UAA Book Club
Dec. 9, 2020

Book Review: Abhijit Banerjee and Esther Duflo: ***Good Economics for Hard Times***. Hachett Book Group. 2019.

Reviewer: Richard N. Blue (USAID 1975 – 1990).

"Economists are more like Plumbers…the best tools are induction experience, trial and error, and the wisdom to know we are often wrong!"

Authors: Banerjee and Duflo (B AND D) are Nobel Prize Winning Economists noted for their particular attention to what might be called "empirical economic analysis". They are especially committed to using evidence from Randomized Controlled Trials as a method for testing the efficacy and impact of various economic policy and program interventions. Most of their work has focused on developing countries in Asia and Africa. This is their first book in which the focus is on issues in the United States and, to a lessor extent, Europe. However, much of their data is drawn from research in India and other developing countries. Both are Professors at MIT. Banerjee is originally from Kolkata, India; Duflo from Paris, France.

This is a book for a public intelligent and concerned enough to grasp the content and think about their message. It is also an incredibly well documented and researched text, with the footnote section running some 56 pages.

Introduction

Discussing the "push" and "pull" factors that lead to political and sometimes violent extremism, the USAID Assistant Administrator for Africa, Linda Etim, testified before the US Congress on May 10, 2016. Her statement is relevant to today's discussion.

> "USAID will address the **push factors** that lead people into extremist movements. These include: Social fragmentation, a sense of injustice, economic inequality, and distrust of government". **Pull factors** include: Social and Peer networks which provide an ideological foundation for extremism, as well as the hope for financial benefit (jobs)."

Author's basic values:

Expressed in various ways, Banerjee and Duflo are motivated by a concern for:

+ Growing INCOME inequality in America and stagnation of wages for working poor and middle class.

+ Vast increase in concentration of WEALTH in the top 1% which is becoming inter-generational due to legal protection tools such as Trusts.

+ The POLARIZATION of political and ideological beliefs in the body politic making fact-based discourse difficult if not impossible.

+ The de-legitimization of government which paralyzes the government's ability to take steps to solve widespread problems.

+ The skyrocketing costs or amounts spent by elites to influence elections. (e.g., Citizens United).

+ The FAILURE of serious economists to communicate effectively with the general public in contrast to "Talking Head" experts who reflect the more general positions of their platforms (e.g., MSNBC, FOX and others). "People don't listen to economists".

+ The DEDUCTIVE MODEL AND THEORY tendency of most economists who either ignore or brush away alternative explanations and/or contrary empirical evidence. "Rational actors respond to incentives and disincentives based on "preferences" and market information." B and D explore and contest many of these basic theorems.

The authors purpose is to:

+ Assess the empirical building blocks of existing models, while using solid evidence (especially RCTs) to question economic and political assertions.

+ Provide the reader with a vast array of evidence with regard to the impact of well known but poorly understood causal forces operating in today's world. (Via an impressive 56 pages of cited reference works.)

+ Challenge the validity of many cherished economic propositions, such as explanations about what causes GDP growth or the negative effect on investment when the marginal tax rate on incomes is high (70% in the 1960s-70s) to 24% today.

+ Challenge the “popular knowledge” of the negative impact of immigration and other forces (robotics) present in the developed world, especially the USA.

+ Place economic analysis in a broader socio-political-economy context by exploring alternative explanations as to why people don’t always act like rational actors.

+ Make the study of economics less theoretical and more INDUCTIVE, i.e. evidence based, which in turn raises new questions about economic underpinnings, or the lack thereof, of human behavior.

+ Propose policy changes designed to redress inequality, combat global warming, and improve the dignity and wellbeing of large segments of the earth’s population, including and specifically in this book, in the United States.

Summary: By Chapter Major Issues and Conclusions:

After an introductory chapter, “Good Economics” presents in depth discussions of a series of major issues of interest not only to economists, but to most thinking persons in the developed world, but especially in the United States.

Chapter 2: This chapter focuses on the effects of ***immigration*** on existing workers, including job displacement, wage rates, social disruption/crime. This issue was and is a major campaign issue for President Trump with his “Build A Wall” mantra. B and D conclude that recent immigration to the USA has been relatively small in proportion to the size of the US work force. More importantly, they did not find evidence that recent immigrants displace existing workers (the low wage factor), does not negatively affect wage rates in those sectors, and does have a positive effect on local economies (immigrants spend money on services, etc.). They cite a National Academy of Science Report that found that: “the impact of immigration on the wages of natives overall is very small.”

Chapter 3: The issue of the impact of ***free trade*** is examined with respect to broad and specific benefits and costs. Again, this issue has been the focus of “Tariff Wars” waged between the US and China, as well as with Europe, Canada and Mexico during the Trump Administration. They cite the IGM Booth Panel (a Panel of 40 economists assembled by Booth School of Business at Univ. of Chicago), 65% of whom disagreed with the sentence “Tariffs on steel and aluminum will improve America’s welfare.” Citing economists from David Ricardo to Paul Samuelson the authors lay out the basic principles of “comparative advantage” whereby the relative costs of labor and capital determine the most efficient and least cost locations for the productions of goods and services. The author’s find some merit in the theory, but raise questions about what happens to the “losers” from free trade, generally less educated and lower skilled workers. They also point out that surveys of the general public about using tariffs to encourage production in the USA show that 65% of the surveyed public agree tariffs are a “good idea”. President Trump was listening to rust belt workers in 2016; not to Silicon Valley IT specialists.

B and D address the proposition that workers whose jobs have been eliminated by imports from, say China, will move from declining labor markets to other areas where demand for labor is strong. Rather they find that many people don’t move, for a variety of reasons. The authors introduced the notion of “STICKYNESS” in Chapter 2. They expand on this idea to capture the many reasons people 'stick" to their existing place in the face of a declining job market and/or lower wages.

The author's in-depth familiarity with poverty reduction in developing countries leads them to address findings from India and Egypt. They cite Tupalora's India study which concluded that, after India shifted from high tariff to a more open import regime, the areas most affected by imports "were less successful in reducing poverty" than areas where the effect was minimal. Here the author's shift to "case study" data to describe an effort to support a cluster of Egyptian artisan carpet makers to enter into the global open market. They discover a variety of factors which made this effort very difficult, including "the curse of low expectations" (who would buy a car made in Bangladesh?).

Lesson's Learned: A surprise finding is that the "size of US imports is just 8% of GDP". B and D do find that there are clear "losers" to free trade. They argue that "the aggregate gains to trade are small". Trade is not a "magic bullet" for the goal of reducing poverty.

So, what to do? B and D are positive about the results of the US Trade Adjustment Act, a Federal program which provides training and other assistance, but B and D point out this program is poorly funded relative to the need. This leads to their next policy predilection, increase taxes on those in the highest percentiles of income and use public funds to support INDIVIDUALS hurting from job loss, etc.. This theme appears throughout the book.

Chapter 4: "Likes, Wants and Needs" is an in-depth analysis of the concept of ***"preferences"*** as used by economists. In some ways, this chapter is the most politically sensitive analysis yet presented. Banerjee and Duflo are skeptical about how well we understand people's preferences. Standard economic analysis is posited on the concept that preferences are rationally expressed through information and the consumption choices people make. Their argument is that standard economic analysis fails to take into account many other factors, sociological and political, even psychological factors that influence “preferences”. B and D discuss the role of bigotry, racism, tribalism, and stereotyping in shaping attitudes and preferences, including what they term “the herd mentality”. They note that in white suburbs, there is a tipping point whereby the white community feels threatened by an influx of people of color. I may worry that “the market value of my house will decline so I’d better sell now”, a notion which is reinforced by descriptions of conditions in poor minority neighborhoods in South Chicago. In recent years, this mentality has been deepened and magnified by the advent of social media like Facebook and Twitter. The much described “polarization” of American society has become increasingly rigid.

Here B and D appear at a loss about what kinds of policy interventions are most effective in reducing bias, bigotry and racism. They cite experiments with young people that brought people together regardless of “status” (in this case lower and higher castes in India) in cricket teams, comparing attitudes of people who played in mixed teams versus teams of a single caste background. The “mixed” group went on to form more mixed teams and to reward performance rather than “caste” status. This leads B and D to express the hope that more public funding to improve integrated education will help to reduce bigotry. The problem is that like white flight to suburbia, affluent whites send their kids to private schools with very small minority populations, and poor white kids go to public schools with large minority student bodies. Even in rural areas with fewer minorities, these schools are substantially underfunded (towns/counties with low tax base. Montana is a cited example).

Chapter 5: This chapter examines the very heart of economic policy as well as every country’s (and leader’s) bragging rights; ***growth as***

measured by GDP increases over time. “The End of Growth” may be the most controversial chapter in the book. They state that GDP growth was robust from 1947 to 1973, and then slowed to almost nothing, then increased up to 2004. Total Factor Productivity (TFP, which is the residual not explained by increases in capital and worker productivity) slowed to one third over previous years. What causes growth and how do we measure it? Are we measuring the wrong thing with the current emphasis on GDP? Qualitative concepts such as “well-being”, “dignity”, “respect” and “happiness” are juxtaposed with more standard factors, Capital, Labor and the residual catchall, Total Factor Productivity (TFP). The authors comment that TFP is a “measure of our ignorance” about what causes economic growth.

Still, economists do try. B and D provide a lengthy discussion of various leading economists approach to understanding growth, including Robert Gordon (pessimist) and Joel Mokyr (optimist), Robert Lucas and Paul Romer, and Robert Solow’s emphasis on the abundance of capital eventually leading to slow growth in rich countries, *convergence* meaning that poor countries rich in labor and poor in capital will respond well to new capital investment up to a point, when they catch up with richer counterparts. Solow also implied that growth in TFP was something that just happened. It was not a factor about which government and policy could do anything to change. “Solow’s was what economists call an exogenous growth model…Growth, in short, is beyond our control” (p152-175 contain a rich discussion of competing theories by leading economists)

B and D are harsh about economist’s ability to predict growth writing “…growth is one area we have been particularly pathetic”. GDP values only things “priced and marketed” but how do we measure “well-being” and “happiness”?

So, what do we do? B and D juxtapose two extremes to dealing with relatively slow growth. One approach is to “get government out of the way” by cutting taxes. This has become a mantra from President’s Reagan to Trump. B and J examine the rough correlation over time between high taxes (77 to 90 percent top tax rates) from 1936 to 1964. Tax rates have rapidly declined since starting with the Reagan administration to the mid-30 percent range. The author’s review of 10 year averages lead them to conclude that: “There is no evidence the Reagan tax cuts, or the Clinton top marginal rate increase, or the Bush tax cuts, did anything to change the long-run growth rates”. (p174). This is a finding that remains true across many rich countries.

So why do we find it so difficult to change tax rates? B and D assert that “low taxes stimulate growth” has become a “mantra”. “The repetition of the mantra by generations of serious economists has given it the soothing familiarity of a lullaby”. P176 (One of the things I like about this book is the author’s occasional resort to a dry sort of witticism).

Turning to rapid growth economies like Japan, South Korea and especially China, citing a World Bank Commission on Growth and Development in 2008 led by Nobel laureate Michael Spence, the report ultimately recognized “that there are no general principles, and no two growth episodes see alike”. Bill Easterly, in his typical style, described the work of the Commission:

> ***After two years of work by the commission of 21 world leaders and experts, 12 workshops, 13 consultations, and a budget of $4m, the experts’ answer to the question of how to attain high growth was roughly: we do not know, but trust experts to figure it out”***

B and D conclude by turning to the rapidly changing “developing world”, suggesting there is still much we can do, such as helping governments to redress resource misapplication (avoid continuing to support inefficient sectors), but in the main, the danger of the growth mantra is what happens when growth slows, as it inevitably will do? Polices which focus on well-being (they cite the success of free mosquito nets in malaria prone countries) can do much to improve health, and by consequence, keep children in school, etc. B and J are dismissive of “small is beautiful” theories, or attempts to introduce African villagers to better cookstoves…citing the record of failure to fix the stoves after the “appropriate technology” broke down.

Chapter 6: This relatively short chapter examines the causes and consequences *of* ***climate change and global warming***. After reviewing the now familiar data on the extent of global warming, the author’s turn to introducing some granularity to the consequences of this in different places on earth. For example, most poorer countries are closer to the equator, where an increase of 1 centigrade average will reduce per capita income by 1.4 percent. Similar effects of increased heat have been measured for crop production and labor productivity in poor countries.

So, what to do? B and D argue that a “global problem requires global wealth transfers”. More emphasis (incentives) needs to go toward renewable and, as seen in France, nuclear energy production. But in the main, “consumption has to change”, which is probably the most difficult challenge of all. If we can’t get people to wear masks in the age of COVID, it’s unlikely they will be easily persuaded to give up their diesel Ford F250s.

Chapter 7: In this chapter, Player Piano, the authors discuss the consequences of the ***growth of robotics, artificial intelligence, and social media***. B and D steer between the Luddite rejection of these technologies on the one hand, and a warm embrace on the other. They state that currently the main shift has been fewer and more sophisticated jobs in manufacturing, such as with automobiles. Although the share of jobs attributed to the big three US auto makers has declined, there are now over 24 Japanese owned auto plants employing nearly 90,000 workers (all non-union). However, since the US has transformed itself into a predominantly service economy, the next phase of robotics will be seen in Target stores where robots are stocking shelves. Information management has already replaced secretaries and filing clerks in large firms. A recent McKinsey Report estimated that 45% of US jobs are in high-risk categories. On the flip side, highly skilled technically trained workers will prosper, while creating really interesting jobs for “dog-walkers”. (Smile!)

Diverging somewhat from climate change is a discussion of the political difficulty of raising top tax rates. They describe a populist backlash in the USA behind which is “a profound sense of dis-empowerment, a feeling, right or wrong, that the elites always decide, ….and what they decide makes no difference for the average Joe or Jean”. Trump understood this. He built his campaign on making America great again for the average person, while at the same time, with a wink and a nod, assuring wealthy Republicans that he was as “pro-rich as any of them”. Efforts to criticize or tax wealth and high incomes (above $450,000 p.a.) is often seen as an attack on the American tendency to still believe that society rewards industry and effort. This discussion links back to our previous discussion of The *Meritocracy Trap*. The disillusionment expressed by an angry 73 million voters informs the important next chapter on ‘de-legitimizing government’.

So, what to do? One suggestion from Bill Gates is to start taxing robots. Another more generalized solution is to tax “excessive automation” by reversing the high tax rate on labor to a higher tax on capital. More broadly, the question of whether any tax increase can be acceptable to our new Congress remains an open one.

Chapter 8: The ***"de-legitimizing" of government's effectiveness*** is well documented here and in other analyses. The current onslaught of charges of fraud in the November election is but one more nail in the assembling coffin of our democracy. Although the authors suggest various policy interventions throughout the text, this chapter raises a fundamental issue; the American people's loss of confidence and trust in government, but in the entire political system. This trend goes beyond party affiliation. It suggests that no matter who is in control, the instruments of state authority and action no longer are seen as "legitimate".

Chapter 9: Cash and Care. How do we get more money into the hands of the poor? In this chapter, ***the Universal Basic Income*** (UBI) concept is explored. If a government does offer this, should there be conditions…as with the Mexican program requiring kids to stay in school, mothers to go to health clinics and the like. B and D suggest that conservative free market economists would argue for NO conditions, as people's preferences should be honored and not dictated by government. A rational but poor person may spend the money based on what they need…food, clothing, rent, even a TV set. Programs that impose conditions and rules have to be monitored to make sure people are behaving according to those rules. This can be expensive and intrusive. Sometimes just the hassle of applying for a benefit program is enough to discourage people from participating. B and D cite their own experiment with promoting EBT cards (which replaced actual food stamps) in a poor area in California. By naming the EBT card as "The Golden State Advantage Card", the experimental group were significantly more likely to sign up than the control group, which received the standard pamphlet describing the EBT card. Basic lessons: poor people wish to maintain their dignity and self-respect.

So, why is there so much resistance to even targeted UBI programs? B and D make the basic point that a $1000 per month per person

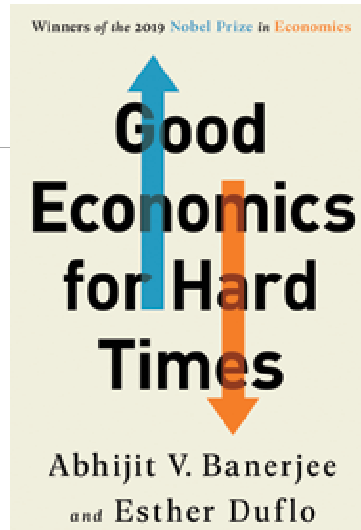
program would cost $3.9 trillion a year, or 20 percent of US economy. This is not going to happen. But how about targeted programs with a declining amount as people's incomes went up?
The more powerful opposition comes from a combination of assertions that welfare simply promotes malingering and supports "immorality" in the recipients. Reagan's famous welfare queen is cited. B and D assert there is no evidence that "cash transfers make people work less." (p289)

One of the most interesting aspects of this final chapter is B and D's use of experimental studies and other data to determine whether some form of cash transfer is a major, minor or insignificant deterrent to people's commitment to working at a job.

GOOD AND BAD ECONOMICS. Labeled as ***Conclusion,*** the authors repeat many of the issues and theories discussed throughout the book, mainly that there are too many discrepancies between what theory predicts and what actually happens, especially as economics undergo major transformations. They point out the despair and rage of those left behind in America, in Eastern Germany, the Brexit heartland, and in large parts of Brazil and Mexico. "The rich and the talented step nimbly into the glittering pockets of economic success but all too many of the rest have to hang back. This is the world that produced Donald Trump, Jair Bolsonaro and Brexit…" (p324). B and D also summarize the incredible changes that have occurred over the last forty years…"the fall of communism, the rise of China, the halving and halving again of world poverty… Also the rise of inequality, the spread of authoritarian nationalism, and looming environmental catastrophes…"

Finally, Banerjee and Duflo issue a "Call to Action, not just for economists ---it is for all of us who want a better saner, more humane world. Economics is too important to be left to economists".

Facts for Change



Abhijit V. Banerjee and Esther Duflo
Good Economics for Hard Times
Hachette, New York, NY
2019, 403 pp., $25.98

ABHIJIT V. BANERJEE AND ESTHER DUFLO, two of 2019's Nobel Prize winners in economics, start their extraordinary book by noting that people's core beliefs "are better predictors of their policy views than their income, their demographic groups or where they live." Subjective identities increasingly tend to overpower more objective predictors and reflect growing polarization. In the United States, for example, "in 1960 roughly 5 percent of Republicans and Democrats reported that they would feel displeased if their son or daughter married outside their political party. In 2010 nearly 50 percent of Republicans and over 30 percent of Democrats reported such feelings."

The authors set out to use what economists can say with some certainty to find common ground in the great debates of our time, such as those about migration, trade, economic growth, climate, and social policies. They use simple prose to demonstrate how rigorous economic thinking accompanied by careful empirical work can be brought to bear on a myriad of concrete policy problems. The authors, already very well known for their earlier work promoting the use of randomized controlled trials in empirical development economics, use this method to shed light on many controversies that often rage with little or, even worse, misleading factual support. Throughout the book they explore many examples of otherwise similar groups that differed only in their exposure to exogenous events or different policies. One example—visa lotteries in New Zealand whose applicants were from the same Pacific island of Tonga—reports that winners tripled their income within one year of receiving a visa, which supports the conclusion that differences in wages are "caused by difference in the location and nothing else."

The many randomized controlled trial discussions are placed in a wider context, however. The chapter on trade starts with basic theory from Ricardo's comparative advantage to the Stolper-Samuelson theorem on the effects of trade on factor income. The chapter on growth takes us from the Solow model with diminishing returns to Romer's views on spillover effects from innovation, which can overcome diminishing returns for an economy as a whole. For trade, once it is recognized that neither capital nor labor reallocates with the ease often assumed, the predicted benefits weaken. For growth, the authors conclude that "despite the best efforts of generations of economists, the deep mechanism of persistent economic growth remains elusive" and recommend a focus on poverty reduction using the insights from randomized controlled trials.

The chapter on climate argues that warming will have huge costs for poor countries closer to the equator, but surprisingly says that "if the world warms by a degree centigrade or two, residents of North Dakota will mostly feel perfectly happy about it"—ignoring other effects of climate change, such as extreme weather events.

Subjective identities increasingly overpower more objective predictors.

The book is written with both ambition and realistic modesty. The authors hope that their critical scrutiny of narratives that are too "easy" will help reduce polarization and allow improved design of specific policies based on sound evidence and rigorous analysis. FD

KEMAL DERVIŞ, senior fellow in the Global Economy and Development Program, Brookings Institution

The Guardian

Good Economics for Hard Times by Abhijit V Banerjee and Esther Duflo review – methodical deconstruction of fake facts

Two Nobel winners' down-to-earth diagnosis of global ills is enlightening but fails to address capitalism's fatal flaws

Yanis Varoufakis

Mon 11 Nov 2019 02.01 EST

A recent YouGov survey confirmed that economists are among the least trusted professionals in the UK. Brexit is only the latest factor in the public's rejection of an occupation that has either failed to raise the alarm over impending crises or provided justification for the inexcusable practices of bankers and the wild claims of politicians.

Who can forget the Queen's devastating question, after the 2008 crash, to members of the Royal Economic Society: "Why did no one see it coming?" How can Nobel prize-winning economists be forgiven for providing the theoretical sermons that helped concoct the structured derivatives that Warren Buffett would later describe as "weapons of mass financial destruction"?

Good Economics for Hard Times is the latest attempt by economists to defend their profession. It is, happily, an excellent antidote to the most dangerous forms of economics bashing: the efforts of opportunistic politicians to weaponise discontent with mainstream politics and to press it into the service of a xenophobic ideology that denies facts and serves the interests of a nativist, global oligarchy.

The book's authors, MIT economists Abhijit Banerjee and Esther Duflo, write beautifully and are in full command of their subject. They examine the most crucial issues humanity faces (migration, trade wars, the scourge of inequality, climate catastrophe) with a combination of humility over what economics cannot tell us and pride over its contributions to our limited understanding. On every page, they seek to shed much-needed light upon the distortions that bad economics bring to public debates while methodically deconstructing their false assumptions. In their words, the book's noble, urgent task is "to emphasise that there are no iron laws of economics keeping us from building a more humane world".

Serendipity would have it that even as *Good Economics*… was still in the pipeline Banerjee and Duflo, who are also partners in life, were awarded (with Michael Kremer) this year's Nobel prize in economics. It was an inspired choice. Unlike previous winners, mostly older white males whose grand theories are built upon mathematics of dizzying complexity, they have made a name for themselves by studying the circumstances of the world's poorest people. Most interestingly, they have specialised in borrowing the methods of randomised trials in medicine and deployed them in developing countries to ascertain which policies can alleviate suffering with given resources.

Their own conception of what economists should be doing is disarmingly down to earth. They see themselves as society's "plumbers: we solve problems with a combination of intuition grounded in science, some guesswork aided by experience and a bunch of pure trial and error". A comparison with John Maynard Keynes's conception of economics is telling. He thought that it required us to be, at once, "mathematician, historian, statesman, philosopher". That we must "contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought". That we must remain "as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician".

While such lofty ambition implanted a dangerous delusion of grandeur among many of the economists whose theories have caused many people great hardship (for example, grand theorisers of the financial market's supposed self-correcting capacities), there are passages in *Good Economics*… when this reader would have liked a little more of Keynes's ambition. For without it, the plentiful facts do not go far enough in exposing the deeper causes of our current predicament.

The book's greatest contribution is its methodical deconstruction of fake facts: migration, we learn, is not on the rise – indeed, at 3% of global population, it is at the level it was in 1960. Natural experiments (involving Finns expelled from the USSR in 1945, Cubans flocking to Miami in 1980 and Jews settling in Israel in the 90s) prove that migrants do not steal natives' jobs; they just help expose the holes in public services and social housing left by austerity. As for trade liberalisation, which economists treat as super-important, Banerjee and Duflo suggest it brings relatively small benefits while doing a lot of damage to the poor in countries such as the US and India. The resulting discontent turbo-charges racism: the moment white blue-collar men lose hope and apply for disability welfare benefits, it is no longer enough for them to denigrate black people and Latinos as "welfare queens". They must now be depicted as gang members or rapists.

In the chapters on growth, inequality and climate change, the reader comes closer to encountering the authors' politics. While on the side of progressives such as Bernie Sanders, Elizabeth Warren and Alexandria Ocasio-Cortez, their own stance is more mainstream. They support schemes to help the victims of globalisation (by paying firms in declining areas to keep older workers employed, for instance). They want governments in developing countries to help people move to areas with better jobs, but also to assist those who want to stay to look after their elderly or their village. They favour the smaller picture, where they can be sure that public investment will make a difference. But what about the larger stage on which humanity's drama unfolds?

Banerjee and Duflo consider Sanders's job guarantee scheme but reject it, because they do not believe worthy jobs can be produced by the state in such big numbers. They point out that Warren's wealth tax, though good and proper, cannot raise more than 1% of US national income, while Ocasio-Cortez's 70% marginal tax rate for the super-rich will simply motivate firms not to distribute profits but place them in trust funds. Alas, the fact remains that any serious tackling of climate change requires spending in the vicinity of at least 5% of total income. So where will the money needed for the international Green New Deal and the redistribution (both global and local) of wealth that humanity needs so desperately come from? Banerjee and Duflo do not say.

They would welcome a change of heart among IMF staffers: "The IMF now requires its country teams to include inequality in factors to take into consideration when providing policy guidance to countries and outlining conditions under which they can receive IMF assistance." When I read this, I laughed, thinking that someone must have forgotten to send this email to the IMF's Greek mission.

Every book as important as this one must include a theory of change: how shall we use its insights to bring about a more humane world? Banerjee and Duflo's offering is enlightened selfishness by the rich ("The rich may eventually see that it is in their self-interest to argue for a radical shift toward the real sharing of prosperity") and razor-sharp analysis that is disseminated to the public ("The only course we have against bad ideas is to be vigilant").

This is unconvincing, but it could not be otherwise. To provide a persuasive progressive policy agenda at a time when the usual fixes (quantitative easing, taxation) no longer work, the roots of capitalism's stagnation and flirtation with climate catastrophe must come to the surface.

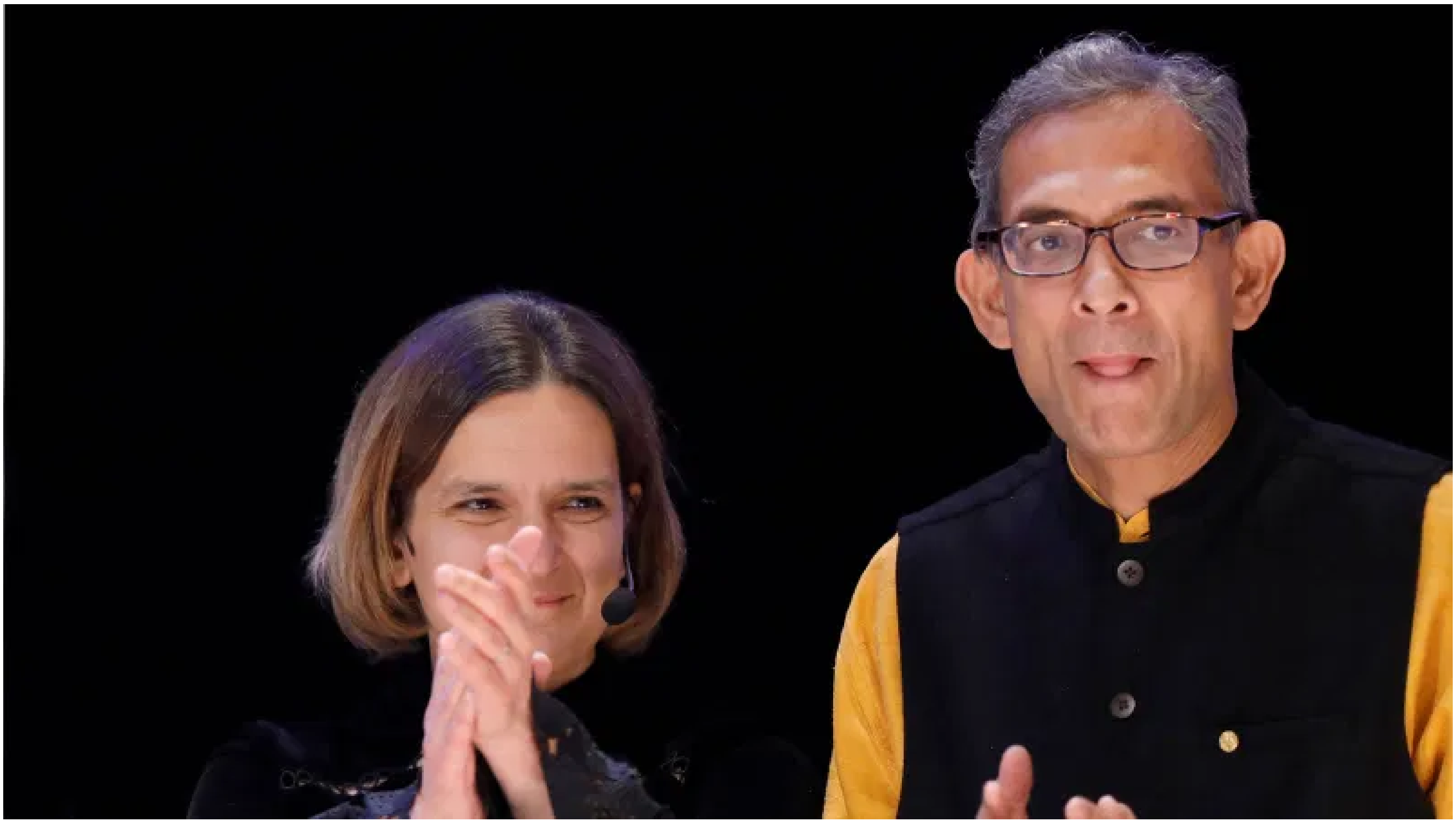
It is a remarkable sign of the times that, as my friend the philosopher Slavoj Žižek once said, even the brightest minds would rather fathom the end of the world than plan for the demise of capitalism. Perhaps the greatest contribution of *Good Economics*… is precisely this: it demonstrates both the brilliant insights that mainstream economics can make available to us and its limits, which a progressive internationalism has a duty to transcend.

Yanis Varoufakis is a member of Greece's parliament, where he leads the new MeRA25 party, and a professor of economic theory at the University of Athens. He is also a former finance minister of Greece.

· *Good Economics for Hard Times: Better Answers to Our Biggest Problems* by Abhijit V Banerjee and Esther Duflo is published by Allen Lane (£25). To order a copy go to guardianbookshop.com or call 020-3176 3837. Free UK p&p over £15, online orders only. Phone orders min p&p of £1.99

Can Well-Designed Experiments Make the Case for Government Intervention?

By LAURA BALL | March 19, 2020 10:31 AM



Esther Duflo and Abhijit V. Banerjee following their Nobel lectures at Stockholm University in Sweden, December 8, 2019 (TT News Agency/Christine Olsson/Reuters)

Good Economics for Hard Times, by Abhijit V. Banerjee and Esther Duflo (PublicAffairs, 432 pp., $30)

Listen to this article

As a political independent, I had the privilege of reading Abhijit Banerjee and Esther Duflo's *Good Economics for Hard Times* without assuming a defensive crouch. Their sometimes surprising, sometimes inconclusive attempts to measure the effects of popular policy ideas will frustrate anyone looking for a five-point plan. But for someone mistrustful of easy answers, it was a treat to see so many buzzword solutions subjected to experimental testing.

The authors, a married couple, are both economics professors at MIT. While it seems fair to conclude from their proposals that they are liberal, they cannot reasonably be called bleeding hearts. They won the 2019 Nobel Prize in Economics, "for their experimental approach to alleviating global poverty," in recognition of their decades-long campaign to test the outcomes of new policy proposals in the same way as new drugs, through the use of randomized controlled trials (RCTs). These studies are the gold standard of proof in the field of medicine, and they sound a lot like the scientific method you learned in school: Take a group of equivalent subjects, act on some, leave the rest alone, and watch whether their destinies diverge or not.

This approach's most famous success so far might be in directing foreign aid to fight malaria. When economists weren't sure whether to give away insecticidal bed nets for free or sell them at a low price (to promote their use for safe sleeping rather than fishing, and to avoid crippling any local markets), a series of RCTs in Africa showed that free nets were used just as wisely as bought nets and that the free nets reached more people than the bought nets did. A consensus was reached, the naysayers caved, and a range of organizations began giving away bed nets, preventing hundreds of millions of deaths over the last 20 years. For Banerjee and Duflo, "good economics" is informed by well-controlled experiments like these. "Bad economics" is driven by intuition and anecdotes.

That evidence-based mindset can appeal to conservatives. During the Nixon administration, it was Donald Rumsfeld who pushed for some of the first economic experiments of this kind in the U.S. to test a proposed negative income tax (NIT) instead of rolling it out directly. In a 1987 radio address on welfare reform, Ronald Reagan called

Jim Manzi, for instance, expressing the hope that their work would make social science "more accurate and more hospitable to limited government and political liberty."

These hopes may be disappointed. Although the authors offer frequent caveats — such as "Economists often get things wrong. We will no doubt do so many times in this book" — they end up calling for "a much-expanded role for government" as "the only possible way out" of our present predicaments. That assurance is interesting, because Banerjee and Duflo's only previous book for a general audience, *Poor Economics* — which won the Financial Times and Goldman Sachs Business Book of the Year Award in 2011 — did not take a strong position on the proper roles of the public and private sectors. It presented the results of 15 years' worth of RCTs in the developing world in a way that would be helpful for anyone with money to throw at a humanitarian crisis, no matter where they worked. In their new book, Banerjee and Duflo focus on America, which is not their primary research domain, and on the kinds of policy choices open only to governments, such as setting tax rates and immigration quotas. This brings them into bloodier oceans of debate, with fewer of their own bespoke studies and more extrapolation from the best available parallels in other countries or at other points in history.

Will conservatives like the results? The answer may depend on whether their wariness toward welfare spending comes more from the premise that government should not do such things (i.e., "Socialism is theft") or from the conclusion that it hasn't appeared to do them very well (i.e., "Socialism always fails"). Some readers will reject the authors' assumption that governments should have goals such as "restoring dignity" or "reducing anxiety." Others might take heart from Banerjee and Duflo's criticism of "old-fashioned government handouts" and their call for "a wholesale rethinking of the social policy apparatus." The evidence they present shows that "nothing terrible happens when one gives cash to the poor" — cash transfers don't lead to family breakdown, less work, or more spending on alcohol or tobacco — but they don't lead to lasting rises in household income, either. Banerjee and Duflo are also deeply concerned about the effects that handouts have on people's self-respect. One of the more humorous experiments in the

SNAP benefits but had not registered for them. They became much more receptive to the program when a brochure billed it to them as a "Golden State Advantage Card," allowing them to "get more at the grocery shop," in place of the traditional language about welfare and food stamps.

What exactly should we be doing instead? The authors' big-picture goal is to "break the impasse" between Right and Left with "careful program design," persuading people that welfare is worth raising taxes for, if it has proven results. One of their most confident recommendations, repeated several times, is that government should help workers move out of the areas hurt worst by free trade. They propose to do this by massively expanding the Trade Adjustment Assistance program (TAA) on the same scale as the G.I. Bill, citing a 2018 study that found that displaced workers who retrained under its auspices earned $50,000 more over the next ten years than their fellows who did not. They also hold out hope that expanding TAA would reduce disability payments, which 9.9 percent of workers who lost jobs to trade have now claimed, according to data in the *American Economic Review*. Perhaps the most unusual suggestion in the book, which the authors themselves describe as "somewhat radical," is paying firms hurt by trade to retain their employees over the age of 55 who can't or won't move, even if the subsidy payments must exceed the employees' salaries. "It will be very difficult to help people in these places," the authors admit, suggesting that the key point is to prevent more people from becoming stuck in the same way.

They are leery of a federal jobs guarantee in the style of the Green New Deal, questioning the utility of the jobs, which would come from private companies bidding on government contracts, and drawing comparisons to India's National Rural Employment Guarantee Act (NREGA) of 2005, which has so far failed to provide jobs for everybody who wants one. However, they are game to offset the effects of both trade and automation with government funding for "labor-intensive public services" such as elder care and child care, which would likely lead to more jobs in these areas, without any fixed quotas. To illustrate the value that more workers in these fields could bring, they point to a 2011 higher on standardized tests but were more likely to attend college, get married, own homes, live in better neighborhoods, and save for retirement.

Still, the heart of *Good Economics for Hard Times* is in the method, not the message. The best-guess recommendations the authors land on at the end of each chapter don't appear to match up with the platform of any particular politician, but that doesn't seem to concern them. Their goal is to ground both sides of our national debate in hard evidence, and the process of coming up with ways to do that is pretty interesting in itself. Some chapters are baldly inconclusive. The book might feel encyclopedic at times, with reams of examples from different places and eras, but it could not be re-shelved in the philosophy section. Eager to distance themselves from the previous generation of economists who argued from first principles, Banerjee and Duflo say nothing that smells like special pleading. It would be hard to take umbrage with such studied humility. The authors admit, "We clearly don't have all the solutions, and suspect no one else does either." Even so, the prospect of a path towards consensus solutions through iterated experiments is enough to make for a compelling read.

This article appears as "Putting Government Intervention to the Test" in the April 6, 2020, print edition of NATIONAL REVIEW.