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PROFESSOR: This is 1473, Challenges of World Poverty. I'm Abhijit Banerjee, I'm going to be lecturing on and off in tandem with Esther Duflo. Can you hear me at the back? I can't figure the acoustics. Can you hear me well? OK.

So I guess, just to give a short description of what this class is, this is a class which is meant to introduce you to conversations-- very broad conversations-- about the questions relating to world poverty. So it's not a technical class, it's not a class that's meant to teach you very sharp analytical tools, it's a class that's meant to teach you how to participate in the great debates of the world, and sort of get you involved in the great debates of the world.

It's very much, in that sense, the spirit of the class is quite different from many other MIT classes, and that's deliberate, because I think it's wonderful that we have a lot of technical classes at MIT, but it's also very useful to occasionally step back and think of what this means for the big picture, and for how we think about living in the world. So this is very much a class of that kind.

It's based very specifically on this book which-- the book is called *Poor Economics*. That's-- depending on who you ask, a good or bad pun. It's a play on the idea of A, a different way of thinking about economics and, B, on the idea that this is economics relevant to poverty. So it's a play on that. It's a book that we just finished. It hasn't been published, so you'll be, literally, the first people, other than our close friends, who will get a chance to read it.

And the-- Laura, can you make sure that everybody has these? Or somebody make sure? This is the process, we just have to manage. Otherwise this would-- So the goal of this book is to, sort of-- the book was written to integrate a whole bunch of

stuff that we've been working on for 20 years, nearly, into a common narrative on how to think about poverty.

So the book is-- the book has a bunch of chapters. Each chapter-- and we're going to be basically following the book. So the book is not available in the market. You'll all be able to buy a copy of the manuscript version of it now. And we're going to follow the book, chapter by chapter, forward from beginning to end.

So that's sort of-- this is a class, as I said, it's a class that's not based on technical material, you will not have problem sets. On the other hand, we expect you to read both what's in our book, and what's in the-- else that's in the syllabus, quite carefully. We're going to have pop quizzes. One of the ways in which this class will be graded is with pop quizzes that will be randomly, on random dates, on the topic of the week. So we expect to have read stuff. That's one.

Second thing that is different about this class is it's a class that's-- as I said, it's meant to kind of get you involved in big picture thinking, but that doesn't mean that it's a class that doesn't expect you to know the details of what whatever's being talked about. In fact, the running theme of this class is that you can't fix the problems of the world unless you pay attention to the details.

So what we're going to ask you to do is, as part of the requirement for the class, is to write at least five essays-- short essays, very short essays-- which will be graded and which will be on specific aspects of the topics covered in class. So you'll have to write.

The way we're going to do the grading is that there'll be-- you can write up to 12 essays. Basically 12 topics, you can write 12 essays. We're going to give you the grades for the best five. And so if you feel like writing one every week, you can write one. If you feel like writing just five, that's good too. You're going to get graded on the best five.

You have to write one longer essay at some point in the semester, and there will be a final exam. So it's, as I said, it's a different from many MIT classes, different from

any other MIT class I've ever taught in that it's not based on problem sets, it's based on these essays-- MIT economics class, I don't know about literature classes. But MIT economics classes typically have problem sets. This is going to have essays.

It's going to focus on being able to articulate coherent interesting thoughts about the problems of poverty. So it is very much about-- these essays are going to be important, and reading and writing will be important. So we want you to-- and what goes with that naturally is discussions will be important. We're going to have classes where there will be a lot of discussion. That's why we want you to have read the pieces. We are not going to go line by line through those pieces, we want to have a combination of some lecturing and a lot of discussion.

One of the things that-- where that becomes relevant, is that we're going to have-- this class is being videotaped. If you noticed, there's a camera up there. Classes will be videotaped, but the only part of the videotape that will be used, will we publicly available, will be the lecture part of it. The rest of it will be-- the discussions will not be on the OCW website, so they will not be-- they'll eventually be expunged.

So you should not feel uncomfortable about speaking out. We want you to be involved with the discussion, passionate in the discussion, argue with each other, argue with us. So you should feel comfortable, it's not that you're being put on camera and everything you ever said that was potentially maybe incorrect or is going to be recorded for all history and made available on the web. So we're going to be very careful in only keeping the lecture.

So it's a very much a class that needs the discussion. It won't be fun if there isn't a lot of discussion. And having done this before, I would say the converse is also true. When there's a lot of discussion it's a lot of fun. The issues are fundamental, at some level very live issues, and it's things where you have thought about them, many of them. Maybe this will change the way you think about it. But it is-- these are things that are fairly elemental and immediate. And I think you will, if you get into the spirit of it, I think you will enjoy.

So I think that's my way of background. Do you have a question right now? OK. So

the way we will plan to start this is by-- you notice you've been given one randomly picked sheet each. The sheet comes with a little form to fill out. You can read the sheet and think about what your reaction will be.

Remember that this is for real. So you will get some-- 10 of you will get the money. So it's real money that you are assigning to one of these two [INAUDIBLE]. You have a choice between giving the money to save the children or not giving it. And we don't expect-- there's no obligation.

So the way it's going to work is you're going to select how much you're going to give, then we will have a lottery and you will get some. 10 of you will win the money, and when you win the money that money will be deducted from the amount you have proposed, and the rest [INAUDIBLE] will go to you. OK? Is that clear how that works?

Some of you will get nothing. You're just hypothetically written down an amount of money. Others will actually get that money, \$10. And out of that you would have said, I want to give these people \$0.50, and then \$0.50 will be deducted and you'll get \$9.50 given to you. So that's the plan for this experiment. So we'll find out what the results are and we'll discuss what they mean in a little bit.

In the meanwhile, I'm going to play two videos. I'm going to play two videos which are-- which represent two very specific and very well known points of view on what to do about world poverty. The first one features somebody who was my-- who taught me when I was a graduate student at Harvard, Jeffrey Sachs, and Angelina Jolie. Angelina Jolie and Jeffrey Sachs go to Africa and they discover world poverty. Or Angelina discovers poverty under Jeff's tutelage and then they very clearly articulate a theory of poverty and what to do about it, et cetera.

And then from-- so Jeff is now at Columbia University in New York. His archenemy is a man called Billy Easterly who is a professor at NYU. So the next video is just-- we go south from Columbia to NYU and we play Mr. Easterly's video next. So what you're doing is we're going to sit and watch some videos.

This is not an exemplar of kind of material you will have to deal with. This is-- there will be much denser material than this. This is little fluffier than most things you're going to have to deal with, but I think they're interesting and they take very well defined positions.

So listen to them while thinking of what the position is that these people are taking, and why those positions-- what is the underlying theory of poverty, the response to it, all of those are being articulated through this process. And you should kind of come-- and then we'll-- once it ends-- we're going to actually spend a little bit of time discussing what we learned from the video. So think of questions or comments you're going to make.

I want this to sink in for a minute. And in the meanwhile let me talk about what we just-- we just compiled the results. Let's start with those results. We'll come back to [INAUDIBLE]. We'll spend the rest of the time talking about [INAUDIBLE].

So the results suggest either that many experiments that other people have done were wrong, or that we didn't do it right, or more likely, you guys are more generous than the rest of the world. So this is an experiment that's been done many times. Let me explain what the experiment is.

And the experiment, typically, the way it's done, it's very different here. Because you couldn't figure-- we wanted to do it in class and do it for real, so that made it a little-- so instead of giving people \$10, the way it's usually done is that somebody walks through-- the most famous version of this was done at the University of Pennsylvania. Somebody walked through the cafeteria distributing \$5 to people, without much explanation really. And then about a few minutes later, somebody came up and handed each of these people-- they're all randomly chosen-- one or the other of these letters.

There were actually two different letters. None of you should have seen both, but I don't know if you have. They're basically-- both the letters are telling a story of some reason to help. So the first-- there was one letter, which is a letter that tells sort of a very general story. The story is about, here are many problems in the world, there

is, whatever, children-- children are-- let me just read out. Give me two. For those of you who-- Yeah.

So the 9 million children die before their fifth birthday-- actually, I think I have them on the slide. Let me just see if I do, in which case we'll-- that'll be easier. Nope. OK. 9 million children die before their fifth birthday. A woman-- the probability that a woman in sub-Saharan Africa will die before in childbirth is one in 30. If you did the same number for the rich countries, it's one in 5,600.

So in 25 countries in the world, most of them in sub-Saharan Africa, where the life expectancy at birth is less than 55 years, and so on. And so one of the letters that half of you read was kind of a catalog of these problems, and then asks you to decide how much money you want to give to Save the Children, which is a well known organization who try to solve these problems.

The rest of you got a letter which described the life of one individual child, called Rokia. And that child has a whole range of problems, and then again asks you to give money towards helping a child, let's say Rokia herself or a child like her.

Now what's your guess about which-- the point of this experiment was that one of these letters raised a lot more money than the other. What would your guess be?

AUDIENCE: Personal story.

PROFESSOR: Personal story. Personal story typically raised about twice as much, more than twice as much, as the other one. Now that turned out to be not true in this room. It raised exactly the same amount. It raised-- the personal story raised \$8.63, and the other story raised \$7.96, which is statistically indistinguishable. So the experiment basically failed here.

Now why it failed, my guess-- we'll come back to this question, actually, maybe if we have time. But I think that, my guess is that you just selected in being in this classroom, and therefore you're more generous. But we could think of other reasons why.

But the point of the experiment, had it succeeded-- the point of the way people have usually interpreted it, so the average person seems to react in this very different-- why do you think we all react very differently? All of you had the same-- seemed to agree on the answer. Basically, out of \$5, you gave \$2.60 to Rokia, \$1.30 to the general problem, or something like that. And when you tell people that you give more to Rokia, then it goes down to \$1.30 for both.

So that sort of brings out very nicely one of the key issues here, which is that, I think, once you start thinking about-- once you're made to think that the Rokia problem is somehow an exemplar of a general problem, you start now thinking it's like the general problem, and then we can't solve it. And then it's like, people step back.

So I think this sort of-- this scale effect. This idea that, well, it's a big problem, we're scared and we don't to deal with it, is sort of one of the starting points of where we want to start from, and maybe get away from is this idea that this is an enormous problem and, therefore, we can't do anything about it.

So if you think of one goal we want to have in this class is, in a sense, to move exactly away from that feeling. In other words, what we want to do is to move away from thinking about one day-- we're thinking of the challenge as big-- one day we're going to take a big shovel, and we're going to throw all poverty out. That's not how anything ever happens. And so there's no reason to think of it that way. And you clearly don't, but the rest of the world does.

So there is a sense in which-- what we want to do in this class is to think of the problem of poverty as a set of specific efforts that, if we do it right we will solve them, and if we don't do it right, we'll make things worse. So we want to turn it into a set of specific challenges. Maybe we can't solve those challenges, but at least let's first move away from thinking of it as being this one grand problem, to thinking about it as 100 individual problems, each of which with a potential solution.

So that's sort of where we want to get to. At the end of this semester, we won't have an answer to how do you solve world poverty. I can guarantee you that. What we

might get is a sense that these are actually individual problems that we can-- a set of individual problems we can start thinking about as solvable things that we can sort of apply our minds to.

Some of them we'll have answers to, some of them we'll just throw them out as challenges, and we'll see what happens at the end. So that's where we want to get to. We want to turn this grand problem into a set of specific individual problems. That's sort of-- and so the whole semester will be in thinking about specific issues like the ones that Sachs brought up, and the ones that Easterly brought up, and try to turn them into problems that we can have some kind of a leverage over.

Let me just-- so at some level this is stuff that-- some of this-- just to go back to the videos-- Sachs does a very good job of kind of posing the problem. I think he-- I mean, Easterly, I think, won't disagree on that. I think if you think about what the problem is, [? with ?] many ways to say it, one way to say it is just that people are extremely poor.

Just a measure of poverty is in some ways itself a kind of a useful way to think about-- just to take just a scale of it. The scale of it is-- think about those numbers. The poverty line turns out that mostly, by some peculiar accident, India is both the country which has the maximum number of poor people in the world, and it's the country which has-- if you take the poverty line in India, do you know what the poverty line is? Who knows what a poverty line is? Yeah?

AUDIENCE: It's a measure by which that if someone makes less than that they believe [INAUDIBLE] income they're considered poor.

PROFESSOR: Right. It's just a way to define for, how do you say somebody's poor? You say, in the US, you say somebody is poor if their consumption is less than \$14 per head per day. That includes lots of stuff. It includes housing and all those things, so it's not-- \$14 is not \$14 in Big Macs. It's \$14 in clothes and everything. So that's how you define poor in the US.

For the rest of the world, the weights typically people use is \$1 a day. \$1 a day is

roughly-- turns out the equivalent of the poverty line of India, or equivalently the average of the poverty lines for the 50 countries where the most of the poor live. So if you take the 50 countries where all of the poor people live, take the average of the poverty lines and say that-- and the poverty lines vary across countries because countries, some countries, think that \$14 is the bare minimum that you need to live. Other countries have a even more accepting of misery, and say that even if you have \$1 that's fine, but if you have less than \$1 you're poor.

So it turns out that the effective definition that a lot of people use is \$1 a day, or \$0.99 a day. This number is now used a lot. It's called \$1 a day poverty. And you look at this set of people who live under \$1 a day, 865 million people. This is our-- Jeff Sachs says 850 million people live under \$1 a day.

So that's just to get a scale how many poor people out there in the world. Well, if you define it with \$1 a day, which is 1/14 of what it is in the US, you still end up with about a billion people. So that's one way to think about how big the problem is. It also is a way to think about how sort of surprising the problem is.

You would think that-- that says that-- average GDP per capita in the US is \$47,000. That's like \$50,000. So 50,000 people could live on-- no, sorry-- 50,000 divided by 365. So that's like-- how much is that? 50,000 divided by 500 is 100. So 100 people, or 150 people, in the rest of the world live on less than the average income of one average person in the US.

So that's one way to scale the problem, is to say that the average person in the US lives 150 times better than the average person in the-- the average poor person in the world. And that's a minimum because these people are not at the poverty line, they're below the poverty line. So just to sort of get a sense of these magnitudes, what's enormously-- what, in a sense, is surprising about this is that there is, like, somehow the gap is so huge. It's like it's not that there is a gap of 10% or 15% or 50% or 200%. It's a gap of 150 times or something like that.

So we're just talking of the order of magnitude is just stunning here. And somehow that would seem that it should be easy to fix. I mean, if there's such big gaps, then

isn't a little bit of aid from the US would make a huge difference in these countries. And so it should be easy to make these countries richer.

And somehow, that's where this conversation is stuck. So if you think of where this conversation is coming out of, it's coming out of feeling well, we are so rich, and these people are so poor, why can't we do something about it? Now, let's go, maybe-- we talked about this. So let's now go back to the video with that sort of background.

I'm going to say one last thing. I just want you to look at this one picture just as a last parting thought. So this is what Easterly's-- this is Easterly's famous picture. It shows that-- the picture shows the blue bars are aid. It keeps going up and down, but it's basically going up, up over time.

And you see that despite the fact that aid is sort of going up, and the cumulative of all this-- when he says that that's how much aid has gone in-- the cumulative of all this is the total aid that has gone in. You can see that the GDP per capita seems basically flat. So aid is going in-- aid is being pushed in and in and in and in, and you see that each blue bar is adding up the next one. And this is sort of his reading of history.

Now one of the things we're going to worry about here is what we're going to call the counterfactual. So what I think Easterly has in mind, is that without the aid-- so the question is, what would have happened without the aid? And I think the first problem in reading any of this data is-- and this is a key idea, so I want to stop on this-- is figuring out what would have happened if we hadn't given the aid.

So one possibility is that yellow line is what would have happened. That's kind of-- without aid the yellow line would have happened. With aid you've got the red line and the red line is better than the yellow line. The alternative, which Easterly seems to assert, is that the green line is what would have happened absent the aid, and that the difference between the two-- the negative difference-- is the consequence of aid.

So in some sense, this is the-- so this is sort of where-- the problem is that, this now, once you get to this point, to be honest, we have nothing to say. Because we don't know what have happened of aid. Right? We have only one history to look at, and if you look at this one history, this history could be anything you want.

So in other words, I'll disappoint you from the beginning and tell you that this is a question we'll never know the answer to. In fact, we know that we never going to know. Whether historically aid was a mistake or not, is not one of the questions we'll answer. To calibrate expectations for this class, what we will try to answer is, suppose you had to give aid, how would you give it? That's a question that we can answer.

And that there-- all the issues you raised are important. The issues of whether people will take up things you give them. Is there a demand for the bed nets? That's a very key issue. Is it the case that when we try to give it to them, the mechanism to which we deliver the aid-- let's say the bed nets-- the government tries to give them out for free and all the private market shut down. As you raised, that's another concern.

A third concern will be about whether local volunteers can deliver bed nets or do we need markets? A fourth concern will be, is it the case that when we start delivering bed nets to local volunteers, local volunteers become too powerful politically and they exploit their political power for other purposes. Each of these concerns that I think you raised implicitly, will become a central concern in thinking about this question.

So we're going to think about questions not of the kind of this kind, because this question has no answer. Alas, we'd love to know the answer to this question, but I don't think anybody can. The kind of question we will be able to answer are if you had to give out aid, what's the best way to do it? So that's the kind of question we'll try to answer. And we'll spend a whole semester, in a sense, on that question. So hope to see you next lecture.