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Ali Wyne on Understanding Poverty Edited by Abhijit Vinayak Banerjee, Roland Bénabou, and Dilip Mookherjee. Oxford: Oxford University Press, 2006. 496pp.

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Abstract

A review of:

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Keywords

Human rights, Poverty, International economics, Humanitarian aid

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Understanding Poverty Edited by Abhijit Vinayak Banerjee, Roland Bénabou, and Dilip Mookherjee. Oxford: Oxford University Press, 2006. 496pp.

Understanding Poverty is a timely contribution to scholarship on development economics, accessible to analytical specialists and to general readers. It covers a wide range of topics, from the (possibly dually) causal relationship between fertility and poverty to the growing importance of microinsurance. Perhaps more importantly, it imparts a refreshingly balanced tone to a discussion that is rife with simplistic dichotomies. While economists such as Jeffrey Sachs believe that poverty can be alleviated through substantial increases in foreign assistance, others, such as William Easterly, believe that donor aid is almost completely ineffectual. The debate between the two camps has increasingly assumed an ideological character in the U.S., with liberal think tanks clamoring for the Bush administration to fulfill the Millennium Development Goals, and conservative ones arguing against the naiveté of such propositions.

Amidst these shrill ping-pong exchanges, Understanding Poverty reminds us that nuances are as important as broad ideas. Occasionally, then, it can leave one pessimistic. The first chapter, for example, concludes that accurate poverty measurement, in-and-of itself, is exceptionally difficult. When one factors in individuals' incentives to distort their poverty statuses, governments' incentives to politicize their constituencies' plight (hence the oft-invoked figures of how many individuals are living on less than \$1 or \$2 a day), and a myriad of other such factors, the task of providing an accurate calculus borders on impossible. How are we to combat poverty when we are unable to properly measure it and when, as it happens, international economic organizations' reports oftentimes contradict themselves?

After posing this question in a stand-alone chapter on poverty measurement, the book follows a tripartite structure, discussing, respectively, (1) the causes of poverty, (2) possible prescriptions for its reduction, and (3) new ways of approaching its study (the last of which I discuss below). The essays that appear in the first two sections roughly proceed from general to specific. Thus, the first section begins by surveying the evolution of poverty and concludes by exploring the connection between ethnic diversity and poverty levels within countries; the second section, in parallel fashion, starts with an overview of redistributive policies, and ends by discussing the role of credit intermediation in promoting poverty reduction.

This book is not intended for individuals who believe that the solution to poverty lies in increased Western largesse, among other simplistic proposals. However, one would be remiss to interpret Understanding Poverty's tone as downcast; it simply tempers optimism with realism. The principal theme of the book is that change is oftentimes best effected on a small scale, when program objectives are realistic and knowledge of the target community or communities is rich. Drawing on his extensive knowledge of India, Banerjee discusses how randomized, micro-level experiments have been employed to improve literacy and healthcare in impoverished communities (see, for example, Banerjee's "Making Aid Work," featured in the July/August 2006 issue of *The Boston Review*).

It is this emphasis on targeted solutions that separates Understanding Poverty from other volumes on development economics. The reader is spared vacuous recommendations such as, "Poverty eradication campaigns must be targeted to the community's unique circumstances..." and is instead offered, for example, a rich discussion of how pharmaceuticals can be used as an

incentive to develop vaccines for the developing world. The reader, furthermore, will not encounter politically appealing but economically crippling calls to, say, eradicate child labor. Although child labor is indeed repugnant, it oftentimes results in an indispensable source of income for poor families. Given that many such families live day to day, does it make sense for parents to send their children to school, when the economic benefits of such a route may not be realized for ten, or even twenty years?

Many of the book's findings are counterintuitive. For example, the rural poor do not necessarily spend all of their disposable income on food. Furthermore, even though their health is oftentimes in dire condition, many poor individuals report that they are feeling well, and spend a small fraction of their disposable income on healthcare expenditures. Closer examinations reveal that the poor spend an appreciable fraction of their disposable income on entertainment (for example, weddings and cultural festivals) and basic commodities, such as radios and televisions (see, for example, Abhijit V. Banerjee and Esther Duflo, "[The Economic Lives of the Poor](#)," October 2006).

Understanding Poverty abounds with such facts, which are at once surprising and vital. While the first two sections present many of them in isolation, the third section coheres them by analyzing new perspectives and models in the field of development economics. Of particular interest is Mullainathan's essay, "Better Choices to Reduce Poverty," which examines how insights from psychology apply to economics and, accordingly, explain some of the poor's seemingly irrational decisions.

The 28 essays that are featured in this compendium skillfully marry theoretical precepts to concrete explanations, and offer an excellent basis for further research and informed policymaking. One hopes that Understanding Poverty marks only the beginning of further collaborations from these three scholars, for the sake not only of Western policymakers, but also for that of their intended beneficiaries, the impoverished masses of humanity.

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