

THE STORY OF A TRIO'S EXPERIMENTS WITH DEVELOPMENT

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

The three Nobel laureates' field experimental approach to poverty relief has guided many a policy

This year, the Royal Swedish Academy of Sciences awarded the prize in economic sciences to Abhijit Banerjee, Esther Duflo and Michael Kremer "for their experimental approach to alleviating global poverty".

The field experimental approach to study poverty alleviation and aid its effectiveness started with a simple programme in the mid-1990s, when economists Michael Kremer and Edward Miguel participated in the distribution of deworming medicine to school children in Kenya. Lacking pills for every child, the administrators randomized the selection for those who were treated. The group that received treatment for worm disease not only suffered from less infection, predictably, but also had better school attendance and outcomes. In following up with the students after a decade, they found that those who received the deworming medication reported 20% more earnings than the control group, a remarkable return for a deworming pill costing a few cents. Even more surprising was that parents in Kenya were acting irrationally in not adopting such a simple and cheap way to improve their children's lives.

The study yielded three important insights. First, there is a systematic way to evaluate the effectiveness of the billions spent on development aid each year using randomized controlled trials (RCTs). Second, a small intervention such as deworming may go a long way in solving development problems, and RCTs can test ideas before they are scaled up. Third, experiments may be used to nudge irrational behaviour away to get better outcomes. It prompted an explosion in the use of RCTs on these three margins, and the idea spread to other areas such as education, microcredit, agriculture and bureaucracy in developing countries.

Given the success of the Kenya deworming study, can economists now apply the results to other parts of the developing world? Unfortunately, it is not that simple, and the results cannot be generalized. A 2012 paper by Duflo, with Rema Hanna and Stephen P. Ryan, reported an experiment in Rajasthan where teachers in 57 randomly selected schools received a camera, with instructions to have a student take a time-stamped picture of the teacher and the other students at the start and close of each school day. Teachers were paid for the days they were present. Teacher absenteeism in the treatment group fell by 21% relative to the control group, and the students' test scores improved. The use of time-stamped logs of teachers' presence, linked to their pay, reduced absenteeism, which is both logical and unsurprising.

However, when a similar study was done on health workers in Rajasthan, the result was the opposite. In their remarkably honest book *Poor Economics*, Duflo and Banerjee discuss a study to reduce absenteeism in healthcare, where nurses were given a time-and-date stamp to affix on a register attached to a wall of the centre several times a day to prove their presence. Those who didn't show up at least half the time would get their wages docked. While nurse attendance increased from 30% to 60% at first, by the end of the study, it had fallen to 25%, even lower than in the comparison group. In this case, time-stamped monitoring had increased absenteeism. The reason was hidden in the method. While RCT estimates are unbiased because they randomize the target group, this property is of limited practical value. Nancy Cartwright and Nobel laureate

Angus Deaton argue that the results from these experiments only apply to the sample selected for the trial, in that particular context, and justification is required to extend the results to other groups. Other development economists such as William Easterly, Lant Pritchett, and Eva Vivalt have also criticized RCTs for being unable to generate results with external validity.

Banerjee, Duflo and Kremer are thoughtful about the context and struggles of the poor, and they are also aware of the limitations of these experiments and problems with simple one-size-fits-all solutions. Many economists and policymakers, however, have played fast and loose with the implications of these experiments, often using them to guide large-scale policies that are far more general in application.

Another important criticism is that the obsession with RCTs as the “gold standard” for evidence crowds out other big questions of development economics, such as the role of institutions, property rights, culture and immigration in alleviating poverty. These big institutional questions are less suited for randomized testing and, therefore, underexplored by contemporary economists.

This year’s prize is particularly relevant for India, as it has the second largest number of people in extreme poverty (living on less than \$1.90 a day). Much of the work by the laureates is situated in India.

Of the three winners, Esther Duflo is the least surprising, as every second recipient of the John Bates Clark Medal goes on to win the Nobel. Duflo is also the second woman, after Elinor Ostrom, and the youngest economist, at 47, to win. Most laureates are awarded the prize only in their later years, but this year is an exception, as Banerjee is 58 and Kremer is 54 years old. All three are at the peak of their careers and actively engaged in enriching their field. This makes this year’s winners extremely powerful within economics, a power they must use with rigour, scrutiny, scepticism, and a lot of responsibility.

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