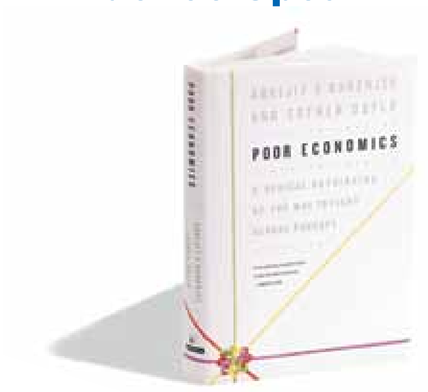
Letting the Evidence Speak



Abhijit Banerjee and Esther Duflo

Poor Economics

A Radical Rethinking of the Way to Fight Global Poverty

Public Affairs, New York, 2011, 336 pp., $26.99 (cloth).

The most significant increase in understanding in development economics in recent years has come from the growth of randomized control trials (RCTs) to learn about the behavior of individuals in poor countries. The intellectual entrepreneurs and founders of RCTs, Abhijit Banerjee and Esther Duflo, have synthesized a large number of results and proceeded to draw inferences for policies designed to lift the poor out of poverty in this eminently readable and important book.

As their name implies, RCTs study the responses of various groups of individuals or firms, controlling for other characteristics that influence behavior, when confronted with a new set of circumstances. For example, researchers in Kenya offered mosquito nets at prices ranging from somewhat subsidized to free, to ascertain how sensitive the use of the protective nets was to price (very sensitive to price but not sensitive to users' income).

Behavior in the areas of public health, teacher school attendance, household saving and borrowing (especially microcredit), setup and expansion of small businesses, children's school enrollment, and much else are reported. In examining these and other issues, Banerjee and Duflo often start with an anecdotal report of the behavior of (or circumstances and issues confronting) a poor individual. They then draw inferences about behavior and report on the results of RCTs, which shed light on poor people's responses to different incentives, and draw conclusions as to the most effective policies for fighting poverty.

The book's analytical framework asks whether emergence from poverty is relatively linear: As people get less poor, are they more able to continue to improve their situation or does something akin to a "poverty trap" call for a "big push" to propel them across a threshold beyond which they can progress on their own? The authors view the results of RCTs as generally supporting the big push approach.

Based on the evidence accumulated through their results and inferences about behavior, Banerjee and Duflo provide a large number of policy prescriptions. For example, regarding the health sector, they conclude that "inexpensive" medical technologies are "low hanging fruit." These include "getting children immunized, deworming drugs, tetanus shots for would-be mothers, provision of vitamin B to fight against blindness, iron pills and iron-fortified flour against anemia."

The book's overall conclusion about health care is worth quoting: "The primary goal of health-care policy in poor countries should be to make it as easy as possible for the poor to obtain preventive health care . . . . Free Chlorin dispensers should be put next to water sources; parents should be rewarded for immunizing their children; children should be given free deworming medicines and nutritional supplements at school and there should be public investment in water and sanitation infrastructure."

Even if their only concern were health care, the authors' wish list is so long that it raises the question of cost. But Banerjee and Duflo have many more policy prescriptions for other aspects of social policy. They point out the high risks to which the poor are subject, and the absence of insurance options for them, and conclude "there is thus a clear role for government action. The government should pay a part of insurance premiums for the poor." The authors also endorse cash transfers to encourage staying in school, regulation of banks to require lending to "priority sectors," universal school enrollment, more infrastructure investment (especially in villages where the poor live), provision of "good jobs" to enable escape from the poverty trap, and much more.

Because good jobs tend to be in cities, the authors call not only for the creation of such jobs (although beyond requiring banks to extend credit to medium-sized firms, they do not say how), but for subsidized migration to urban areas. Given that most places have more migrants than available good jobs, the macroeconomics of this prescription is questionable.

There is no doubt that many of the programs Banerjee and Duflo advocate, if effectively implemented, would be worthwhile. But two major questions, and some minor ones, remain. First, can all these policies be carried out within a stable fiscal/macroeconomic framework? If not, the usual questions about relative rates of return arise and are not adequately addressed. Second, given the failure to date of governments, nongovernmental organizations, and others in these areas, is it possible to hope that the policies they advocate could be carried out without the same problems (most of the benefits going to the wealthy, inability to keep teachers in the classrooms, for example)?

The unaddressed question is how governments could finance these measures in the interim (not to mention tax collection on future enhanced incomes to recover some costs).

Banerjee and Duflo convincingly show that there is much waste in existing programs. But that does not prove that competent doctors can appear overnight or that closing (unattended) medical clinics will free up sufficient resources to finance the authors' recommendations. And, for some recommendations, the problem is even starker: one of the clear needs of poor countries is a better-functioning financial system. Yet the authors would move in the opposite direction, with more credit directed to medium-sized enterprises (to create good jobs) and to microfinance. But even when it comes to recommendations that appear eminently sensible, with limited resources the quantities of each of these public goods to be provided are subject to tough choices.

The second major question is how to implement these policies. The authors are well aware of government failures in current programs designed to help the poor. But despite their worthwhile prescriptions (transparency, more women in decision-making bodies, for example) for directing spending to more effective programs, they acknowledge that progress would be incremental.

In sum, this book is a must-read for everyone concerned about the poor in developing countries and policies to improve their lot. The evidence from RCTs and the critiques of current policies are invaluable. Turning some of their findings into policy by reallocating current resources can certainly yield large benefits, but the desirability of many of their policy conclusions is worth examining (particularly, credit rationing and subsidies for insurance and migration), as are the trade-offs, relative costs, and macroeconomic implications.

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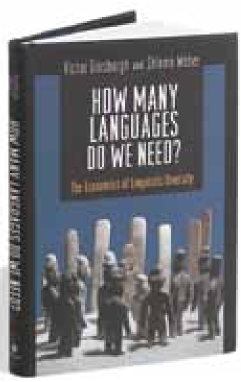
Speaking in Tongues

Victor Ginsburgh and Shlomo Weber

How Many Languages Do We Need?

The Economics of Linguistic Diversity

Princeton University Press, Princeton, New Jersey, 2010, 232 pp., $35 (cloth).



In this scrupulously researched study, Belgian economist Victor Ginsburgh, whose native language is Swahili, and game theorist Shlomo Weber, a Canadian citizen who is a native Russian speaker, assess the costs and benefits of the vast number of languages currently in use across the globe.

It is commonly assumed that a reduction in the number of languages improves efficiency. Although no one knows the exact number of living languages, the figure is astonishingly large—a sensible estimate would be 6,000–7,000. But half the world's population has one out of a mere eleven of these as a first language.

Most developed economies are in countries where a single language predominates; in countries where there is great linguistic diversity there tends also to be much bureaucracy and wastefulness. The nonprofit SIL International, which maintains a database of the world's languages, reports that 278 are currently used in Cameroon; the figures for Chad, Nigeria, and Papua New Guinea are, respectively, 131, 514, and 830. It is easy to see how this kind of linguistic multiplicity might impede economic development—for instance, by hampering geographical and social mobility and by obstructing many citizens' access to key legal services.

Utopian thinkers have long imagined that technology and political planning will one day end civilization's linguistic tension and confusion. Today there is support for the idea of establishing English as the global lingua franca. Indeed, many believe it already is. Yet the dominance of one language leads to the erosion of others—potentially a catastrophe for the world's linguistic and cultural ecosystem. Ginsburgh and Weber quote the playwright Ariel Dorfman, born in Chile but now a U.S. citizen: "The ascendancy of English, like so many phenomena associated with globalization, leaves too many invisible losers, too many people silenced."

Ginsburgh and Weber often write in a highly technical fashion, scrutinizing such matters as cladistic distance, ethnolinguistic fractionalization, and dichotomous disenfranchisement indices. Yet this analysis is presented crisply, and there are plenty of well-chosen snippets from commentators including Mario Vargas Llosa and Amartya Sen. The discussion embraces not only the costs of translation and Joseph Greenberg's classic attempts to quantify diversity, but also the quirks of Finnish private investors and the Eurovision Song Contest.

The book's most thought-provoking section is the last, a case study of linguistic policy within the European Union. It is here that Ginsburgh and Weber engage most clearly with practicalities and come closest to answering their original question: How many languages do we need?

Each year the European Union spends well over a billion euros on translation and interpretation. Staff in these two areas account for a tenth of the European Commission's workforce. As membership in the European Union continues to expand, the costs will increase. Linguistic compromise, when it happens, tends to favor English. But, interestingly, in this environment monoglot native English speakers may be ineffectual, because they fail to recognize the different linguistic needs (such as for fewer colloquialisms and archaic idioms) of those who are not native speakers of English.

Ginsburgh and Weber rightly say that it is hard to maintain a balance between policies that achieve efficiency and policies that respect cultural traditions. They suggest it might be reasonable for the European Union to adopt six working languages—English, French, German, Italian, Spanish, and Polish.

Reform of the European Union's linguistic workings calls for collaboration, which touches on a fundamental issue of the book: the vexed question of what the "we" in the book's title really means. It is a pronoun that implies togetherness. It is an appeal for community. But it evokes widely differing solidarities, bonds, and priorities. In any debate about language (or politics), "we" is hard to come by, as this book makes very clear.

Henry Hitchings
Author of several books, including The Language Wars

Too Adaptable to Fail

Tim Harford deservedly has legions of fans thanks to his columns in the *Financial Times*, his BBC radio show "More or Less," and his previous books. *Adapt* will surely win him more admirers. It is a thoroughly enjoyable guide to the application of models borrowed from biology to the world of business and the economy, with many entertaining examples described with the author's characteristic deftness and style.

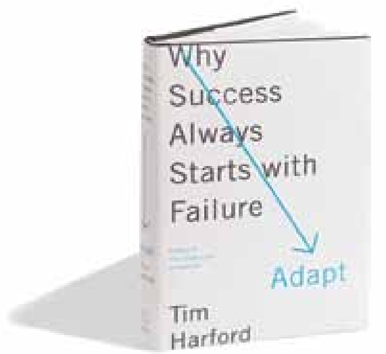
The book's ideas on adaptation draw on evolution through variation and selection and the role of network theory. Formal evolutionary economics models exist, and the idea that business is a struggle for survival makes intuitive sense.

In the case of economics and business, evolution is a metaphor, but it would not surprise me if human social behavior in this area turns out to be tightly linked to the fundamental rules of life. This is an exciting avenue of study for economists.

Harford's contribution is to explain through a wide range of examples how variation, adaptation, and selection work. He emphasizes the importance of allowing small failures to avert the catastrophic failures that can result from centralized decision making. Examples range from the military—the tactics of the U.S. Army in Iraq—to the commercial—space travel businesses in the Mojave Desert and the biotech industry. So, for example, commanders at headquarters lacked the information they needed about conditions on the ground for their tactics in Iraq to succeed, but local commanders could adapt tactics to the specific conditions.

He also discusses the role of experiments in economics, particularly in the development field. Harford advocates an experimental approach, which, he argues, gives researchers detailed information and moreover instills in them the humility to acknowledge what fails and what succeeds.

The key element in all Harford's examples is making use of widely dispersed information—"a complex world is full of knowledge that is localized and fleeting." The failure of central planning due to its inability to master all relevant information, in contrast to the success of markets, is well known. The more complex the environment, the greater the need for decentralized decision making.



Tim Harford

Adapt

Why Success Always Starts with Failure

Farrar, Straus and Giroux, New York, 2011, 320 pp., $27 (cloth).

This lesson needs to be constantly relearned, given the evident preference—of dominant businesses in any market and companies' senior executives—for centralized power. As a former member of the U.K. Competition Commission, I would have liked the author to point out explicitly that the importance of experimentation and small failures is why competition policy matters so much. Experimentation and small failures bring about variation and governance structures that permit dissent.

Harford does temper his enthusiasm for unconstrained innovation by noting that innovation increasingly often requires significant funding and organization. Facebook, famously started in a Harvard dorm room with little capital, is an exception, he argues. More often, inventions leading to new patents require a large research team and much funding, whether the innovation is a new medication or a video game. This makes parallel innovation, with many doomed to fail, too costly, he suggests. There are many circumstances in which that is true, but the examples given in *Adapt* feature highly concentrated industries where the "cost" of innovation, whether it involves regulation or rents, is a barrier to entry benefiting the incumbents. (Another recently published book, *The Master Switch* by Tim Wu, offers some good examples of the lost fruits of "wasteful" parallel innovation when dominant firms elbow out the competition.)

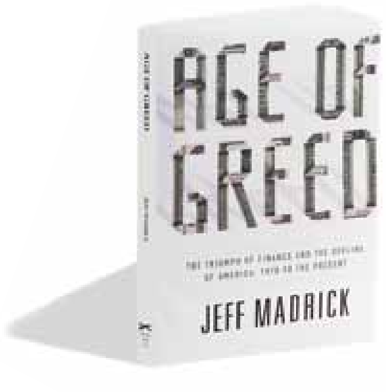
Adapt changes tack in its final section to look at network models and contagion in the context of disasters (nuclear meltdowns, oil rig explosions) and banking. This too is a field where economists are using models applied in the natural sciences—looking at contagion or population dynamics, for example. These models also seem intuitively well suited to explain some economic phenomena, as reflected in the popular terminology of "business ecology." The financial crisis is an obvious candidate for this kind of modeling. The Bank of England's financial stability director, Andrew Haldane, and ecologist Sir Robert May, formerly the U.K. government's chief scientist, have worked together to analyze the systemic frailties of the financial system (see the January 20, 2001, issue of *Nature*).

The final chapter, "Adapting and You," is a letdown. No doubt it was requested by the publisher: this kind of homespun advice supposedly sells books. I would have preferred "Adapting and Public Policy," because the book touches on policy implications only in the context of development experiments. But this is a small complaint.

It is a real gift to be able to bring these novel (to economics) models to light with vivid stories, and Harford has something of the Malcolm Gladwell knack for making the complex seem not only straightforward but inevitable. *Adapt* is a terrific read.

Diane Coyle
Author of The Economics of Enough: How to Run the Economy as if the Future Matters *and head of the consulting firm* *Enlightenment Economics*

Masters of the Universe



Jeff Madrick

Age of Greed

The Triumph of Finance and the Decline of America, 1970 to the Present

Alfred A. Knopf, New York, 2011, 496 pp., $30 (cloth).

Jeff Madrick, one of America's most energetic and entertaining popular economics writers, brings his talents to a series of economic and financial portraits covering the past 40 years. The subjects include Walter Wriston, Milton Friedman, Richard Nixon, Alan Greenspan, Paul Volcker, George Soros, and Angelo Mozilo. The reader will spot a common theme: the irresponsible careening of American thought and practice into an unjustified worship of finance, and the move away from the view that the federal government is our friend. That said, each chapter stands on its own.

The chapter on Milton Friedman interested me most, in part because I am an economist and in part because there is no strong biography of the subject. On the positive side, it is engaging, and Madrick composes a compelling narrative of Friedman's work as a policy entrepreneur. I read it avidly and it met the ultimate reading test: I wished it were longer.

That said, I found numerous points to object to. The chapter is titled "Milton Friedman, Proselytizer," and there is a good deal of (fascinating) information about Friedman's early years as a "fanatically religious" Jew. One is left with a picture of Friedman as a rather clever but irresponsible simplifier and dogmatist. There is not a comparable discussion of Friedman's role in insisting on good empirical work and the testing and falsifiability of economics propositions, his building of the University of Chicago department with first-rate scholars and future Nobel laureates, and the numerous times he changed his mind on economic issues, including on monetary theory and policy. Friedman was much more a scientist and a skeptic than this essay lets on.

There are also particular errors and omissions. The discussion of Friedman's desire to eliminate social programs does not mention that he wanted to replace them with a guaranteed annual income. It is wrong to claim that "the instability of velocity is what finally undid monetarism in the 1980s" when volatile interest rates were a much bigger problem, and in open economies such as Switzerland the exchange rate became the issue (monetary velocity moves in strange ways but it does so slowly). Few economists would agree with Madrick's claim that "Friedman and Schwartz . . . made little advance over what was already known" or that their *Monetary History* had little empirical basis. Contrary to Madrick's view, it is now widely accepted that inflation—or at least ongoing inflation, as Friedman made clear—is always a monetary phenomenon. These aren't mere accidental oversights; they contribute to a systematic downgrading of Friedman's legacy of scholarly depth and impact.

The reader will spot a common theme: the irresponsible careening of American thought and practice into an unjustified worship of finance.

The book does not come to terms with the fact that, during much of this period, the world was in the grip of a statist economic ideology that virtually enslaved some very large countries, such as the USSR and China, and in a milder form almost ruined some others, such as Great Britain and much of the developing world. Many of the figures on tap, especially the earlier ones, cannot be understood outside of that broader context.

The least interesting essays are those about the best known figures. Is there really more to say about Jimmy Carter or Richard Nixon or Alan Greenspan in a few pages? Does it do justice to any of the trio to cram Ted Turner, Sam Walton, and Steve Ross into a single chapter?

The genesis of the book puzzles me. Plenty of the chapters are based entirely on secondary sources, and well-known ones. Why not focus on those figures whom the author interviewed or otherwise researched in an archival manner? At the same time, the book isn't polemic enough to serve as a useful rogues' gallery. There is not enough tying together of themes and trends for this to be a useful text or introduction to the period, and these essays could have been published separately.

To be sure, one can sympathize with Madrick's view that the economic and political ascendancy of finance has been undesirable. But I would have preferred that he start with a few simple facts. When did this happen? (It starts in the early 1980s, by income measures.) Why did it happen and what were the broader, non-personal forces behind that trend? Why did politics embrace finance rather than fearing it? With a simple story in place, the importance of each figure chosen would be clear. As it stands, this is a vividly written book with some interesting bits but no clear sense of purpose.

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