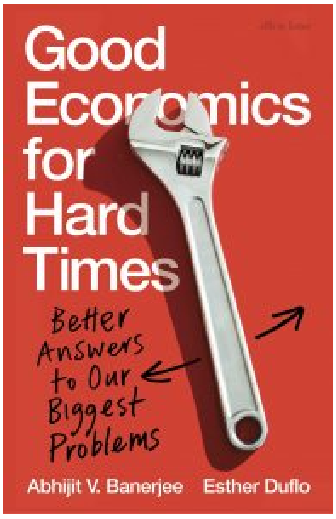
Book Review: Good Economics for Hard Times: Better Answers to Our Biggest Problems by Abhijit V. Banerjee and Esther Duflo

In **Good Economics for Hard Times: Better Answers to Our Biggest Problems***, Nobel-Prize winning economists* **Abhijit V. Banerjee** *and* **Esther Duflo** *carefully lay out evidence to provide a grounded approach to tackling today's most pressing global problems. With a focus on alleviating inequality and poverty, Banerjee and Duflo's book clears a path for more interdisciplinary work centred on improving citizens' wellbeing and protecting human dignity, writes* **Shruti Patel***.*

This review originally appeared on LSE Review of Books. If you would like to contribute to the series, please contact the managing editor of LSE Review of Books, Dr Rosemary Deller, at lsereviewofbooks@lse.ac.uk

You may like to ***watch a video of the authors*** *speaking at an LSE event recorded on 17 June 2020.*

Good Economics for Hard Times: Better Answers to Our Biggest Problems**. Abhijit V. Banerjee and Esther Duflo. Penguin Random House. 2019.**



It's rare for economists to highlight how little is known about which policies and institutions fuel economic growth and prosperity. But in their latest book, *Good Economics for Hard Times*, Nobel Prize-winning economists Esther Duflo and Abhijit V. Banerjee do exactly that. And it's this quality of humility and courage, espoused throughout their writing, that inspires confidence and curiosity in what they hae to say about other, potentially more important, issues.

Each chapter of the book tackles a big question of global relevance – many of which the reader has likely pondered or even debated over the dinner table. Questions like: should people vote for politicians that favour immigration? How might we avert climate Armageddon? Does welfare or cash handouts make people lazy? And what impact will automation have on jobs and welfare? Despite the contentious and divisive nature of these topics, the authors manage to orchestrate a balanced debate, engaging with the entire spectrum of research, evidence and public opinion.

Their approach is to synthesise the results of empirical work on these topics primarily through randomised controlled trials (RCTs) and natural experiments. These are studies in which people are allocated at random to either receive an intervention (usually a product or service) or be part of a control group that receives no intervention at all. The aim is to measure and compare the outcomes of those that did receive the intervention and those that didn't. The findings of these studies are then compared to what is predicted by economic theory, often revealing stark differences. Whilst this would probably not surprise those acquainted with the study of economics, the implied nullification of key economic concepts and theories calls for a marked shift in the way economics is taught, studied and interpreted.

On immigration, for example, the authors show that contrary to the law of supply and demand, the influx of low-skilled workers hasn't really affected local wages in most countries. The chapter on trade more or less debunks a foundational economic model — Ricardo's Law of Comparative Advantage, which describes how countries are better off under free trade. Particularly compelling is the narration of India's response to massive trade liberalisation in the early 1990s. Contrary to the purported uniformly distributed 'gains' from trade, there were sharp variations in the way liberalisation impacted poverty in the country – some benefitted far more than others.

This divergence between actual experience and economic models or theory is explained by 'stickiness' – a concept which theoretical models assume away:

> Economics imagines a world of irrepressible dynamism. People get inspired, change jobs, turn from making machines to making music, quit and wander the world […] Manchester is reborn as Manchester digital, Mumbai turns its mills into upmarket housing and shopping malls, where those who work in finance spend their newly fattened pay-cheques.

However, 'stickiness' suggests that people and processes are slower in adapting to change than we might think or want. Old habits die hard and money can influence some types of behaviours – but not all, not instantly and certainly not for everyone.

The repercussions of 'stickiness` are so profound, the authors argue, that an entirely different approach to economic policy formulation is needed – one that relies on experiments and real data more than on theoretical models and prediction. This is not surprising given that the authors are strong proponents of RCTs as a tool for designing economic and social policies. The other major implication is that the ultimate objective of policies themselves, at least in developed countries, needs to change too. Today, even in the Global North, when one hears of a certain policy recommendation in political and public spheres, it is almost always justified on the grounds of economic growth. This is 'bad economics', write the authors, not least because little is known about what causes growth. 'Good economics', on the other hand, especially in hard and uncertain times, places much greater emphasis on policies that tackle inequality and support resilience.

This attention to equality and justice is also notable in the authors' responses to the other big questions the book addresses. On how to tackle climate change, they write about the inadequacy of clean technology and green growth to solve what is at heart an ethical – not a technical – question: shouldn't rich countries consume fewer luxuries so that citizens in poorer countries can have some of life's essentials? On that basis, they emphasise the role of policy in influencing individual behaviour, habits and norms. Specifically, they call for interventions that marry psychology and economics. A carbon tax, for instance, combined with simpler measures such as better labelling, has proven effective in gently nudging people towards more preferable behaviours and decisions.

The chapter on social welfare, cash transfers and universal basic income delves into the recent history of the US welfare system, explaining how the topic is heavily politicised and showcasing once again the huge contrast between popular 'wisdom', what economic theory predicts and actual experience. The evidence referred to is borne out of the large number of studies looking at the experience of 1 billion people in over 100 countries that have received either conditional or unconditional cash transfers since 2014. The authors write that: 'There is no evidence that cash transfers make people work less.'

Many might find this surprising – why would you work if you did not need the money to survive? In fact, economic theory provides explanations for effects in both directions. However, as the authors highlight, much attention has focused on the possible negative effect on labour supply. It's assumed people will 'spend' any extra income they receive on leisure by working less. Poorly acknowledged is that transfers can increase work by giving households a basic living standard which enables them to be productive workers, and by reducing credit constraints so that businesses can open and grow. By therefore comparing theoretical predictions with real-world experience, the authors illustrate how a fallacy has pervaded media and rhetoric, and they use this to once again make a case for evidence-based policymaking.

On AI and robot-induced fears, we learn that while economists' views on the impact of automation diverge greatly, the real challenge is for governments to put in place policies that help those who are most at risk to adapt. Some answers are provided – certain types of training programmes, for example, but this seems beside the point. Instead, a careful recollection of the history of technological progress, its interplay with politics and the ultimate effects on inequality and poverty is enough to drive the point home.

Filled with personal anecdotes and experiences, the book provides a grounded bird's-eye view of policy debates that are shaping the discourse on today's most pressing global problems. Furthermore, in carefully laying out the evidence and not preaching dramatic solutions, the book imparts an important lesson to anyone engaged in scholarly work: be less strident with your views. Every question has multiple answers. And new findings can easily overturn well-established 'knowns'.

Undoubtedly, though, the authors' biggest contribution stems from a recurrent critique levied throughout the book against the economics profession's obsession with growth. They repeatedly underline the shortcomings of using financial incentives to influence behaviour. Many a time, they illustrate how the line between economics, psychology and communication, as well as the distinction between micro- and macroeconomics, is an unhelpful construct. 'Economics is too important to be left to economists.' In making this argument, Banerjee and Duflo clear a path for more interdisciplinary work centred on improving citizens' wellbeing and protecting human dignity.

Note: This article gives the views of the authors, and not the position of the Impact of Social Science blog, nor of the London School of Economics. Please review our Comments Policy if you have any concerns on posting a comment below.

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