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Measuring How and Why Aid Works—or Doesn't

By WILLIAM EASTERLY

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Kenyan students in a village classroom.

In 1998, economists Michael Kremer and Ted Miguel participated in a groundbreaking aid program distributing de-worming medicine to school children in western Kenya. There weren't enough doses for every child, so the program administrators randomly selected who was treated. They later compared the results for the two groups. The children who were treated for worm disease, of course, suffered less of the debilitating parasitic infection. They also attended school much more faithfully. A decade later, a follow-up study found that these same students, who were by then young adults, were earning 20% more than those who did not get the drugs. It was quite a payoff for an aid program based on distributing a 20-cent pill. But the inspiring story also had a troubling side. It suggested the irrational behavior of parents: De-worming drugs are inexpensive and clearly beneficial—why weren't parents *already* giving the medicine to their children?

The de-worming study was unusual for the late 1990s, but research on global poverty based on the study's two essential elements—controlled experiments and irrational behavior—has exploded since. Now come two books, Dean Karlan and Jacob Appel's "More Than Good Intentions" and Abhijit V. Banerjee and Esther Duflo's "Poor Economics," to report on the authors' own research and provide an overview of what we've learned so far.

Mr. Banerjee and Ms. Duflo, along with Mr. Karlan, are luminaries in this branch of economics. (Mr. Appel seems to have helped out Mr. Karlan as a writer and field worker). "More Than Good Intentions" says that it's addressing the "new economics" of global poverty, while "Poor Economics" concerns a "radical rethinking" of the same subject, and indeed the two books are so similar that it's hard to distinguish between them. In the end I gave up and regarded them as a two-volume set—and a marvelous, rewarding one at that.

The books' signal achievement is in addressing two disgraceful problems that beset humanitarian aid. The first is that the effectiveness of aid is often not evaluated at all; the second is that even when aid is evaluated, the methods are often dubious, such as before-and-after analysis that doesn't take into account variables that have nothing to do with the aid itself. Humanitarian aid is usually flying blind. These books take the blinders off—de-worming does work, many other efforts do not.

More Than Good Intentions

By Dean Karlan & Jacob Appel
Dutton, 308 pages, $26.95

Among the "it's working" solutions described in both books is the cure for the teacher absenteeism. What's the fix? Just take time-stamped photos of the teachers in the classroom, penalize them for absences and—presto—they show up more.

But things are not as simple as they first appear. The authors are brutally honest about how difficult poverty-alleviation is. The time-stamped photos worked on teachers in the state of Rajasthan in India. But a similar effort failed to alleviate nurse absenteeism in the same region, where monitoring equipment was trashed and supervisors drastically increased the number of excused absences for health workers. Nurse absenteeism actually got worse. As Mr. Banerjee and Ms. Duflo conclude sadly, the main effect of the program was that nurses "discovered just how little their bosses cared about whether they came to work."

Poor Economics

By Abhijit V. Banerjee & Esther Duflo
PublicAffairs, 303 pages, $26.99

The books' candor is also evident in their discussions of microcredit: Targeted small loans to the poor have been oversold as a method of launching fledgling entrepreneurs into prosperity. Experiments showed that microcredit only nudged up the rate of new business-formation from 5% of households to 7%. Microloans are most often used for something else, such as financing the purchase of consumer durables or repaying debts to moneylenders. The problem is not that microcredit is a "failure" (both of the above are useful outcomes), but that its promises so often fall short. Messrs. Karlan and Appel note that in our own rich countries we don't expect that "every random man on the street" would be able "to conceive and manage a thriving small business." Nor would we "start lending money to random men on the street with that in mind." So why expect that with microcredit in poor countries?

These books also document the irrational or self-defeating behavior of the poor. In "More Than Good Intentions," for instance, we meet Vijaya, a flower seller in Chennai, India, who makes daily payments on multiple loans she has taken out to pay for rent, school fees, flowers from wholesalers and other expenses. She pays several points in *daily* interest, and she has almost nothing left at the end of every day after making her loan payments. But in an interview she just indifferently says her money is in "rotation"—and makes no effort to save, even in tiny increments, so that she might pay off her debts and keep some of her profits.

We learn in "Poor Economics" about Kenyan farmers who know that if they use fertilizer their crop yields will be larger and more than cover the cost of the fertilizer—and yet they don't use fertilizer. Why? Because they don't buy it right after harvesting season, when they're flush with cash, and by the time planting seasons rolls around their money is gone.

As these books show, the urge for instantaneous gratification often produces irrational behavior. Such urges are human nature, of course, but for the world's poorest people, such short-sightedness helps perpetuate poverty.

The authors suggest solutions to short-term irrationality that are modest but potentially life-changing. Create savings accounts that depositors can't make withdrawals from until a targeted savings amount has been reached. Offer coupons to Kenyan farmers to help them buy fertilizer after harvest season. Experiments have confirmed that tweaks like these are effective.

In addition to testing out ideas, such field work also has the benefit of letting researchers chat informally with poor people—conversation that can be thoroughly illuminating. What looks like irrationality may just be the failure of outsiders to fully appreciate the problem. The flower seller Vijaya reveals that she doesn't *want* to take money home: "Whatever I bring home, my husband drinks it up." Paying the moneylender (or maybe accepting microcredit!) is preferable to helping a spouse stay soused.

Likewise, Kenyan farmers who don't use fertilizer have to consider all their other uncertainties: What will prices be after the harvest? Will their brokers cheat them if they have a big crop? Messrs. Karlan and Appel relate an illustrative horror story about another aid program for Kenyan farmers. The program encouraged them to grow French beans and baby corn for export to Europe. The program worked great for one year—until the European Union imposed impossibly expensive food-safety verification requirements. The result was a glut of unsold, rotting French beans and baby corn. When the other program on fertilizer coupons ended after one year, farmers went right back to farming without fertilizer.

"More Than Good Intentions" and "Poor Economics" are marked by their deep appreciation of the precariousness that colors the lives of poor people as they tiptoe along the margin of survival. But I would give an edge to Mr. Banerjee and Ms. Duflo in this area—the sheer detail and warm sympathy on display reflects a true appreciation of the challenges their subjects face. Messrs. Karlan and Appel are at their best in addressing the subtleties of behavior and testing them in the psychology laboratory and in the field. They have produced a remarkably readable and credible analysis of the intertwining of irrationality and poverty.

Unfortunately, the books also indulge another sort of irrationality: the demand for big, general statements even if you're discussing limited, context-specific matters. The authors criticize over-promising and generalizing in the aid business, but they too often do their own exaggerating when it comes to what their methods can deliver. Both books end with overselling, "five key lessons" (Banerjee and Duflo) or "seven ideas that work" (Karlan and Appel), ignoring their own previous cautions about sensitivity to context and the limits to each intervention. Other economists criticize overselling as a common fault of those who do these small experiments.

But let's extend the same consideration to these authors that they show for the people they study. They have fought to establish a beachhead of honesty and rigor about evidence, evaluation and complexity in an aid world that would prefer to stick to glossy brochures and celebrity photo-ops. For this they deserve to be congratulated—and to be read.

—Mr. Easterly, a professor of economics at New York University, is the author of "The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good."