BOOK REVIEW

Abhijit Banerjee and Esther
Duflo:
***Good Economics for Hard
Times***

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R P I R Prasanna

Department of Economics, Rajarata University of Sri Lanka.

Email: prasannarjit@ssh.rjt.ac.lk <https://orcid.org/0000-0002-5132-1272>

This book was written by Abhijit V. Banerjee and Esther Duflo, two professors in Massachusetts Institute of Technology (MIT) and authors of the much popular book titled “Poor Economics: Rethinking Poverty and the Ways to End It”. The two authors are the Nobel Prize winners in Economic Sciences in 2019 and have contributed immensely to poverty alleviation and development economics. The book deals with pressing concerns in modern-day economies - international trade, immigration, artificial intelligence (AI), climate change, growth, social programs, etc. – but argued that still, the Economists have not sufficiently dispensed with the issues in which the demeanour of building public trust. The logical arguments of each section of this masterpiece are derived and nurtured by moving to different branches of economics. Thus, the book furnishes an altered angle in viewing the problem truly and finding solutions.

The first chapter of the book sets out an overview of factual problems in the world and critically questioned the role of both economics and economists in dealing with them for the well-being of people restoring human dignity. The authors’ view on the issues is mainly based on the affirmation of personal values, and probably no one considers very strenuously about the issues themselves. They voiced that this as a wretched situation of putting all/pushing everybody into a hard time. Changes in the economies at a faster rate at country, regional and global levels and new trends have shaped the economic questions than ever and remain unanswered the questions like what is next for them? Specifically, the chapter contours basic questions of economics and economic policy, which are central to the present crisis. These are centric on the topics of boosting growth, exploding inequality everywhere, international trade, migration, and new technologies. The basic questions that the economists should focus on in a hard time are highlighted in the chapter - Is there something that can be done to boost growth? Should the priority be given to the affluent West in boosting growth? What measures should be taken to explode inequality everywhere? Is international trade the problem or the solution? What is the future of

trade? What are the impacts of the rise of AI? Will immigration benefit the natives? The chapter unveils those existing systems that do not provide effective answers to these pressing concerns in the global economic sphere, and thus countries are doing very little to address these concerns. Moreover, the authors argue that this avoidance or poor attention to the key challenges creates a hard time for countries in developing and developed circles. Thus, the role of economists is questioned in case of pressing challenges facing the economies, and thereby trust of the public in economists' expertise in dealing with the challenges is in an uncertain stance.

The second chapter confers on labour migration, and specific focus has been given to disclose the impact of labour migration on host countries' labour markets and their citizens. It revealed no significant change in a fraction of international migration at present compared to 1960 or 1990 figures (% of the world population). The analysis of existing cases in connection with migration provides a thorough view of the nature of migration, specifically, migration from politically disturbing countries and poor countries. The chapter further glosses the specific factors that turn out to be relevant to the primary demand and supply framework in the labour market. It explains that first, how migration shifts the demand curve to the right and create jobs for low-skill workers in the economy. Second, the reason for low-skilled migration pushes up the labour demand curve giving specific focus on the slowdown of process mechanization. Third, the employers' role in reorganizing the production to effective use of native works and create jobs for low-skilled natives, and fourth, the complementary role of low-skilled migrant labour rather than competitive role and how it enables some categories of the labour market – specifically women – to expand their entry chance in the labour market. These causes spell out why immigration does not affect the wages and employment in the host country. Further, the chapter underlines issues regarding the immigrants in job seeking due to lack of prior connections. Specifically, migration could uplift the well-being of the poor in any part of the world. The chapter concludes by emphasizing the need of encouraging migration within and beyond borders offering different incentives and job-connectivity support; however, the migration stimulation policies should not distort the market or do not force the people to migrate.

The third chapter of the book explores the trade with theoretical orthodox, particularly having the Stolper-Samuelson theorem, which states opening up to trade should increase gross national production (GNP) in all countries, and in poor countries, inequality should go down / diminish. Reviewing literature in the existing dialog over the question - does inequality fall in poorer countries when they open up to trade? - Banerjee and Duflo furnish observational evidence on increasing inequality in developing countries during the post-liberalization era. Peculiarly, it is noted the wages of low-skilled workers in labour rich countries in the developing world fell relative to their higher-skilled counterparts. The emergence of China as a giant in international trade, increasing its share of world manufacturing export by 2.3% in 1991 to 18.8% in 2013, and its impacts on the

rest of the world have been reasoned through different displays. The effectiveness of trade openness or liberalization has been hindered by various factors, and the chapter specifically discusses the points – inflexibilities in the labour markets, barriers to the movement of capital and labour within and borders, and increasing cost in marketing in the competition – as restraining factors. The chapter provides new insights into the final gain from trade, mentioning the importance of assessing the sensitiveness of imports to trade cost. It notes, "If they are very sensitive, it is easy to replace what we import with things we produce locally, and it is not very valuable to trade with other countries. If, on the other hand, the value remains unchanged even as the cost changes, it means we like what we buy abroad, and trade increases the welfare a lot". The issue in internal connectivity is noted as the biggest problem in large developing countries to gain from trade. Specifically, the chapter examines how poor internal integration affects to eliminate the gains from trade for the general public or make them losses, and thereby emphasizes the importance of improved internal connectivity to gain the benefits from the international trade. A clustering approach and e-commerce with specific brands emerge would support producers in the developing countries to be competitive in the world economy since that support to improve the production efficiency.

In the fourth chapter, the authors provide a better understanding of how prejudgment emerged from caste, creed, colour, and religion affect public preferences. The chapter provides country-based evidence over how caste-based political systems have changed public choices for their advantage. It is argued the inability of traditional economics to interpret such cases, particularly in enhancing the understanding of what lies behind choices. In dealing with property rights, the chapter points out the logic behind setting aside / retaining a part of resources as common resources. Even though economists believe in a positive role of communities, it is argued collective reactions of the communities which are centric on caste and religious matters could explain the reasons for the slow progress of development matters. Specifically, the authors articulate the increasing caste polarization in voting and how caste-centric culture is associated with corruption, violations of the law of the land, and other social issues, largely taking the evidence from India and race-based discriminatory views using evidence from the US. Specifically, the chapter discusses the issue of statistical discriminations and their effects on different social strata of the countries.

The fourth chapter attempts to answer the problem of slow economic growth reported after 1973 in developed countries. By referring to Robert Gordon numbers, the authors point up that education explains about 14% of the increase in the labour productivity over the period, and capital investment explains 19% of the increase in labour productivity. The review of country-specific cases divulgates a remarkable improvement in the quality of life of people in poor countries. It further discusses the missing part of gross domestic product (GDP) in explaining the quality of life, particularly in the present era. The basic model used in the chapter as a base to explore and explain the growth challenges of the

countries is the Solow model of growth. This model has been used to discuss growth sustainability issues and the issue of improving quality of life, specifically focusing on the quality of life of the average person. The authors explain what happened to the growth path after 1973 – growth would slow down after a phase of past growth that follows dramatic transformation until the economy is back on the balanced growth path; the countries with scarce capital but abundant in labour would achieve faster growth rate as those countries have not reached to balance growth path. Then, the authors elaborate the Robert Lucas's arguments on growth and Paul Romer's contributions. Romer provides two explanations for a slow growth rate of developed countries – “capitalists invest in the pursuit high returns; when and where to returns go down; capital accumulation tends to go down as well, and as capitalists as a class accumulate more and more capital, the productivity of capital become lower because there are not workers to be engaged. But the authors further articulate the role of innovation in the growth path by taking into account Romer's explanations in growth – “.... the government needs to get out of the way of stifling incentives to work hard and invent the new technologies that will make everyone more productive.” In this connection, the suggested policy was the tax cut which encourages innovation in the economies of developed regions and thereby faster the growth rate. The two authors conclude the fourth chapter by culminating the need to focus on the well-being of the poorest to transform the millions of lives rather than focusing on increasing growth from 2% to 2.3% in the rich countries.

In chapter six, growth implications to climate change and implications of climate change to well-being have been focused on. In the very first part of the chapter, by referring to the Intergovernmental Panel on Climate Change (IPCC) reports, Banerjee and Duflo provide scientific evidence over how human activity is responsible for climate change, particularly the release of carbon emissions to the earth. Moreover, the two authors explain the inequality issue in climate change, supporting the contention that a large share of CO₂ emissions is generated by the rich countries, but the highest cost is shared by the poor countries. The literature-based evidence is also provided to disclose the impacts of climate change on agricultural production and productivity, the efficiency of production systems, and the health of workers. The mortality impact of climate change – increasing level of temperature – has been discussed, particularly providing literature evidence over rich countries and poor countries. Specifically, an increasing trend of energy demand in rich countries is explained using technological adaptation to minimize the adverse impacts of climate change. However, to deal with the climate change issue, the authors suggest developing and switching to better technologies to curb the warming without much affecting the lifestyle of people. In the end, the chapter notes that delay in the policy response to reduce CO₂ emissions would worsen the well-being of the people, particularly in developing countries.

In the seventh, Banerjee and Duflo attempt to provide a critical overview on the pressing concern that the economists worry about new technologies, such as AI, robots, and

automation, destroying more jobs than they create. By disclosing the country-level experiences, the two authors articulate the impacts of new technologies on specific sectors of the economies in terms of productivity, employment, and wage levels. Moreover, the chapter questions – “should we try to stop the push towards automation?” In this regard, the perceptions of economists on the matter have been viewed from different / diverse themes – excessive automation, bias in the tax code, increase in industry concentration and monopolies, directions of R&D resources, etc. The exploded inequality during the 1980s to present has been articulated in the chapter viewing policy debates in different regimes, particularly Margaret Thatcher in the UK and Ronald Reagan in the U.S., and economic thoughts of Keynes, Milton Friedman, and Robert Lucas stated that “...top 1% wealth share in the United States rose from 22% in 1980 to 39% in 2014”. The so-called concept of “trickle-down effect” has been discussed, questioning how benefits of growth pass to the bottom strata stating “...growth can be a recipe for social disaster”. Additionally, chapter seven points out the importance of encouraging automation in the job segments of dangerous and dirty. Thus, the need to design an effective social policy to show the societal ability to deal with growth-led inequality issues have been mentioned.

Chapter eight also extends the discussion on inequality, but with an alternative angle keeping government as a centre and finding the answers to the question – how can eroding legitimacy of the state be restored? At the outset of the chapter, Banerjee and Duflo derive the argument that the markets do not always deliver outcomes that are acceptable or even efficient. In the case of tax and spending, the authors deliver various views of economists. It is argued that a high marginal income tax rate to rich categories would result in to decrease the inequality. Next, the chapter answers the question – is government the problem? And why are people so suspicious of the government? It explains how government interventions tend to be ham-handed or corrupt and explore the ways in reducing waste in government which are difficult than it seems. The two authors sketch corruption as the root of the mistrust of government, discuss the viability of adopting transparency measures, explain its possible association with the bureaucratic system, as well as the importance of good governance in building up public trust. Moreover, they argued that the market would not be an alternative to solve the problem. Banerjee and Duflo wind up the eighth chapter by emphasizing the need to redesign social programs for effectiveness and political viability to address the inequality issue.

In chapter nine, the authors deeply explore the social programs and their implications to vulnerable communities in society. They review the Universal Basic Income (UBI), Negative Income Tax (NIT), and Universal Ultra Basic Income (UUBI). At the outset, the chapter derives a logical argument in favour of the unconditional cash transfers stating, “...handing over cash to welfare recipients is the right thing to do; the person knows what best to do with it”. In the case of UBI, it is emphasized the need of lowering the transfer as people got richer, deviating from the universal term and requirement of targeting the specific group – poor. Besides, by arguing on the facts in the U.S., the

chapter discusses the outcomes of the war on poverty – specifically the decline in self-sufficiency. Further, dealing with outcomes of the cash transfer programs, no evidence is provided that cash transfer programs lead to greater spending on tobacco and alcohol but lead to an increase the food expenditure. Importantly, it answers the question – does the cash transfer make people less work? Do unconditional cash transfers lead to a life of dissolution? Banerjee and Duflo too provide some lessons on successful social programs in developed countries, particularly concerning displaced workers in terms of the move across the regions and settling with new jobs. In the essence of the chapter, it would be acknowledged that focus communities are much rational in making choices, and it would be aimed to restore the dignity of the focused communities in designing the social programs.

In winding up the book, the authors clearly conclude the importance of good and bad economics for policymaking. Banerjee and Duflo, the two authors and MIT professors, have developed an evidence-based discourse on pressing development matters facing both developed and developing countries since 1973 – the period of slow growth. Each chapter of the book deals with the specific matter of development, particularly linking to answer the key and aggravating development problems such as slow growth and exploding inequality, and logically provide evidence-based potential solutions. Thus, it is affirmed that Banerjee and Duflo succeeded in diverting the economists' view on pressing development matters raised in the slow-growth period to a new direction, broadening over underpinning causes of the problems beyond the theoretical basis by composing this masterpiece, "Good Economics for Hard Times". Thus, it could mean that the book is useful for the economists who wish to broaden their alternative views on persistent and chronic development concerns and for the policymakers and development practitioners to broaden their understanding in further addressing the local, regional and global levels development issues.