Special Invitation-Editorial

NOBEL PRIZE FOR POOR ECONOMICS

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Abstract

Growth economics gave way to development economics, by evolving measures like Human Development Index (HDI), Gender Inequality Index (GII) to address the long term need to improve human development capabilities. Developing economies like India have unfortunately not given adequate attention to quality dimensions in primary education, health care and sanitation. This year's NobelPrize winners in economics have made a yeoman contribution to development economics by using Randomized Control Trial (RCT) tools to determine what works for people to embrace higher human development. This paper brings out the evolution of development economics and the design of RCT to arrive at startling findings in the field of education, health; by combining, handholding with incentives in such trials. It brings out the deficient areas where India is yet to catch up such as Millennium Development Goals (MDG) and Sustainable Development Goals (SDG).And why it's necessary to abdicate ideological blinkers in pursuit of economic pragmatism to promote socio economic justice. While there are contrarian viewpoints regarding universalisation of RCT findings, there is unanimity that these are refreshing tool to make an objective assessment how to fight poverty, illiteracy and ill health.

***Keywords :** HDI, GII, RCT, MDG, SDG*

Introduction

Alan Greenspan, the longest serving Federal Reserve Bank Governor of USA (1987-2006), had told President Bill Clinton that "Economics does not explain everything. But no amount of global politics is complete without analyzing the economic dimension". He was an academic, who tried to test economic theories through the prism of pragmatism; and was recognized as the greatest banker that the world has witnessed. Yet the global financial crisis happened after he demitted office; largely due to shadow banking, risky derivatives and conflict of interests that pervaded the US financial market. With all the forecasting techniques of econometrics at their command, "economic forecasting often makes the

job of an astrologer look respectable" (*John* Kenneth *Galbraith*). All the same, amongst the social sciences, economics has the rare privilege of combining the rigorous of science with the poetry of humanities, according to the second Nobel Laureate in Economics, Paul Samuelson.

Economics as a subject was not part of the scheme of honour list that Alfred Bernhard Nobel had identified in 1895. By identifying Chemistry, Literature, Peace Activism, Physics and Medicine, Alfred Noble tried to leave behind a legacy of peace and happiness rather than perpetuate the destructive potential that Max Karl Ernst Ludwig Planck and Ernest Rutherford had unleashed, by creating an atomic bomb through Quantum Physics. He became the angel of peace, where economics possibly with its own emphasis on wealth creation, did not fit in. The prize for economics was introduced by the Swedish Central Bank to commemorate its 300th anniversary.
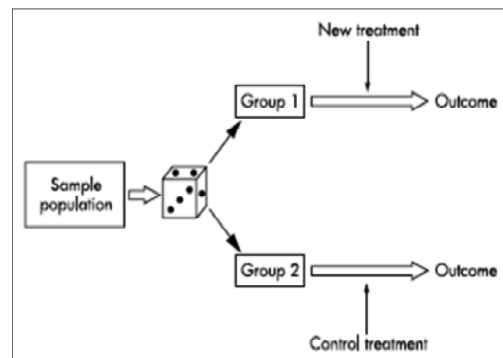
Evolution of Development Economics

Development Economics made its beginning in 1971 with the French Economist Prof. Denis Goulet observing that economists must move away from their obsession with GDP growth and focus on three basic values in human development viz. Life Sustenance, Self-Esteem and Freedom of the poor. Taking a cue from this, Prof. Amartya Sen expounded the human capability approach by identifying different types of 'unfreedoms' like under nourishment, poor health, lack of basic needs, civil

right and economic security. He developed the concept of Human Development Index, winning the Nobel Prize in 1998. He broughtto the public discourse the need to invest significantly higher allocation to basic education and primary healthcare inorder to improve human capability. Prof. Abhijit Banerjee would be the second Bengali and Indian to win this coveted prize. He along with Esther Duflo and Michael Kremer have used experimental rigour of RCT to mitigate poverty, illiteracy and ill health.

Design of Randomized Control Trial (RCT)

The design of RCT and its main principles are enumerated below:

Figure 1: The Randomised Control Trial

Source: Poor Economics: Rethinking Poverty & the Ways to End it

Prof. Banerjee & Duflo has found out by using RCT how by targeting a specific intervention like providing mosquito net to the poor or giving text books and dewarming tablets to the children, the life of recipients can be changed dramatically. Five million Indian children have benefited from remedial teaching in their schools. Prof. Duflo
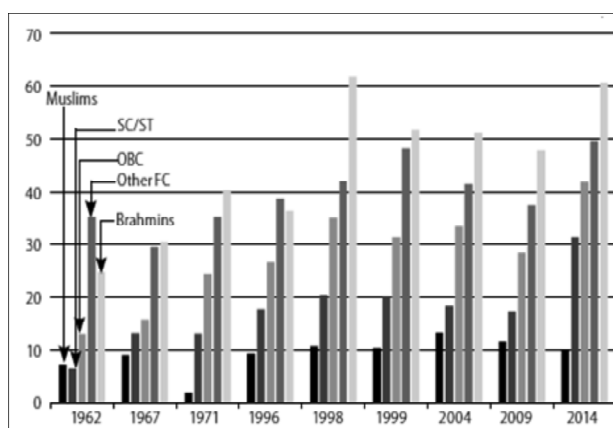
and Prof. Banerjee have experimented how child immunization in Indian villages have improved their lives permanently. By providing a bag of lentils and a set of metal plates to encourage people to immunize their child, they found that children were likely to be immunized more than six times, had they not been offered these incentives. Further they found out how providing free text books do not help quality of teaching, without tailored teaching and remedial help. Prof. Kremer had the same experience in Kenya where he spent time with the students in the secondary schools and noticed similar improvements in learning outcomes. The three Nobel Laureates, therefore, bring out that doles do not help unless these interventions are scientifically studied and empathetically executed.

The other major contribution of these three economists is that development does not cost much. A bottle of chlorine which cost 18 cents can reduce diarrhoea by 48 per cent. Yet only 10 per cent of poor people actually bleach to treat water. Similarly there is no demand for bed nets because they are not affordable to the poor. However, to encourage them to use bed nets or use chlorine in water, they need to be incentivized and monitored. Prof. Banerjee succinctly observes "big changes are not the result of big levers but small changes like mosquito net, bleaching powder, bet nets and text books which can be a big changer in the life of poor people".

In a stimulating article "Growing Cleavages in India" (March 2019), analysing the changing structure of electorates in Indian (1962-2014), Prof. Banerjee and Prof. Thomas Piketty by using RCT bring out how religious division and caste based cleavages determine voter's choice rather than issues like education, income and

Figure 2: Vote for BJP and other Right-wing Parties by Caste/Minority, 1962-2014

Source: Growing Cleavages in India?
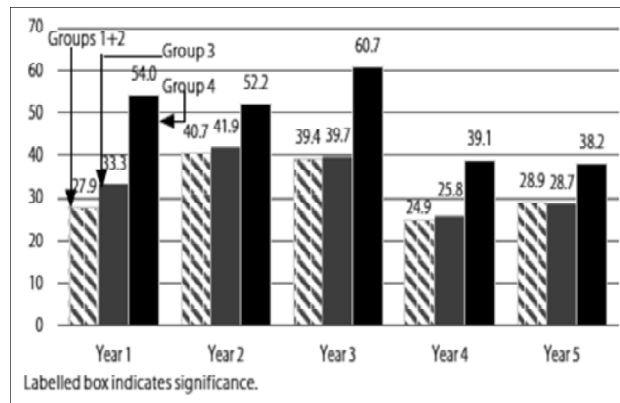*Evidence from the Changing Structure of Electorates, 1962-2014*

occupation. The voter seems to be less influenced by economics interest, rather than sectarian conflict and cultural priority. Identity and religious conflict rather tangible material benefits and class based redistribution seem to be afflicting India. Both Prof. Piketty and Prof. Banerjee are anguished fight over symbolic identities like cow slaughter, Ram Mandir and Triple Talaq have become more salient than "potentially very important political dimension like better schools, health facilities and land re-distribution. They aver that one of the key challenges to development policy instrument is how to address issues such

as "effective access of lower and middle classes to higher quality of public services irrespective of caste or religious identity, reduction of income and health inequality and effectiveness of progressive taxation". The voting pattern, party wise, is as under.

School Choice on Disadvantaged Children

Prof. D.D. Karopady in his perceptive article (2014) has used RCT and brings out the impact of learning outcomes when students are moved from government schools to private schools.

Figure 3: Aggregate Learning Achievement Scores (in %)

Source: Does School Choice Help Rural Children from Disadvantaged Sections?
Evidence from Longitudinal Research in Andhra Pradesh by D. D. Karopady

The above graph brings out how learning changes in three scenario viz. children who receive choice & go to private school, in experimental group (Group-1), children who stay back in government schools is (Group 2) and children who start out in private schools is (Group 3). It would be seen that while in the year 1, there is improvement for children in

Grade 2, it tapers off in the subsequent years. Prof. Karopady rightly observes that mere shifting of disadvantaged children to private schools will not guarantee quality improvements. Possibly it needs to be complemented by guided learning for the teachers; a point wider card by Prof. Banerjee and Duflo.

The Fight Against Poverty

As against the MDG goal of abolishing extreme poverty by 2015 globally, it has come down to 10 per cent by 2015 as per the World Bank Report. However, in case of India, as per estimation made by Prof. Suresh Tendulkar, 23.6 % (276 million) people still languish in extreme poverty. The allocation to education and health is a measly 4.5% of the GDP as against Prof. Amartya Sen's suggestion of 9% (6% for education and 3% for health). The Draft Education Policy 2019 and the Draft Health Policy 2018 have corroborated this allocation dream which is yet to be put in place. The three Nobel Laureates of 2019 have gone beyond the Economics of GDP allocation, to evidence based intervention like providing basic requirement to the poor and their children like bed nets, dewarming tablets and text books with proper inducements.

The Millennium Development Goals-one, had sought to eradicate extreme poverty by 2015.However, the record in this regard is quite dismal for India, with close to 270 million languishing in abject poverty.India's achievement with reference to MDG goals is like a cup which is half-full. The following table will bring out the stark realities.

Figure 4: MDG Goals & Achievement

Goals	India's Achievement
Eradication of Extreme Hunger and Poverty	23.6%< (BPL)
Universal Primary Education	Achieved
Gender Equality & Empowerment of Women	?
Bringing down Child Mortality by 2/3rd	1/3rd
Improvement of Health of Mothers by 3/4th	1/3rd

Source: Millennium Development Goals &HDR 2015

It would be seen from the above that India's record in terms of poverty mitigation is quite dismal. What is even more disconcerting is its record in regard to minimizing IMR & MMR. Besides its record in terms of Mean Years of Schooling and malnutrition amongst children remain very distressing as per the following table would show.

Table 1: HDI, Mean Years of Schooling, Malnutrition: Global Trends

Rank	Country	HDI	Mean Years of Schooling	Child Malnutrition %
1.	Norway	0.953	12.6	-
2.	USA	0.924	13.4	2.1
3.	S. Korea	0.903	12.1	2.5

4.	Russia	0.816	12.0	-
5.	Brazil	0.75	7.8	7.1
6.	China	0.75	7.8	8.1
7.	Sri Lanka	0.77	10.9	17.3
8.	India	0.64	6.4	37.9

Source: Human Development Report, 2018

For these three prize winners, the challenge was to find out inclear unambiguous terms as to whether particular intervention has been effective or not to combat poverty. Prof. Banerjee observes that "we have to do much deeper work to understand the lives of the less fortunate in our society in the face of all the disruption that they face". He further observes that Economist mustovercome 3-Is viz: Ideology, Ignorance and Inertia. His seminal book 'Poor Economics' with Prof. Esther Duflo is a counter point to the left Ideology of Prof. Jeffrey Sachs who believed that 'Aid'to the developing countries will be an antidote to poverty. On the other hand Prof. William Easterly believes that the free market will obliterate poverty, the way Robert Solow, the Nobel Laureate believed that "Rising tide will lift all the boats". The three economists do not carry these ideological baggagesof either the left or the rightideology just as Gandhiji had said "when a little voice tells me that there is something wrong, neither turn to the left nor to the right, but follow the narrow straight path". By scrupulouslyconducting evidence based study and moving with the poor these, three economists have trodden the Gandhian path.

Contrarian View Points

Prof. Jean Dreze has brought out how it's important to marry evidence with experience before coming to a conclusion. In his book "Sense and Solidarity - Jholawala Economics for Everyone" he brings out how RCTs are often overrated and the analysis may lack honesty, to sub-serve interests of funding agency. In the context of MNREGA he brings out how evidence based approach may be fallacious when we are trying to choose between bank or post office for transferring wages, in terms of their corruption potential. Prof. Kaushik Basu also believes that universalization of evidence at a particular place may be unreliable. He has advocated the need for reasoned intuition, and experience tempered with a shot of scepticism. Prof. Angus Deaton, who has made pioneering contribution towards analysis of consumption data and improving modality of data collection by NSSO is also not sanguine whether evidence of one place will lend itself universal application.
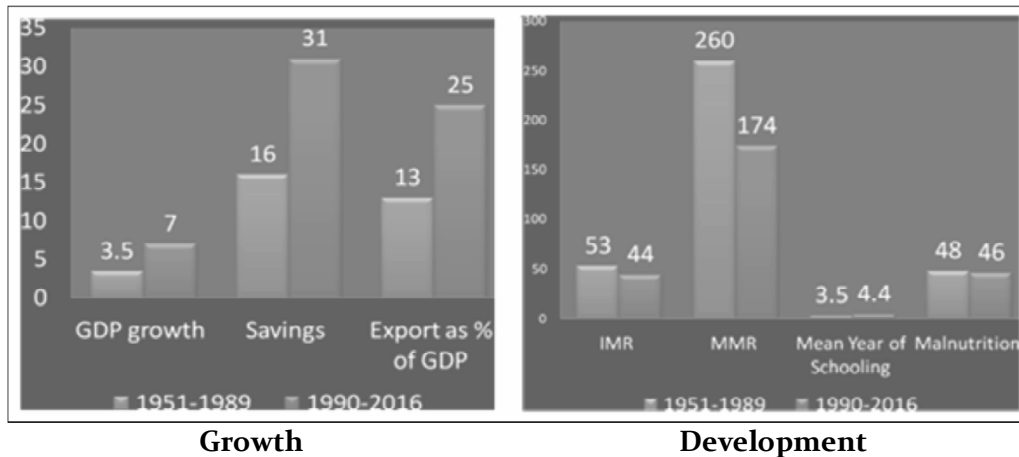
Concluding Thoughts

The Sustainable Development Goals have clearly outlined the importance of quality education and elimination of hunger. These are two important

dimensions where India has a lot of catching up to do.Major disturbing trend of India after economic liberalisation has been the mismatch between human development and economic growth.

Figure 5: Growth Development Disconnect: India

Growth　　　　**Development**

Source: Human Development Report, 2018

It clearly shows how interms of growth parameters, economic liberalisation has nearly doubled our growth rate, savings/investment and export footprint, its record in terms of children and mother's wellbeing, malnutrition amongst children and schooling, India is far behind the developed and many developing economies like South Korea and China. Prof. Banerjee, Duflo and Kremer have tried to get out of the binary lens of tackling and developmental issues like education, health and sanitation. Their evidence based approach to improving these areas of concern hold important lessons for public policy. It's indeed ironical that developing economics like India, instead of debating on development issues during elections, have become prisoners of populism; by paying greater attention to caste and religion.

The kind of priority that should be accorded social sector development is sadly missing interms of greater allocation and public attention to the merit goods sector. As Prof. Richard Musgrave rightly brought out, the three pillars of public policy rest on allocation priority, distribution justice and fiscal stability. This year's Nobel Laureates have provided interesting insight as to how to dovetail public policy on realistic lines, to achieve better results in schooling, combating malaria and inoculation. Focussed sectoral allocation has proved to have better impact on HDI, rather than mere obsession with growth variables. As Prof. Jeffrey Sachs observes that "Our greatest illusion is that a healthy society can be built on mindless pursuit of wealth".

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