Reserve Bank of India Occasional Papers
Vol. 41, No. 1: 2020

Good Economics for Hard Times by Abhijit V. Banerjee & Esther Duflo, 402 pp., Juggernaut Books (2019), ₹699

The views of economists often differ from the views of the public on many core issues leading to a trust deficit towards economists. Abhijit V. Banerjee and Esther Duflo, in their book *Good Economics for Hard Times*, address this issue by stressing the need for economists to understand the true nature of the facts at hand, to acknowledge the assumptions made to interpret those facts, to be modest about the path of deductive reasoning followed, to refine the 'conclusions' through repeated trials with data and finally, to respect the existence of opposing views. The authors are winners of the 2019 Nobel Memorial Prize in Economics. Abhijit Banerjee is Ford Foundation International Professor of Economics and Esther Duflo is Abdul Latif Jameel Professor of Poverty Alleviation and Development Economics at the Massachusetts Institute of Technology, United States. An earlier work of the authors titled *Poor Economics: Rethinking Poverty and the Ways to End It* won the Financial Times and Goldman Sachs Business Book of the Year Award 2011.

In eight core chapters, the book addresses different themes encompassing migration, trade, the nature of preferences and beliefs, economic growth versus quality of life, effects of growth on climate change, labour displacement and inequality, challenges in governance and policymaking and the role of dignity in cash transfer programmes. The debates in the book draw information from different domains of economics – political, sociological, anthropological, experimental, observational, and statistical. What makes the book different from an extensive literature review is its narrative style which takes the form of an intriguing and piquant discourse rather than a stark academic piece. The book gives a strong message that economics as a subject is much more than just a collection of research papers.

Contrary to a widely held political belief on ever-increasing migration, Banerjee and Duflo reveal that the fraction of international migrants among the world's population in 2017 was more or less at the same level as it was in 1960 or 1990, most of them being legal migrants. Based on the review of robust literature, they assert that most people who migrate come from politically disturbed countries rather than economically poor countries. Furthermore, even after moving to a new location or country, they find it difficult to get jobs without prior connections and are often offered jobs that are not preferred by the native population. The uncertainty associated with migration to a far-off country or state often discourages them from leaving home. Regarding the impact of migration of low-skilled labour on the labour market of the host country, there is conclusive evidence – beginning with David Card's seminal study of the impact of Cuban immigrants on wages in Miami – which shows that such migration enables the creation of more jobs as migrants spend their earnings in the host economy. This allows the native workers to move up the rung or try better jobs and brings spirited entrepreneurship into the economy. The authors offer some policy solutions to encourage migration which include, *inter alia*, offering rent subsidies, pre-migration job-matching, and childcare help.

Antithetic to propositions of trade theory, Banerjee and Duflo observe that inequality in developing countries has increased post-trade liberalisation. Among other things, competition among labour-abundant countries seems to have driven the wages of low-skilled workers down when compared with their higher-skilled counterparts. Rigidities in labour markets, stickiness in the movement of both labour and capital towards newer prospects in the face of competition, and the additional cost incurred on marketing of products have mostly rendered trade liberalisation ineffective, at least in the short run. The authors provide examples of industry clusters and e-commerce platforms that have helped producers from developing countries to compete in the international markets with the required brand image and cost-efficiency. The authors, however, argue that the victims of trade, instead of being compensated by the beneficiaries, are often left to suffer further. The problem of subjective identification of the victims gets compounded by an unwillingness to admit the downsides of trade.

Economic policies are mostly driven by public preferences. Banerjee and Duflo, however, question if policymakers correctly ascertain these preferences and give them due importance in the decision-making process. For instance, the choice of providing food stamps over cash transfers is based on the assumption that poor people cannot make the right choice between necessary and unnecessary consumption. The literature, however, provides enough evidence suggesting that if given cash under government programmes, the poor would actually spend a very large portion of it on food. Similarly, a better understanding of radical communalism will be facilitated by a better appreciation of social norms and their impact in terms of conformist preferences in a community. This, in turn, can help in designing more effective policies to counter communalism. Public preferences in a society, which are considered to be 'rational' and 'stable', however, change with the changing circumstances and perceptions of identity. This changeability of preferences of people gives rise to the scope of polarisation in society. At one extreme, this can fuel a separatist culture and, at the other, it can stifle democracy. The authors advocate Gordon Allport's contact hypothesis – increased interpersonal contact between diverse groups in a setting where the groups enjoy equal situational status, common goals, legal support, and lack of competition – as a way to deal with such situations. This integration may be promoted through affordable public housing for the disadvantaged, made available in all neighbourhoods and allotted randomly, thereby creating mixed neighbourhoods.

Against the backdrop of slowing growth in developed countries since the mid-1970s, Banerjee and Duflo discuss two challenging issues – sustainability and measurement of growth from the perspective of improvement in quality of life. They argue that one should focus more on improving the quality of life of the average citizen rather than emphasising a generalised increase in growth. There are well-known limitations of gross domestic product (GDP) growth as an indicator of economic development performance. For instance, some of the very poor countries have shown remarkable improvement in mortality rate in recent years. Also, GDP growth does not count the happiness or satisfaction that a better quality of life brings. Thus, single-minded focus on growth might, the authors predict, lead to policies that unproductively sacrifice the poor in favour of the rich.

The authors discuss climate change, labour-displacing automation, and anti-welfare policies as some of the banes of economic growth. Several studies, conducted across the world, show that increases in temperature have the most debilitating effects on agricultural production, efficiency, and health of workers in developing countries. Through randomised controlled trials (RCTs), the authors also find evidence that simply adopting energy-efficient technologies in the pursuit of economic growth, without constraining consumption, does not lead to emission gains. By delaying their commitment to reducing CO_2 emissions in the quest for future growth, the authors fear that developing countries would simply threaten the health and life expectancy of their poor population today.

Similarly, the book argues, based on the literature, that if automation is not productive enough to be able to generate other businesses and new jobs, it reduces employment and depresses wages, especially for the manufacturing sector and for workers with low education. Banerjee and Duflo believe that while inventing new hardware to assist patients in post-surgery recovery at home saves money and creates jobs, searching for algorithms that automate approval of insurance claims destroys jobs. Even the most polarised partisans in the United States agree in a poll that automation should veer more towards 'dangerous and dirty' jobs. Perhaps, in recognition of these concerns, South Korea announced the world's first tax on robots in 2017.

Banerjee and Duflo identify inequality as the most immediate damaging effect of anti-welfare economic policies aimed at accelerating economic growth. They argue that high marginal income tax rates, applied to very high-income groups, are a 'perfectly sensible' solution to curb income inequality. Their assertion in this matter is, however, based mostly on evidence that only 'hints' at the possibility that tax cuts for top income brackets may increase pre-tax income inequality The authors also observe that while technological progress may have depressed the wages of low-skilled workers and made way for increasing inequality between average salaries at corporate giants and other companies, it is the astronomical salaries of financial sector managers and CEOs, linked to commissions and stock options rather than a salary scale and with no 'productivity' to justify such high salaries, that has made inequality in finance-dominated United States and United Kingdom much more pronounced than it has been in the primarily bank-based continental Europe.

The authors do not restrict the suggestion of taxation to the top income brackets. They acknowledge that if the government has to get a 'sticky' economy going, it has to adopt social policies which require funds and for which the average taxpayer has to step up his/her contribution. Tax increases can be a politically plausible policy, if the government delivers credibly on their social policies. The authors believe that the faith of citizenry in good governance can make a government behave credibly. However, they note that the political class considers the policies aimed at redistribution of income to be sloth-abetting and to be indicative of the fact that growth can actually make some people worse off.

In the realm of public programmes, Banerjee and Duflo make a strong philosophical case against conditional cash transfers (CCTs) and in favour of unconditional and specifically universal cash transfers. The stigma of being identified as poor and the possibility of not meeting the 'conditions' even if someone is actually poor are some of the issues that haunt the dignity of the possible beneficiaries of CCTs. This may reduce participation in these programmes even though empirical evidence ratifies gains in human development achieved by participants in such programmes. In developing countries, cash transfers also encourage the needy to overcome the fear of subsistence and work harder or try new things. Banerjee and Duflo make a case for Universal Ultra Basic Income (UUBI) along with CCTs with softer enforcement of 'conditions' in such countries. In developed countries, as the findings of several surveys suggest, people attach a sense of purpose and identification to their jobs and an unconditional universal basic income may not compensate for the loss of this identity when they are displaced from work. In contrast, the average low-skilled person in a developing country may not feel the same way about their job because they don't feel *entitled* to it, they do not build their lives around their work, and they are ready to switch occupations at short notice. The authors discuss some of the successful programmes in developed countries that have helped displaced workers to get suitably retrained to match the requirements of new jobs. Furthermore, these programmes have helped them to move across regions and settle with new jobs, while extending their unemployment insurance to prop them up through all of this. In the context of developing countries, an NGO programme in Bangladesh (a model found effective in seven poor economies so far) seems to have achieved long-eluded economic improvement simply by designing the programme to treat the 'very poor' with respect as human beings and recognising both their deprivation and potential.

The methodological basis for most of the assertions made by the authors in the book are RCTs. RCTs are expensive exercises and may therefore preclude the study of the impacts against a fuller picture of an economic situation with all its problems and virtues. Some statements made in the book also seem to need further explanation. For instance, the suggestions of 'streamlining the whole process and communicating it [costs and rewards of migration] more effectively [to the migrants] in Chapter 2 require elaboration, particularly from a practical standpoint. The authors discuss how the faith of its citizens in government can ensure good governance in Chapter 8, while in Chapter 9 they talk about conscious leakage in public programmes. It is difficult to see how people can develop faith in their governments when faced with these hard realities. It may help if the authors discuss the realities in the same space where they talk about faith and vice versa. Also, missing from the discussion are the programmes adapted to the needs of average middle-class people in developing countries, who struggle with their dignity too when faced with job losses.

Nevertheless, this book is very useful reading for meaningful and effective policymaking. It helps to wrap our heads around the notion that economics is a great unifier. The basic forces and laws of economics apply unanimously, across geographies and demography. People maximise their utility, given their information sets and circumstances, exhibit demand and supply behaviour based on the opportunity costs they face and respond to incentives. It is time that policymakers become better attuned to public preferences and needs and act sensitively upon it to achieve a better quality of life.

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