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Good Economics for Hard Times

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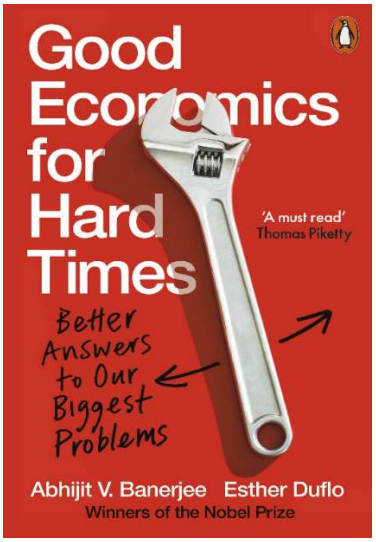

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Good Economics for Hard Times

Written by Abhijit V. Banerjee and Ester Dufalo

The landscape of social policy today is akin to an intricate puzzle, where the pieces of rising inequality, shifting political tides, dividing societies, globalization, and rapid technological growth rarely fit together seamlessly. The ongoing cost of living crisis and climate-related devastation in developing and small island states continue to deepen both economic and social divides. At the same time, much of the efforts to reduce poverty over the past decades has stalled or reversed, partly due to political instability, COVID-19 pandemic, climate change, and recent de-globalization trends, which have acted as barriers to further progress. The World Bank now projects that 622 million people will still be living in extreme poverty by 2030, underscoring a stagnation in global poverty reduction. *Good Economics for Hard Times* skilfully navigates this landscape by explaining the need for economists and policymakers to adapt social policies to the changing structure of the world's economies.

These increasing global problems call for economists to develop more inclusive policy responses moving forward. The book reveals a new path towards inclusive and comprehensive social policy, showing how *good economics* can emerge and protect the most vulnerable in these changing markets. The authors, Dr. Abhijit V. Banerjee and Dr. Ester Dufalo, are Indian and French professors, respectively, and experts in the field of poverty alleviation, welfare economics, and social policies. The couple, along with Michael Kremer, founded J-PAL, a global policy research centre, and won a Nobel Prize in Economics for their work in alleviating global poverty[2]. They bring their perspectives as researchers in the field of development economics and economic theory.

The book provides an overview of the key puzzle pieces the authors see as crucial for rethinking economic priorities through social policy. These issues include labour market dynamics, the negative effects of trade on low-income communities, misconceptions about the poor's economic preferences, and critiques of conventional growth metrics. The final chapter synthesizes these insights, offering innovative proposals to strengthen social safety nets and

[2] Taken from The Abdul Latif Jameel Poverty Action Lab (J-PAL) website https://www.povertyactionlab.org/about-us

welfare programmes worldwide. The authors express the spirit of the book by saying "*There are no iron laws of economics preventing us from building a more humane world, but there are many people whose blind faith, self-interest, or simple lack of understanding of economics leads them to claim that this is the case.*"

In particular, the discussion on the economic effects of migration, argues that they are not as harmful to domestic wages, job opportunities, or the labour market as many claim. The authors reference economist, David Card, who won the Nobel Prize in Economics for his research on the labour market in Miami. His influential study found *no* impact on domestic wages or unemployment before and after an influx of migrants in 1980[3] which sparked a long-standing debate among economists. While the study has faced criticisms such as his inadequate assessment of the impact on low-skilled labour[4], recent literature continues to find the impact on wages is statistically insignificant in the case of the Mariel Boatlift [5]. Card's novel approach revealed that immigration does not conform to a simple supply and demand mechanism. Although the economic impacts of immigration are not determined by a single historical event, this example highlights how the public sometimes hastily follows influential individuals in politics, who often ignore the evidence that challenges their political agendas.

A poem entitled *Home* by Warsan Shire begins with the line "No one leaves home unless home is the mouth of the shark". The authors used this poem as the foundation of the second chapter to explain, leaving home is not an option or a scheme, often, it is a survival strategy. People flee from extreme political unrest, wars and environmental disasters, where leaving is their only way to save their family. Once they arrive in a foreign country, immigrants face numerous barriers to entering the labour market, society, and education system. While low-paying jobs may be available, immigrants still need connections, housing, and a way to integrate into society.

[3] Card (1989) found that a 7% increase in Miami's labour force after the Mariel Boatlift, had no impact on domestic wages or unemployment, particularly for native-born low-skill workers (those with at most a high school degree). These findings challenged a lot of anti-immigration sentiment in both the U.S. and Canada.

[4] Borjas (2015) argued that majority of the Marielito's immigrants were high-school drop outs and classified as low-skilled. Therefore, he specifically examined the wages of this low-skill group which shows a statistically significant change in the domestic wage structure.

[5] Peri, Giovanni and Yasenov, Vasil, (2018) The Labor Market Effects of a Refugee Wave: Synthetic Control Method Meets the Mariel Boatlift

Despite facing some of life's lowest points, they remain hopeful of recovery and a better future for themselves, their children, and future generations.

In Chapter 3, titled "The Pains from Trade," the authors critically examine the often-neglected social costs of global trade, arguing that these consequences are characteristic of a deeper structural issue: rising inequality. Their conceptual framework links the erosion of social mobility to a growing psychological impact on individuals. For many, a sense of self is tied to the economic opportunities available to them. According to the authors, when they realize these opportunities are far more limited than they once believed, there are two key responses that perpetuate inequality and weaken social cohesion.

The first, is a collective fixation – by individuals, politicians, companies - on economic growth and growth policy. The authors contend that this growth-centric ideology prioritizes industrial expansion, benefitting a select few, while disrupting the livelihoods of the majority. The author references the Stopler-Samuelson theorem (Stopler & Samuelson, 1941), that suggests trade liberalization can widen inequality in capital-abundant developed countries (by reducing low-skilled wages), and narrow inequality in labour-abundant developing countries. This theory is illustrated through case studies of two towns—McKenzie and Bruceton in Tennessee—as well as the Appalachian region depicted in J.D. Vance's 2016 memoir, *Hillbilly Elegy*. These examples support both the theory and the authors claim, illustrating how such policies disproportionately benefit elite segments of society while marginalizing the majority[6]. Similarly, (Datt, Ravallion, & Murgai, 2016) researched the impacts of trade openness on India and found a slowed poverty reduction rate as a result of trade openness, further supporting the negative implications of trade openness and its potential to be harmful to the most vulnerable.

The second implication of this framework is a growing uncertainty about the government's ability to foster meaningful change. The result is a self-fulling prophecy: individuals disengage from opportunities for social advancement, often dismissing public programmes as ineffective or insincere. The authors believe that imposed conditionalities and paperwork act as barriers for the poor, leaving them with little hope of overcoming obstacles based on their experience

[6] See page 80-83

in poverty alleviation programmes and research. The book supports this with a randomized study of 1,200 Indian women, all eligible to receive assistance from an NGO programme. Women were spilt up into four groups: a control group, a group given information about registration, another given information plus assistance with registration, and the final group were given both plus in-person support from a local representative of the NGO. Although all non-control groups were more likely to register, the overall increase in enrolment was just 26%.[7]

In Chapter 4, entitled "Likes, Wants, and Needs," the authors argue that social policies frequently begin with a tone of judgment. In their experience, questions such as "Is that the most responsible way to manage your money?" or "Why did you decide to have so many children if you can't afford them?" reflect a critical stance toward the poor, rather than a genuine effort to understand their realities. Instead they advocate for an approach that draws on the actual behavioural patterns and lived experiences of the poor to shape social programs that are practical and effective. This line of thinking is rooted in their previous work with poverty alleviation and welfare economics. Notably, their research paper entitled, *The Economic Lives of the Poor*, which explores the economic behaviours, consumption patterns, living conditions, education opportunities and family structures of the persons living in extreme poverty.

An insightful example of the consumption behaviour of the poor is illustrated through an anecdote shared in the book about a Moroccan man the authors met. The man, struggling to feed his family, asked for help and then invited them into his home. Inside, they were surprised and confused to see a large television. They asked why he would buy a TV when he couldn't afford food for his family. He explained that the TV was a significant purchase, one that provided entertainment during times of boredom and ultimately improved the family's well-being. He added that any extra income would now go toward food, having already invested in the TV. This behaviour is common among those living in poverty. Research showed that in Côte d'Ivoire, 14% of households living on less than $1 a day (extreme poverty) own a television, and

[7] The study found that while providing information encouraged more women to start the registration process, it did not significantly increase the number of women who completed it and officially registered. The authors infer the women do not believe they will receive the aid and there are strings attached in the long-term.

this figure jumps to 45% for those living on less than $2 a day. Similar findings have been observed in South Africa and Peru[8]. This concept about the economic behaviours of the poor is a central theme in their previous book, *Poor Economics*[9].

In later chapters, the book focuses on the concept of trade-offs, which grounds many economic theories. The authors incorporate climate change and technology to demonstrate the trade-offs economies and societies face. These three chapters examine the negative implications of production booms and economic growth on our environment, and the impact of the advancement of AI on job markets. In Chapter 8 the authors zoned in on the polarized political climate in the United States. This often varies from the political climate which exists in the Caribbean, particularly in relation to social programmes. Certainly, concepts such as free education and or healthcare which are common in the Caribbean, are unusual to capitalist societies such as the United States.

The final chapter explores various social policies and programmes that different economies have tried over the years, such as Universal Basic Income (UBI), Conditional Cash Transfers, unemployment benefits, and educational programmes. It poses a crucial question: Why aren't the poor taking advantage of these welfare programmes like the public said they would? The author argues that the conditionalities and requirements of these programmes expose the poor to a fear of rejection and a fear of losing the benefits if they cannot meet the conditions. It is possible these fears stem from the poor's sense of self-being tied to their position in society, leading many to struggle with low self-esteem.

Despite multiple studies showing that educating people in poverty about a programme and sometimes even assisting them with administrative tasks or offering financial support, they still remain wary of the conditions attached to such aid (Dufalo, 2017; Schanzenbach, 2009). Through these discussions, the authors underscore the need for reimagined social policy to restore both confidence and systemic trust in an increasingly fragmented world. In this context, unconditional cash transfers emerge as a promising yet incomplete solution. Studies show

[8] In the examined countries the share of rural households owning a television is significantly larger for individuals living on less than $2 a day than those living on less than $1 a day.
[9] Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty

such programmes offer kick-start benefits, increase awareness and participation in potential social mobility opportunities (Banerjee , et al., 2017; Banerjee , et al., 2015; Dufalo , et al., 2019; Jones & Marinescu, 2022). However, long-term research indicates that while helpful in the short term, cash transfer programmes alone do not serve as a transformative solution to poverty (Blattman, Fiala, & Martinez, 2020).

Culminating this line of reasoning, and the proven benefits of unconditional cash transfers, the authors suggest an innovative proposal of 'Universal Ultrabasic Income' (UUBI). This enhanced cash transfer model aims to potentially eliminate the barriers of social programmes structured around traditional Universal Basic Income.[10] An intriguing example of an effective welfare programmes mentioned in the book is the Flexicurity model, otherwise known as the Danish Model. In Denmark, the employment system encourages high mobility thus it demonstrates to citizens that job loss is not the end, but rather just a phase of life. This approach aligns with the broader goals of UUBI.

In addressing the big questions surrounding immigration, preferences, trade, growth, and politics, the book offers the well-researched arguments the authors make to challenge traditional economic theories. The book urges the public and economists alike, to refresh their views to build a better society through effective social policies. The arguments are direct and impactful, often giving readers an unsettling "gut punch" as they confront biases they didn't even realize they had. The book includes a few examples and research from the context of small developing states, which indicates significant potential for further study in social policy. This is particularly true in the Caribbean, where rising inequality and the high cost of living are major concerns.

One of the book's highlights is its exploration of the mindset of immigrants, and poor people in both rich and poor countries. The authors excel in sharing their perspectives, shedding light on the strength and resilience of immigrants. This lens can be applied in the Caribbean where many nationals hold CARICOM skill certificate and migrate regionally, yet still face social mobility challenges (Brathwaite, 2014; Dietrich Jones, 2020). This observation raises questions

[10] See page 295-297

about the role regional unity can play in shaping the region's social policies. Perhaps there is an opportunity for Caribbean citizens and governments to develop policies that allow low-skilled immigrants more opportunities for social mobility.

Moreover, the discussion on the negative impacts of growth-centric policies in developed economies is particularly relevant to the Caribbean. These policies often increase the vulnerability of small island developing states (SIDS) to natural disasters driven by climate change. One possible reason this persists is the growing misuse of the economic trade-offs theory to put forward the argument that someone must bear the brunt of these costs. Yet it is rarely the developed economies that face this burden. When global players contribute to the heightened vulnerabilities in developing and poor economies, it can feel like there is no way out of the situation. This mirrors the experience of people living in poverty, who face a psychological struggle at the bottom of the social ladder. These individuals often feel discouraged by their social immobility and lack of opportunities.

Overall, the authors guide readers in piecing together the puzzle, by helping them form their ideas on economics and how to support the most vulnerable members of society during this era of rapid change. While the book presents valuable insights, it could have been strengthened by including more examples from small island developing states to broaden the discussion on the strengths and weaknesses of current social policy. Although the inclusion of topics like artificial intelligence, climate change, and geopolitics adds depth, these chapters occasionally felt disconnected from the central analysis of welfare reform. Nonetheless, the book's theoretical lens offers a compelling argument: without confronting the psychological and structural roots of inequality, growth will remain exclusionary, and societies will continue to fracture due to unmet expectations. It provides some refreshing perspectives for policymakers, both globally and, in the Caribbean, to contemplate implementing a more human and data-driven approach and contribute to shaping a more equal world.

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