



## Esther Duflo and Abhijit Banerjee: 'Ours is a social science'

The Nobel laureates call for better economic 'plumbing' after the pandemic and warn about inaction over climate change

Martin Sandbu JUNE 21 2021

 Get instant email alerts



*This is part of a series, '[Economists Exchange](#)', featuring conversations between top FT commentators and leading economists about coronavirus economic recovery*

John Maynard Keynes said economics should be likened to dentistry. [Esther Duflo](#) and Abhijit Banerjee use another metaphor: the economist as plumber. In lectures and books, the wife-and-husband team, both professors at MIT, have pushed for research on the “plumbing” of economic systems. That is, the details of how different policies empirically affect behaviour in real-world situations rather than grand theory.

Duflo and Banerjee’s research on which policy interventions work to reduce poverty in developing countries, using randomised experiments to document the effects of policies, earned them the Nobel Prize in economics in 2019 (together with their frequent collaborator Michael Kremer).

In this conversation with Martin Sandbu, the FT’s European economics commentator, they discuss the sorry state of “plumbing” around the world as revealed by the pandemic. When economies had to be locked down to stop the spread of coronavirus, many countries lacked the systems for giving people social protection. They highlight that even the best plumbing — and there are surprising examples of poor countries with excellent benefit delivery systems — does not help a country with no money. They suggest that the proposal for new “[special drawing rights](#)” at the IMF should be realised and channelled to poor countries.

Duflo and Banerjee do not want to predict whether the pandemic will permanently harm the progress in poverty reduction over the past decades. But they warn of the risk of permanent scarring, especially due to lost schooling.

They warn, too, about the shortcomings of policy to address climate change. Rich countries [have to commit to pay](#) for the carbon transition, and the world's poorest need to be protected against the financial burden of climate change. If the resources are put in, both technology and our improving understanding of economic choices means change can be achieved.

Duflo and Banerjee also reflect on the state of the economics profession itself. They are at the forefront of the so-called “empirical turn” in economics, and they explain how the current interventionist mood in economic policymaking has its intellectual roots in a discipline that became less ideological and more open-minded in the early 2000s. And while economists must work on becoming more diverse, there is some progress. Duflo herself is only the second woman Nobel economics laureate. In her words: “[Economists] are not perfect but we are not as bad as the poster image that people have of us.”

**Martin Sandbu:** I thought I would start with this notion you often use of the economist as a plumber. What has this exceptional year revealed to you in terms of the state of the economic policymaking plumbing around the world?

**Abhijit Banerjee:** What I think it highlights is how important having the plumbing is. Think about what France did. What France did was to [protect people's salaries as paid](#). That requires a certain kind of reporting system. You couldn't do that in India because . . . most people's salaries are not recorded in any place. Small businesses in India are essentially outside the tax framework. So there was no way to do what France did.

Now, you have to think of what other plumbing would work. Take another example: [Togo decided that it would send](#) everybody a cash transfer to their phone.

**MS:** To everyone? Every citizen?

**Esther Duflo:** Whenever there was a lockdown. Mostly, it was unconditional but they were trying to exclude the richest people, so that was again a plumbing question which they had to solve and they did that [using cell phone metadata as well as satellite data](#).



There was a movement  
inside economics  
towards being a little  
bit less ideological  
about how effectively  
markets work



**MS:** Is it surprising that not more poor countries used a pretty much unconditional cash transfer to deal with the pandemic?

**ED:** The poor countries couldn't afford it. That's the tragic aspect to it. Togo is an example where they really managed their plumbing remarkably well because literally, within weeks of the pandemic, they had the system in place.

Once they had the system in place, they had no money to run it . . . It kept being stop and go every time they had a transfer [from external funders]. Even for them, even though it is a tiny country and they were a bit first-mover because they had moved quickly, it was difficult to afford it.

The poorest countries spent 2 per cent of their gross domestic product on fiscal stimulus measures, when the richest countries [spent more than 20 per cent](#). So, if you are Togo and you have 2 per cent of your GDP to spend on cash transfers, that is just not going to be that much money.

**MS:** You're basically telling me that even with the plumbing in place, it doesn't help you if you don't have the money.

**ED:** Yes, you have to have something to put inside the tubes. Both are necessary.

**AB:** I think India is a good example of [a country] where they literally had not thought through their own plumbing. If you think of [what happened to the urban migrants](#), India's welfare system is actually completely designed on the assumption that people live in their stable families which live in one place for year after year.

In your village, you're entitled to apply for the public distribution, which is essentially nearly free food . . . and in rural areas there is the rural employment guarantee system. Both of those are designed [for rural citizens](#) who live in their own village. You're not entitled to go to any village and say: 'I want my employment guarantee.'

There might be as many as 50m of these low-income migrants who temporarily live in cities. They can't connect to the welfare system. That's why there were pictures in the first lockdown of people walking 1,000 kilometres . . . there was no way for them to survive. They just had to go home. That is pure plumbing failure.



It might seem really  
dry to speak about  
special drawing rights  
but people have to  
understand that  
human lives are behind  
this discussion



**MS:** Before the pandemic, were things moving in the right direction in terms of growth and hopefully inclusive prosperity in poorer countries?

**AB:** It is a hard question. [Poverty] was falling quite fast in many countries and not at all in many countries, and there are countries like Indonesia where it was falling very slowly.

**ED:** The dramatic decline in poverty was mainly due to India and China. As they become richer, they don't take [as many] people out of the poverty line any more.

However, another positive thing to add is, irrespective of the poverty rate, there really has been tremendous improvement in people's quality of life over the last 30 years until the pandemic, with [infant mortality being divided by two](#), maternal mortality being divided by two, almost all children worldwide going to primary school for a number of years.

All of that happened, including in countries whose income didn't really go up, in part because of more focus on these quality of life issues and, I would argue, a little bit more attention given to plumbing and setting pragmatic objectives and programmes as opposed to aiming for some more elusive growth.

**MS:** What are the prospects for poorer countries to recover from the blow of the pandemic?

**ED:** I think we don't know. Honestly, we've made a pretty good career not predicting the future and I think that is safe for us to stay there.

At some level [growth] could pick up. The danger and where you risk having more long-lasting damage is if some of these human capital investments cannot catch up.

One year without schooling . . . could turn into just a completely wasted cohort because you don't catch up. The curriculum is already often too ambitious as it is in normal times so, in addition, if you try to shove it in the throat of children who had been out of the system for a year or 18 months, it is just going to be very difficult. That could create conditions where the scarring would be very long-term.

Similarly, think about childhood immunisation. It totally collapsed during the pandemic, at least in India, which is the country where I follow it. According to the Gates Foundation reporting, [it is also the case in other countries](#).

The last thing that would potentially create the condition for a more durable crisis is people who had barely made it out of poverty to middle class, who got pushed out into poverty because of it. For example, the fairly successful migrant who had to come home and is not keen to go back.



Economists are not  
perfect but we are not  
as bad as the poster  
image that people  
have of us



**MS:** We talked about how countries are cash-strapped, which means that international help in some form or other is necessary. Vaccination is one of them obviously. Given how this is being addressed at G7 and G20 meetings, what are the priorities as you would state them for world leaders?

**AB:** I think much of the effort has to come from the countries [themselves]. I don't see it coming from outside. It would have been great, but given that countries can't get to [0.7 per cent of GDP](#), and the ones who do beat their chests a lot, I don't see this [outside help] being the big solution to any problems.

Where world leaders can be most useful is, for example, we've been arguing that the [IMF's proposal for] \$50bn [to vaccinate everybody](#) — that's a very affordable amount. It would be a gesture that would be appreciated by everybody and something that actually provides the grease for the economy to take off.

Where the countries are clearly going to hurt is in dealing with loan default. India — the one thing it did do — is it basically allowed some amount of restructuring of loans, which was publicly subsidised. Other countries didn't have even that resource.

The IMF has been discussing how to distribute special drawing rights. I think — especially for that particular enterprise of putting some liquidity back into the economy — that might be a very useful thing to do right now.





Esther Duflo and Abhijit Banerjee in Stockholm to receive the Nobel Prize in economics in 2019 © Henrik Montgomery/TT News Agency/AFP

**ED:** I would like to reinforce the point about the drawing rights because that is a very important discussion. It would allow the world to do what the rich countries were able to do for themselves, which is basically to print some liquidity to finance not their long-term development but the short-term handling of this crisis.

The lessons from the 2008 crisis were well understood in rich countries and we realised that we just had to do this. But, as we already discussed, the poor countries didn't have this possibility and no one gave it to them.

In a way, the special drawing rights would be a way of doing that. What's the mechanism? Again, that's plumbing. Finance plumbing is to say, how can we allocate drawing rights not in proportion to the country's economy, which is roughly the way that the rules are set up today, but in proportion to almost the opposite, which is giving it to the countries which have not been able to print money for themselves?

**MS:** I hear "from each according to your ability and to each according to need" here . . .

**ED:** Another thing that [SDRs] could be used for is to finance emergency cash transfers. Imagine for any African country that has the technology in place, the possibility of financing seamlessly a cash transfer in case there is a need for a lockdown.

That is going to give them a very important tool to be able to quickly close down without generating a lot of hardship . . . If you had anything looking like [the spread of coronavirus recently seen in India] in Africa, where the capacity, in terms of the health system, is not at the same level, it would be a human disaster.

**AB:** And that could happen yet.

**ED:** Absolutely. It is very much a possibility. That is why it might seem really dry to speak about special drawing rights but people have to understand that some human lives are very close behind this discussion.



I think a big mistake  
would be to not tightly  
link redistribution with  
climate change



**MS:** Esther, you mentioned the lessons from 2008 . . . I wanted to broaden out from that because it seems to me that there is this huge change under way in how we think about good economic policymaking.

**AB:** In the crisis people just decided, fine, we just have to do whatever it takes, as was famously said. But . . . in some ways the very hardcore macro view of the world which dominated economics through the 80s and 90s was already slowly receding in the 2000s.

There was a movement inside economics towards being a little bit less ideological about how effectively markets work . . . An intellectual infrastructure was being built and I think that is partly where the economics field is just much more empirical. If reality says things don't move, [economists] don't just say that you must be kidding. They actually say, OK, fine, then things don't move.



**MS:** Do you think economics is becoming more empathetic? Economics has often had a bit of an image of being somewhat arrogant, or condescending to other disciplines. In addition, there has been quite a lot of criticism of the profession recently on #MeToo, Black Lives Matter grounds. Esther, you are only the second woman so far to get the Nobel Prize in economics. Are those criticisms fair?

**ED:** I think [economics] could make progress . . . Gender is one but mainly [in terms of] under-represented minorities. It is a true shame for the profession because we are a social science and it is a bit hard to imagine a social science that doesn't reflect in any way the diversity of the societies in which it operates.

There are few economists from poor parts of the world who are actually operating in poor parts of the world. It is very difficult for them to work. And in the US there are few black economists and in France there are few economists coming from migrants.

**AB:** Not to speak of low caste economists.

## Economists Exchange



Covid-19 has wrought colossal changes in the global economy. In this [monthly series](#), leading FT commentators hold in-depth, solutions-focused conversations with the world's top economists about what the recovery will look like

**ED:** But I think our image is worse than what we actually are as a profession, at least in terms of the topic that people study and how they study it. The economics that percolates in the media and in policymaking is a few decades [behind], with all due respect to you. I think this has improved as economists have become interested in the media as Twitter has come up.

One reason why we wrote our [\[latest book\]](#) is to show that actually, at least in terms of what we do — the research, the topic and the way it is addressed and the empathy that you are talking about for example — we are not perfect but we are not as bad as the poster image that people have of us. We are the most disrespected profession among various experts, except for politicians.

**MS:** Is that right? I didn't know that.

**ED:** Yes. There is [a YouGov poll](#) from 2017 and we did another one in 2018. It asks, out of several professions, do you trust them about their own field of expertise. Doctors and nurses are on top. Politicians are all the way to the bottom with 20 per cent and economists are second to last with 25 per cent.

**AB:** Weather forecasters do much better.

**MS:** They're probably at least twice as good at forecasting, at least in the short term.

**AB:** I think that may be true, certainly.

**MS:** I don't know if you get the same with climate forecasters, which brings me to the last question. Do you think we are intellectually and politically fit to meet the huge challenges of decarbonisation?

“  
We've been arguing  
that the IMF's proposal  
for \$50bn to vaccinate  
everybody is a very  
affordable amount  
”

**AB:** Going back to something Esther said right at the beginning, quality of life has improved for poor people — except that the environment has gotten worse. We're actually sitting under a Damocles sword. In cities the air is worse, the temperature is higher, there are more hot days. Everything looks bad.

I think the plumbing that COP26 really needs to bring about, more than the agreements, is the transfers [of money from rich to poor countries]. It is critical that we don't get caught up in this conversation of whose fault it is. The west needs to take the view: let's not have this conversation, it is not a useful conversation, we'll pay a large amount of the cost of the transition.

We have increasingly the ability to make the changes needed. The technology has got better and better but it still needs the incentive to make those changes, to plant the trees, to change the air conditioners.

I don't think anybody is speaking of the kind of money yet that would be needed to do that. If we just cheap it out and therefore miss this bus it will be tragic.

[Any policy has] to be very closely tied to the question of who is paying for it. Who is it going to hurt? Then, make sure people at the bottom are more than compensated for it.

**MS:** Something like carbon tax and dividend?

**AB:** Yes, for example. I don't know why they didn't do it in France.

**ED:** The research that [our lab] J-PAL has done [shows that] our views on what we should be consuming, and how, is really influenced by what other people do.

We cannot assume that all of the consumption choices that [people] have made are the result of deeply held views . . . In fact, it changes quickly. Once it has changed, because tastes are also very closely related to habits, then it is not costly any more.

For example, Paris, where we live now, has been completely transformed by a combination of strikes, a mayor who is quite ambitious and the pandemic. It is a giant cycling path, and it doesn't make people unhappy. We don't know for a fact but it looks like people have taken to this new way of life.

It is a combination of habits, infrastructure, nudging by making it easy and so on. All of these tools have to be deployed together and economists have perhaps been a little too focused on carbon tax as the end all and be all of everything. The carbon tax happens to be a very deeply polarising thing. I think if we go back to carbon tax and it is not avoidable, it has to be with dividends and, in addition, we have to think about all the other tools as well.

**MS:** That's a good admonition on which to end.

*This above transcript has been edited for brevity and clarity*

