

Tim Phillips [00:00:00]:

Welcome to the first in a special series of VoxTalks Economics recorded live at the PSE CEPR Policy Forum at the Paris School of Economics.

My name is Tim Phillips. Now, in this episode, how should development economics respond to the challenges of the 21st Century?

Well, the Policy Forum this week kicked off with one of the biggest questions in economics and economists can ask and attempting to answer it. One of the most important figures in development economics, Esther Duflo of MIT, she's also the Chair in Poverty and Public Policy at the College de France, and the co-founder and director of JPAL. She joins me now. Esther. Welcome to VoxTalks Economics.

Esther Duflo [00:00:49]:

Thank you for having me.

Tim Phillips [00:00:51]:

One of the things you've been talking about this morning is what you have been able to accomplish over 20 years now with JPAL. During that time, the profile of development economics has changed enormously. The problems haven't gone away, though. But do you think that you have managed to do the radical rethinking of fighting global poverty? That was the subtitle of your book; Poor Economics.

Esther Duflo [00:01:17]:

That book came out in 2012. So about the halfway mark of the century and the halfway mark of JPAL. Of course, problems are still with us, but I think it's worth highlighting that much, much progress has been made in the lives of the poor during this period. In fact, until COVID, it was a very good place in the pantheon of economists to be a development economist, because we were the ones who could say, well, things are going in the right direction from our vantage point. For example, poverty was reduced by half, infant mortality and maternal mortality were also reduced by half. The death from HIV started declining from the mid 2000s. Most kids are in school, and so on and so forth. And I, of course, would not credit the randomized control trial movements in general, and JPAL in particular for all of these gains. But I will highlight that when you look at where those gains took place, they didn't take place in one or two countries, they took place really in all over the place. And I think that they often reflect a greater pragmatism by leaders in those countries, I think partly because some space was open to them by basically

shifting away from the Washington Consensus towards Millennium Development Goals that are much more focused on the welfare of the people. And this pragmatism led to a new openness to consider experimentation. Trying things out, looking at what other countries do to solve problems at a particular country at a particular time was considered to be like a priority. So you take, for example, Malawi made an amazing progress in maternal mortality by deciding they were going to focus on it. And once you do that, you can say, well, what have other people done? Can we do the same thing? You can do your own experimenting and so on. And that created a mindset which was ripe for collaborating with researchers, setting up rigorous experiments, and therefore a lot of cross learning from experiments that were conducted in various low-income countries themselves. So I think this entire thing evolved together in perhaps the last decade of the previous centuries and the first two decades of this one and was in part responsible for those progress.

Tim Phillips [00:03:38]:

One of the interesting things in hearing you talk is the focus on the mistakes that we've made and the things that we don't know. For example, the story about what interested you in development economics, the idea that if we gave more children textbooks, would that improve their learning? It turned out not to be a good idea. It's very unusual to be excited by failure.

Esther Duflo [00:04:01]:

Well, to be sure, it's not what led me to development economics. What led me to development economics is really the desire and the hope that one could make a difference in the life of the poorest people in the world, which seemed to be the only interesting problem for me. So that's what led me to development economics. But this story of failure is what led me to Air City as a tool, Air City is standing from randomized control trials and the idea of experiments. And it's basically the idea of testing solutions to a social problem or a specific problem in the same way that you would test a drug by creating a control group and a treatment group randomly and therefore making them strictly comparable, same way you would test a vaccine. And this can be applied to medicine or to vaccine. This also can be applied to interventions like, for example, textbooks. And this textbook randomized control trial was perhaps the first that was conducted by Michael Kremer and his associates. And you're exactly right. It found that textbooks were not effective. And this was really a surprise to the researchers, to the implementers, and of course, to me. And this is one of the things that really opened my eyes, saying, look, there is so much we don't know and so much that we think we know we don't know. And therefore, this is an amazingly important and powerful tool. It's not just going to comfort us in our priors. It's really going to radically rethink what we think we know often.

Tim Phillips [00:05:30]:

Some of those radical rethinks. For example, that idea that if you give people cash grants, it's not going to make them work less, it's something that goes against what you might learn in another economics lecture. But to actually go out and investigate it, we then find something that's very creative.

Esther Duflo [00:05:49]:

Yeah, so that's a very interesting example because it's really what all of us learned in Economics 101. Yes, it's kind of perhaps in the first semester of economics everyone learns that there's a trade-off between leisure and labour and you need to work because you need to eat, but if you have more money, everything equal, you need to work less. That could be true. It's a powerful theory and it's at the core of a lot of our models. Also, it's at the core of a lot of what policymakers think because they have all taken Economics 101 and they have absorbed these lessons and they haven't usually not got onto Economics 102 or 103 and therefore they think this is where it stops. But it's testable, of course, because you can give money to people and see whether they work less. And what is striking is that over an accumulation of now dozens of experiments, this is likely isn't true. The income effect, that is, the fact that with more income people become more lazy is never really found. In some circumstance you find the opposite that when you give people money they work more because that opens a space where they are more focused and less stress and they can either work more hour or be more productive during the hours where they work. What's interesting in this story is that one experiment doesn't change anybody's mind. It really has to be the accumulation of experiments to change something that is so powerful. And even today I would say that there has been progress within economics to absorb the idea but in a lot of policy circles, in particular the more conservative ones, you very quickly go back to this instinct.

Tim Phillips [00:07:30]:

Yeah, there's a default switch and you're constantly pushing people away from that.

Esther Duflo [00:07:35]:

Yes, and when you tell them the results, they're like oh, it's not that they don't necessarily believe you but they kind of weighed against the strengths of their prior and usually a prior is so strong that you don't it's hard to make a dent. But these are things that eventually change.

[Voiceover] [00:07:58]:

JPAL stands for the Abdul Latif Jameel Poverty Action Lab. It was set up in 2003 and its work has ensured that thousands of interventions to help the world's poorest people are supported

and evaluated using rigorous scientific evidence. If you're interested in JPAL's work, check out our companion podcast VoxDev Talks @voxdev.org where you will find lots of episodes in which JPAL's work is featured.

Tim Phillips [00:08:29]:

One of the other interesting points you brought up was how important it is to understand how complex people's reasoning and motivation is. Again, a lot more complex than very often we learn, certainly in the early stages of economics. Is this something where it's important for economists to learn from other disciplines as well? Psychologists, Sociologists?

Esther Duflo [00:08:50]:

Yes, I think there has been a very fruitful collaboration between economics and psychology which started more with social psychology and has now moved on to also collaborate with cognitive psychologists. Both to think deeply about some of the fundamental psychological features about how we behave as species in some sense. And then what the psychologists have to bring is the understanding of psychological phenomena. And what the economists have to bring is how those phenomena interact with the environment and with the economic incentives that those environments create. So the field that was called behavioural economists for a long time now is more often called economics and psychology has made a ton of progress in our understanding of how we tend to react. What are some of the features of the human psyche and how it makes it react to some situations, some others. And then today, for example, I have a very long standing collaboration with someone who works on how children learn. And that's another branch of collaboration with psychologists, very helpful, where in a sense, they are much more on the driving seat because we are working together on how kids learn mathematics, on designing programs to teach mathematics to young children from a very young age in primary school, in very poor settings. And the intellectual agenda, in a sense, comes from them. But then what we have to bring in is how do you embody it in an intervention and how do you test and how, as I joke often with my colleague is that I'm just here to run the trains on time. So what's interesting is that economists have developed over the last several years an ability to get the logistics of these projects right. It also opens new areas for other fields. And the reason I'm doing it, for example, this project on teaching mathematics to very young children is because I know that the school system in developing countries does very badly with kids that are just a little bit behind. They are not well equipped to catch them up because they are chasing a very ambitious curriculum. So on the one hand, a lot of my work has been about trying to change the curriculum but that's difficult. And then at some point I told to myself look, if they are not going to take the curriculum back to the kids, can you try and bring the kids back to the curriculum? And that's what led me to reach out to Liz Spelke in the Harvard Lab for the Developing Child and this collaboration. Another set of collaborations that are more recent are with people who study

social networks. And that itself is a collaborative world because they are sociologists there, quantitative sociologists, as well as computer scientists, statistician and economists with people who are truly able to talk to each other to study the different facets of the social networks from a very descriptive place to an extraordinarily technical place. And economists really learning from all aspects of the spectrum.

Tim Phillips [00:11:50]:

Because of the longevity that you've had with RCTs. You could now look at the long term effects of some of the things that were being done 10/15 years ago and you stayed with it and evaluated the long term impact of some of the things that you have done and very encouragingly, found out that there are long term impacts, if you help the ultra poor and you do it appropriately then that help lasts for a very long time. That must be encouraging?

Esther Duflo [00:12:20]:

Yes. So in some settings you feel that it's really essential to get the long term impact of interventions because they are themselves setting up to make changes in the long run. So the ultra poor program is an intervention where poor people, extraordinarily poor people in village, the poorest people in the village get a quite significant transfer of an asset. It can be two cows and a few goats or enough to start a small business. Just quite a bit of money often could be the equivalent of the yearly GDP. And then on top of that, they get a lot of inkind help, support to take care of their animals, weekly meeting to learn how to ride if they don't know how to ride, and savings and so on, which tends to double the cost of the transfer to them. So it's a really expensive intervention per person. So that really only worth the cost if it has impact that lasts well beyond the intervention. And that's the philosophy of this program, is that the support lasts for 15 to 18 months and then people graduate from the program and ideally from extreme poverty, and then they retain the gains. In order to evaluate this program, you really need to see whether those gains are in fact retained. We were able to do that in India. We've been following them now for ten years, 15 years soon, and we see that the gain do persist. And what's interesting is that the original beneficiaries are now quite old, so they've retired and they don't really work anymore very much, but it's their grown children who are earning more often. In the case of India, the mechanism is that they are able to migrate longer and for better job opportunity once they've migrated, so they bring more to the table. That's one example where you really need the long term. Another example where we looked at long term impact is in the effect of high school education. So we did a project with Michael Kremer and Pascaline Dupas in Ghana, where we gave scholarship to randomly selected boys and girls who had been admitted to second high school on a merit example but couldn't pay. We've done that in 2008 and we've been following them since then. And there the long run follow up is also essential because first of all, in the short term there are no impact on labour market wages and so on,

because a lot of these kids are just waiting to see if an opportunity will present itself. So you could be disappointed and they start coming only at the end, the gains. And even more important, where we see the most important gain is on the children of these young people once they start having children. So the only way to have this answer is to wait until the children are themselves old enough, first of all, to have been born. And we look at child mortality, we see it divided by two. And then again with our friend psychologists we look at the psychology development, psychological development and cognitive gains and we also see important gains there.

Tim Phillips [00:15:19]:

It is fascinating, but it is a life's work, isn't it?

Esther Duflo [00:15:23]:

It is, but it's like cooking a very long ragu. You put it on the fire and you have to tend it from time to time. You can do other things in the meantime. So it's the difference between active time and cooking time.

Tim Phillips [00:15:49]:

One of the things I'm very interested in, you made the papers with it last week, is you're now talking about the impacts of climate change. Clearly those impacts are going to be devastating on the Global South but it's a little bit out of your normal field. Why have you decided to get involved at this time?

Esther Duflo [00:16:08]:

We published a book in 2019 just before the Pandemic called Good Economics for Hard Time. We meaning Abhijit Banerjee and me, which was not so much about our own work but it was meant to be a kind of megaphone for the profession of economics and how economists as a group actually have much more diverse views and study much more diverse problems than we usually give them credit for. A lot of these ideas on climate were already in that book but they did not attract that much attention at this time. And even though it's not so much my topic of work, it's one where I know the literature well enough that I can be an advocate for it. And I'm very happy to do that and I think I'm also having done that for some time, I also want to delve into some of the more technical details even though that's not experimental for this. And the reason why I think it's important is that I think we're reaching a turning point in our ability to even speak face to face with people in developing countries, in the low income countries, after we really didn't do anything, during COVID, after we didn't give any money, transfer of vaccine

transfer. And now from cup to cup, where we keep making promises and then keep not fulfilling them. And I think it is pretty high time that we understand A that yes, we need to work on reducing our emission, changing our behaviour and so on. But B in the meantime, unless we show some real effort of solidarity with the poor countries we are literally killing people with our behaviour without doing anything about it or without acknowledging this. I thought, okay, all of the evidence exists to put a number to this problem and I should do it because I have enough of a megaphone that there is a chance it's being heard and maybe we move little bit the public debate.

Tim Phillips [00:18:15]:

And the number that you put on this was \$500 billion a year.

Esther Duflo [00:18:21]:

So that's basically \$500 billion a year is one estimate. Mind you, it's an estimate and you could this summer I'm hoping to work on something where it's kind of choose your own adventure where people can play with different parameters to arrive at their own number but also that's my favourite numbers right now and it's very simple. It's taking the emission that our behaviour causes both directly on our territory plus in China or India or by what we import so that's our emission multiplied by \$37. So this is an emission in term of tons, tons of carbon per person and per year multiplied by \$37. So what is the \$37 representing? It simply represents the cost of a ton of carbon on increased mortality multiplied by a standard number for a value of a statistical life. So mind you, it's not because we can compensate people for having lost a child by giving them money but it just say look, by emitting carbon and thereby heating the planet we are causing death. All of this death first order will take place in developing countries because those countries are already hot and they don't have as much income to protect themselves from the impact of climate change. They can't turn on the air conditioning. So every time we send carbon in the atmosphere we are killing children in poor country and that 500 billion is the cost of that behaviour.

Tim Phillips [00:19:52]:

But every time I do one of these podcasts talking to a climate economist I am reminded how far apart the economists and the policymakers are in this. You've had a lot of success with JPAL in influencing policy towards the Global South. Do you think that you can move the needle on this problem?

Esther Duflo [00:20:15]:

I honestly have no idea. I'm sceptical because it's very different. I don't know that I have had much effect influencing policies towards the global poor. I think I've had more success influencing policies in the developing countries themselves. We were talking earlier about the pragmatism of the government in developing countries and I've been able to help them in those quests by being there to respond to their questions and not to make choices for them but to kind of help them do a little bit better what they wanted to do anyways. And that I think is the reason why we've been able to be influential at deeper and the whole aid ecosystem is for this point of view, for really for the purpose of development is not super relevant, just quantitatively, it's not a lot of money and it has changed. Institutions like the World Bank have made a lot of progress and then now we are seeing institution like the Front for Innovation Development here in Paris that really tries to take some of this idea of bottom up innovation and test and scale et cetera. So there has been movement happening also in the North but I don't think they're responsible for the bulk of neither the progress nor the influence that I have had. Whereas now I think we are a pretty unprecedented situation where the problems are caused in rich countries and they affect first order, mostly poor countries. So there is nothing I can tell to the poor countries to help them do what they want to do better. I need to start talking to the rich countries citizens and their leaders, obviously, and they're just even getting people to understand that it's not charity, it's basic justice. It's a much different message than to say you've already met your democratic decision, now this is how you can do it just a bit better. There I'm kind of giving what I've been calling and other setting plumbing advice, but here I'm trying to tell people this is the social preference you should have. And I don't know if I would be able to do that. But there has been research, very interesting surveys that have been done in Europe by people here in France showing that there is actually a pretty large consensus of the European population in favour of global international taxation of top wealth to finance a kind of loss and damage fund for the poor climate transition. So maybe actually the people, they already understand more than we think, and it's the political intermediation that is losing that message. We have to continue to push.

Tim Phillips [00:22:57]:

Good luck continuing to push for another radical rethinking that has to go on. Esther Duflo thank you very much.

Esther Duflo [00:23:03]:

Thank you so much.

Tim Phillips [00:23:07]:

There are literally hundreds of references I could give you for that conversation, but let's stick to the two books. The first one. Poor Economics: A radical rethinking of the way to fight global

poverty. And the second. Good Economics for Hard Times: Better answers to our biggest problems. And the authors for both of them, Abhijit Banerjee and Esther Duflo.

[Voiceover] [00:23:36]:

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