

## BOOK REVIEW

### **Good Economics for Hard Times: Better Answers to Our Biggest Problems**

**Authors: Abhijit V. Banerjee and Esther Duflo.**

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by  
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#### **Overview**

It is rare for economists to openly accept how little is known about which policies and institutions are the real drivers of economic growth. In *Good Economics for Hard Times: Better Answers to Our Biggest Problems*, Nobel-Prize winning economists Abhijit V. Banerjee and Esther Duflo show that the erroneous expectation of economic analysis to the same degree of precision as in physics or mathematics, only leads to wide misconceptions and beliefs. This is what makes the book interesting and worth looking into. The authors' authenticities are displayed through extremely controversial topics of

world politics, giving the readers deeper insight in to the problems we face today while pointing out where economic theories do not exactly fit the reality.

The book's authors, MIT economists Abhijit Banerjee and Esther Duflo, already well known for their earlier collaborative work "*Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty (2011)*", continue to make their mark in the field of development economics. Distinctly departing from the first book where the main focus was on poor countries, this book focuses instead on policy discussions surrounding economic growth in wealthier and larger nations. The

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authors have taken a stronger political stand, broadened the scope of their study geographically and thematically, and proposed that factors like morality and quality of life matter no less than income.

Banerjee and Duflo's work is both original and provocative in approach, focusing on policy debates and successfully grabbing the media's attention with the most controversial global issues such as growth, climate change, trade wars, migration, AI and technology, welfare and wealth inequalities, government and anti-government, and social policies. The authors use case studies and policy experiments mainly from the United States and India, with additional cases from Ghana, Germany and beyond. In each chapter, they summarize the results of their research to explore the limits of economic knowledge and determine what can and cannot be established with any degree of certainty.

## **Review**

The book begins by grabbing the readers' attention with the claim that economics does not have all the answers. Early on in the book, they mention "We, the economists, are often too wrapped up in our models and our methods and sometimes forget where science ends and ideology begins." (p.16). So, what is the intuition here? The book adds to the literature emerging on the call for intelligent but skeptical exposure of what economics can or cannot offer to public policy by devoting each

chapter to discuss how economists' claims are mostly inconsistent with what the current "best thinking" and research in the area shows.

For each topic covered, the authors explain the standard economic approach in a simple and easy to understand way. The highlights of the book are chapter 2, 3, and 5. Chapter 2 delves into the issue of immigration where the author attempts to uncover the real impacts of immigration on the wages of native residents, refuting the claim that only negative effects can be expected. This is done by synthesizing past empirical work and analyzing the results through randomized controlled trials (RCTs) and natural experiments where the object of studies are control groups that receive intervention and control groups that receive no intervention. The outcomes are then measured and compared to what is predicted by economic theories, for example, studies of the Jews in Israel and Cubans settling in Miami shows that the fear of immigration is unfounded, as the influx of low-skilled workers has little to no significant effects on local wages. The overall aim of the chapter is to shed light on migration waves around the world in recent decades and analyze what motivates people to leave their countries. Another important point made by the authors is that migrants do not only add to the labor supply, but also take on the role of consumers, taxpayers, and have other impacts on economic functions. The authors conclude that there is no concrete evidence that an inflow of low-skilled workers causes significantly negative

impacts on the local labor markets. This has an important implication for policy makers, if they would accept the fact that contrary to popular notion, migrations should be allowed, if not promoted.

In Chapter 3, the authors introduce the topic of trade under a clever heading of “the pains from trade”, where contrary to Economists’ usual hype about ‘gains from trade’, Banerjee and Duflo offer a cutting view of the expansion of global trade as the culprit of economic despair in rural and Rust Belt America prior to COVID19. The chapter reviews the basic theory of trade from Ricardo’s comparative advantage to the Stolper-Samuelson’s effects of trade on factor income. Without denying the usefulness of the standard economic trade models, the authors bring to the table once again the less discussed issues and various political narratives surrounding trade. Undoubtedly, their personal take on trade liberalization causes further debates as Banerjee and Duflo suggest it brings rather small benefits while causing more damage to the poor in countries like India. Here they claim: “Jobs were lost and not replaced.... Trade has also created a more volatile world where jobs suddenly vanish only to turn up a thousand miles away.” (p.103), and conclude that the gains and pains from trade end up being unequally distributed, thus there is a real need for social policy to reach beyond mass economic survival and help those whose occupations have been threatened by trade.

Another interesting topic is the longest chapter on Growth. The authors take the readers through different theories of growth from Solow’s exogenous growth model and its diminishing returns to Robert Lucas’s discontent with Solow’s long-run growth limitations, and finally to Paul Romer’s optimistic take on knowledge spillover from innovation that can overcome the diminishing return and thus allow technologies to constantly make improvements. In Romer’s world, technological progress would no longer be a random mysterious force that the economy has no control over, and growth could continue as a result of spillovers that eventually lead to increasing returns for the country. One can see that the mentality behind the constant GDP growth offered by economists is pretty general, mainly focusing on technological advancement and increase in productivity. Yet, the authors point out that one of the biggest factors that contributes to the slow growth of GDP in developing countries is the misallocation of resources. To quote: “.... all of these economists were also wrong because they thought of economic growth and of a country’s resources as aggregate things (the “labor force,” the “capital,” the “GDP”), and in doing so they probably missed the key point. Everything we have learned about misallocation tells us we have to step beyond the models and think of how the resources are used.” (p. 211).

Unfortunately, no solid conclusion was drawn from the lengthy discussions of theories and

models. The authors concluded that “.... despite the best efforts of generations of economists, the deep mechanisms of persistent economic growth remain elusive. No one knows if growth will pick up again in rich countries, or what to do to make it more likely.” (p. 217). In the end, the authors emphasize how important economic growth continues to be for the very poor countries, but since growth cannot be predicted, government leaders should focus on good policies around education, environment, healthcare, and other welfare issues, or aim for poverty reduction instead.

Throughout their discussions, the authors rely for much of their analysis on the RCT to answer the most controversial questions of today, such as: Should we fear migrant workers? Is free trade actually good or bad? Why are some countries still poor? Will technology steal our jobs? and many more. Taking on a view that economic science tends to overreach and cannot be used to provide sensible policy guidance, the authors turn to place more emphasis on running experiments with less theorizing or scientific analysis. The questions are then tackled by using the RCT, which are methods borrowed from medicine used to measure the effectiveness of policies. The problem is, that while they might be a decent tool, most RCTs are typically set up to examine a question that was fairly obvious from postulation, requiring only a data veil to confirm the results that tend to be mediocre if they were not clear to start with. Furthermore, RCTs are

methods originally designed to determine the effectiveness of particular medicines. While the human body mostly functions in a similar way and can be generalized in a large group for study, the functions of the economy are a lot more complex with many confounding variables. If one further takes the complete diversity of economic agents and populations into consideration, it may be seen that RCT is not the best tool for answering the more problematic issues, and the overreliance on this method does not help the authors shed light on any debates caused by misleading factual support.

Although this book was fluently structured and written in a way that is easily accessible for all readers including those without any economic background, it is prone to some criticisms for a couple reasons such as generalization from limited studies, lack of solid conclusions, and political bias. First of all, the authors incorporate too many ideas in one book, which makes it all too broad and thus the impact seems somewhat diluted. The anecdotes from different parts of the world serves as an interesting read, yet the actual case studies are largely limited to a few selected countries like the USA and India. Special emphasis on these large economies can hardly provide the accurate interpretations for other economies throughout the world. The length of the book also makes it difficult to concentrate on any particular issue. The book could be made more interesting and offer a

more significant analysis if the authors at least halved the contents, focusing on a particular issue at a time. Secondly, the lack of solid policy recommendations leaves room for improvement. One can even say that the title of the book “Good Economics for Hard Times” is misleading as the authors do not propose any specific solutions and the readers cannot detect any ‘good economics’ but merely the discussion of what is ‘bad economics’, which is mostly blamed on governments’ policies. Lastly, as the authors delve into what they consider as ‘bad economics’, hints of biased political views can be detected throughout their discussions. This becomes more evident as they take on a liberal view regarding the wealth gap and poverty alleviation. Their analysis appears to be somewhat subjective when reasons behind falling economic systems are examined.

Having said that, the book has done great job as a thought-provoking deconstruction of what could be fake facts surrounding many economic myths around us today. The authors center well on policy debates and hot button issues that receive enormous media attention, such as immigration, trade and tariffs, taxation, and many more. The book's overall theme is to exhibit economic policies in relation to other disciplines, specifically political science, sociology, and public administration. An underlying theme that can also be detected is that bad decision-making by policy makers, which is partially driven by

economists’ blind faith in textbook theories, causes a hard time for their citizens. A valuable takeaway from this book is that policy makers should focus more on improving the living standards of their people by shifting their focus away from theoretical economic growth towards a more doable redistribution of the resources currently available.

## **Conclusion**

This is the kind of book that does not promise economic miracles, but also the kind of book that should shape intellectual conversations amongst national leaders and conscientious citizens. It is highly recommendable for anyone who is interested in understanding the real economic problems faced in the modern world. After all, economics is something that every global citizen, no matter what their profession, should have a basic understanding of. As stated by the authors themselves towards the end of the book: “...Economics is too important to be left to economists.” (p. 336)