Facts for Change

ABHIJIT V. BANERJEE AND ESTHER DUFLO, two of 2019’s Nobel Prize winners in economics, start their extraordinary book by noting that people’s core beliefs “are better predictors of their policy views than their income, their demographic groups or where they live.” Subjective identities increasingly tend to overpower more objective predictors and reflect growing polarization. In the United States, for example, “in 1960 roughly 5 percent of Republicans and Democrats reported that they would feel displeased if their son or daughter married outside their political party. In 2010 nearly 50 percent of Republicans and over 30 percent of Democrats reported such feelings.”

The authors set out to use what economists can say with some certainty to find common ground in the great debates of our time, such as those about migration, trade, economic growth, climate, and social policies. They use simple prose to demonstrate how rigorous economic thinking accompanied by careful empirical work can be brought to bear on a myriad of concrete policy problems. The authors, already very well known for their earlier work promoting the use of randomized controlled trials in empirical development economics, use this method to shed light on a myriad of concrete policy problems. The authors, already very well known for their earlier work promoting the use of randomized controlled trials in empirical development economics, use this method to shed light on a myriad of concrete policy problems.

One example—visa lotteries in New Zealand whose applicants were from the same Pacific island of Tonga—reports that winners tripled their income within one year of receiving a visa, which supports the conclusion that differences in wages are “caused by difference in the location and nothing else.”

The many randomized controlled trial discussions are placed in a wider context, however. The chapter on trade starts with basic theory from Ricardo’s comparative advantage to the Stolper-Samuelson theorem on the effects of trade on factor income. The chapter on growth takes us from the Solow model with diminishing returns to Romer’s views on spillover effects from innovation, which can overcome diminishing returns for an economy as a whole. For trade, once it is recognized that neither capital nor labor reallocates with the ease often assumed, the predicted benefits weaken. For growth, the authors conclude that “despite the best efforts of generations of economists, the deep mechanism of persistent economic growth remains elusive” and recommend a focus on poverty reduction using the insights from randomized controlled trials.

The chapter on climate argues that warming will have huge costs for poor countries closer to the equator, but surprisingly says that “if the world warms by a degree centigrade or two, residents of North Dakota will mostly feel perfectly happy about it”—ignoring other effects of climate change, such as extreme weather events.

The book is written with both ambition and realistic modesty. The authors hope that their critical scrutiny of narratives that are too “easy” will help reduce polarization and allow improved design of specific policies based on sound evidence and rigorous analysis.

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