Banerjee and Duflo have enriched this compelling piece of work and shed light on the truth of the poverty trap.

The book is divided into two main sections. The first section deals with the private lives of poor and sheds light on the ground realities. This section discusses topics like consumption, health, education and reproduction from the perspective of the poor. It addresses, in detail, questions like why poor people, when they do not have enough to eat, splurge on luxuries like television, DVD players, mobile phones etc. Although the poor do send their kids to schools but it makes no difference to their mental capacity. The authors also show that the poor do not care about medicines but they often indulge in drugs.

The second section talks about institutions and institutional structures. It takes into account the risks that poor people encounter and their saving behaviour, lack of information and market distortions that leads to the failure of small entrepreneurs, and microfinance and its related issues. The book very effectively addresses the rationality behind the decision making process of the poor people. The book argues that poor are the same as the other people living on this planet. Although rich and poor, both share same desires, the difference lies in the resources they own.

“Poor Economics” starts with the discussion about policies. The authors argue that most of the policies are based on different ideologies and they often meet failure due to lack of information and ignorance on the part of implementers. There is a need to understand the choices made by the poor at the micro level rather than exploring the causes of poverty, aptness of democracy and free markets, and effectiveness of foreign aid at macro level. It would be more appropriate to answer small issues rather than dealing with big questions with no concrete solutions in general. It creates confusions among the policy circles when we have “supply wallahs” (Jeffrey Sachs) and “demand wallahs” (William Easterly). Advocates of foreign aid consider foreign aid as a big help that can assist in fighting poverty while the critics consider it as a curse rather than a blessing. To whom should we listen? Sadly, according to the authors, we probably do not have a definitive answer. Rather, it would be more useful to conduct large-scale experiments and analyse the impact of policy interventions. In this way, it might be

possible for us to find out the policies that work and those that do not, and the reasons behind policies' failure. They give the example of a farmer, Kennedy, who was given a sack of fertiliser that increased the productivity of his fields twenty times and yet he did not use the fertiliser during the next plantation. If policies are properly evaluated then even small interventions can make gigantic difference. This book neither advocates nor rejects the foreign aid as a way to fight poverty but evaluates its efficacy in individual contexts.

The book also analyses the ever-important issue of the consumption behaviour and attitude of the poor toward health issues. The authors dig deeper into the puzzling habits of the poor. They examine why the poor ignore free medications available to them and opt for luscious but less nutrient food and spend more on tobacco and alcohol. They argue that perhaps the poor give less value to the health issues and spend lavishly on weddings, funerals and local festivals etc. due to social pressures. They go on to suggest that we should provide such kind of food that is not only good in taste but is also full of essential micronutrients so that poor can enjoy the taste and health in one package. Poor people, by and large, do not pick low hanging fruit and spend a lot on ineffective cures. Scant information, unreliable health service delivery and lack of trust are among those few things that do not allow people to come out of health-based poverty trap. While formulating population control policy it must be considered that it is not the availability of contraception that controls the fertility but social norms, discrimination against girls and economic considerations also play a key role. Due to low quality of education, the poor believe that little future benefits will accrue out of schooling and so they pay little thought to raising the standard.

Health shocks, agriculture shocks due to excess or lack of rain or any other crises push the poor back into poverty trap and they are unable to tackle these risks well in time. In order to avoid risk, they opt for those crops that are less profitable but bear low risk. Banerjee and Duflo are among the proponents of microcredit and consider it as a big hope to eradicate poverty and misery. According to them, it works brilliantly and produces positive results where government efforts have gone in vain. Billions of people do small businesses or work on their small farms because they have no other option. In this situation, microcredit can play enormously important role and keep them out of poverty. It is widely believed that the poor do not save because they do not have anything at hand. But this book shows that poor do save but they do not put their savings in banks and for this reason, microcredit is very important. It is vastly desirable to narrow down the wide gap between the true intension and its implementation. It does not matter how much good policies you are planning for the wellbeing of commons if they are not going to be implemented properly. Here political economy comes into picture that distorts the whole scenario. According to the authors, extractive colonial institutions, low quality governance, corruption, among other things, make the state of affairs more complex.

To conclude, "Poor Economics" comes up with five main messages. First, it shows that it is the lack of information that leads to wrong decisions. Secondly, the poor, in most of the cases, have to take on too many responsibilities for their existence. Thirdly, the absence of markets further places burdens on the shoulders of the innocent people. Fourthly, the book clearly shows that without understanding the ground realities of the poor, governments implement policies that most often encounter failures. Finally, the

book highlights that it all boils down to the expectations regarding what can and what cannot be done. In short, this book provides a new sense that call for a closer look into all these issues.

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