Book Review

Good Economics for Hard Times

By Abhijit V. Banerjee, Esther Duflo

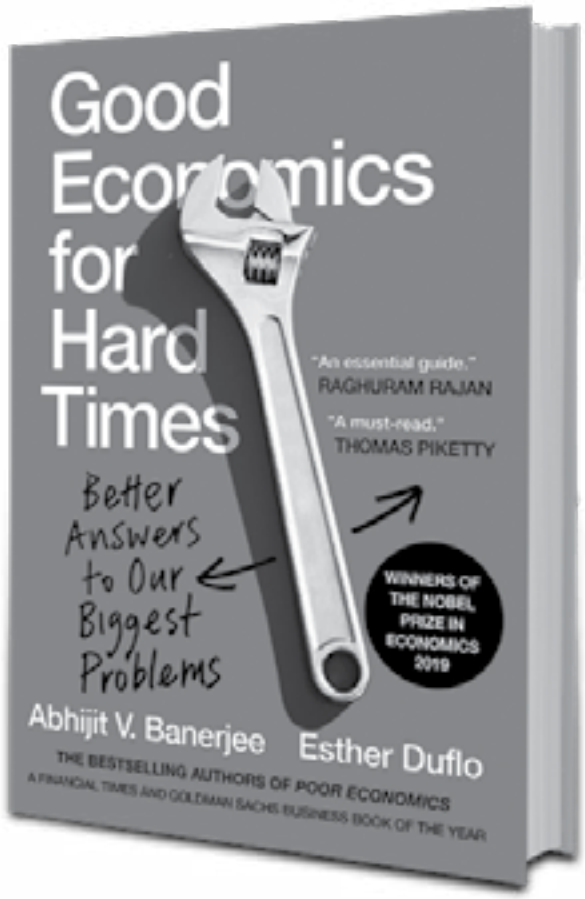
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Authors' profile

Abhijit Banerjee is the Ford Foundation International Professor of Economics at MIT and the author of Poor Economics. He has been named as one of Foreign Policy magazine's top 100 global thinkers and has served on the U.N. Secretary-General's panel on the Post-2015 Development Agenda.

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Appreciation and Critique

The authors excel at joining the dots from numerous theoretical and empirical studies. The book is divided into nine survey-based wide range chapters on some of the leading issues of today's "hard times", providing up-to-date discussions of some of the latest literature. All the topics are viewed from the perspective of Macro Economics.

Chapter 1 is quiet interesting as it discusses the IGM Booth panel results. It also explains the YouGov poll which gives a clear picture as to what the general public thinks about Economists around the world. It is very surprising but true that Economists were rated the lowest when compared with a large number of professions in the world. "A woman hears from her doctor that she has only half a year to live. The doctor advises her to marry an economist and move to South Dakota. WOMAN: "Will this cure my illness?" DOCTOR: "No, but the half year will seem pretty long."

Chapter 2 expands on immigration. "There's no credible evidence that even relatively large inflows of low-skilled migrants hurt the local population", it states. Why doesn't the labor market fit the standard story? The authors remind us that the migrants are not just workers; they're also consumers. This helps in job creation and typically jobs for other low-skilled people. "The promise of a reliable supply of low-wage workers makes it less attractive to adopt labor-saving technologies." The comforts of home and family ties issues are also emphasized beautifully here. They present a positive picture which makes us think, while denying that there has been a very brisk and unprecedented change in many countries as the composition of the population is concerned. This holds true in today's world to a little extent only. People, in search of reputation, good work and above all money, are always ready to move.

Chapter 3, the pains from trade, starts with basic theory of Ricardo's comparative advantage, but later it also talks about Stolper-Samuelson theorem on the effects of trade on factor income along with emphasizing on the anti-Trump policies to discourage trade in US. The job of world trade organization with quantitative data is supported and described along with the ATA (US based NGO program) and TAA (trade adjustment assistance) programs. Chinese trade policy and online services of Amazon is the key highlight of the chapter. 'Amazon trying to capture the world market' (discussing Egypt carpet and rug business) story makes you feel like you're reading a marketing issue rather than Economics. Some basics of macroeconomics are discussed with profound simplicity

Chapter 4 - Likes, wants and needs is definitely a favorite topic of every Economist but here author was not able to do it justice. This chapter was more concerned with social issues like cast system in all nations, be it India (dalits and efforts of Gandhiji) or the US (black lives matter or about sharing a golf game with African Americans). Robbers cave is a new experimental game to understand how preference changes with time. Facebook and twitter along with the validation of life without technology makes you feel like going through something to which we all agree but never seem to adopt in our life. The way preferences are decided and discussed in the book, this chapter's name seems to be at fault.

Chapter 5 (Growth) takes us from the Solow model with diminishing returns to Romer's views on overflow effects from innovation, which can trounce diminishing returns for an economy as a whole. How the Silicon Valley, the multi-billion dollar technological hub, able to grow rich every day with every new investments makes you feel that a variant of Romer's theory holds good. Cell phones to banks from Europe to Asia, the authors assert, are busy chasing growth.

Chapter 6, which highlights climate change, is a little stodgy but ends with a loud and clear message for the reader. The Negative impact of pollution and uses of LEDs, carbon credits are discussed in relation with an emphasis on south Asian countries. The way society is repaying for the negative deeds to the nature in terms of climate variation is an afterthought.

Chapter 7- A player piano, one that plays on its own, is a great way to describe the advancement of technology around the globe. The authors try to make a case against technological progress, defending the antagonist that destroyed machines in the Victorian era because they were "killing jobs". Not involving in great discussion and the swift movement from innovative technology of making tumami burger to the taxes which society pays was appreciable. The governments are portrayed as noble forces for good, who, alongside a bunch of well-intentioned bureaucrats, would solve all the problems in the world if we just let them design the right policies for every issue. Government's existence is supported irrespective of the type of economic system.

Chapter 8 is a hard core discussion of taxes and its implication and effects on society. This conversation is a useful response to the chimerical claims of many conservatives about the huge growth potential of cutting taxes. Some of the evidence they present for these propositions is high quality. Banerjee and Duflo show that even the iconic edition of tax cuts, enacted under Ronald Reagan, did little if anything to accelerate growth.

But don't high taxes on wealthy people reduce the incentive to work hard and create new jobs? No evidence found that people at the top of the income distribution change their behavior in ways that affect the overall rate of economic growth. This has given even more reason to advocate for a tax system in which the rich pay more taxes today.

Chapter 9, last but lengthy, is about social policy. For developing countries, the authors support "Universal Ultra basic Income" (UUBI), Justifying the work of India's National Rural Employment Guarantee Act (NREGA), transfer of cash subsidies to bank accounts are discussed in details along with the UUBI for the USA. The book states that "According to a Pew Research Center study, 47 percent of Americans are in favor of a government policy offering all Americans a guaranteed income that would meet their basic needs in case robots become capable of doing most human jobs. Among Democrats, 77 percent are in favor. Among Republicans, 38 percent are in favor. Sixty-five percent of Democrats (but only 30 percent of Republicans) say the government has a responsibility to help displaced workers, even if it involves raising taxes." However, this inference is maliciously misleading as the research itself states that Americans are very much opposed to a guaranteed income(18% people) than they are to saving human jobs by restricting usage of robots to hazardous industries(3% people), which was the subject matter of the study! By not disclosing that the survey givers were six times more opposed to this and putting forth selective facts only, the Authors are guilty of deceiving the trusty readers. Subsidizing the common goods, taking the example of Gold stage advantage card is justified with middle class mortality. The creator remains a little unfathomable in that respect.

This book is more of a political guide than a serious economic analysis of the important issues. Usage of extensive data to zoom out and show us a wider view of the human dynamics is the USP of the book.

Good description on problems and issues but lack of future plans to tackle the issues. The most impressive theory in this book was about the gap between rich and poor, the extended gap. The book shows that some technologies such as robotics makes the rich richer, and the poor poorer. Economics is portrayed as a subject immensely needed in today's world dominated by people who smother our value systems through use of electoral politics and try to obscure our views of the world.

It had nothing new to offer. Examples quoted are not new for the reader as the other books also share the same. Figuring out how to deal with today's critical economic problems is perhaps the great challenge of our time but the reading gives no new ideas. The book does not contribute solutions for real problems and how can they be implemented in a broad application. Core competence of the book is macroeconomic issues portrayed as a collection of different studies and the reasons to either accept or reject the work.

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