*Journal of Institutional Studies, 2020, 12(1), 006-018*
*DOI: 10.17835/2076-6297.2020.12.1.006-018*

# ТЕОРИЯ И ПРАКТИКА БОРЬБЫ С БЕДНОСТЬЮ: ВКЛАД АБХИДЖИТА БАНЕРДЖИ И ЭСТЕР ДЮФЛО

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**Цитирование:** *Нуреев, Р. М.* (2020). Теория и практика борьбы с бедностью: вклад Абхиджита Банерджи и Эстер Дюфло // *Journal of Institutional Studies,* 12(1), 006-018. DOI: 10.17835/2076-6297.2020.12.1.006-018

*Статья посвящена теории и практике борьбы с бедностью, начиная от Г. Мюрдаля и А. Дитона и кончая А. Банерджи и Э. Дюфло. Демографический взрыв в развивающихся странах обострил проблему бедности, поскольку способствовал резкому сокращению смертности и увеличению продолжительности жизни населения. В результате многие ученые стали изучать пути и методы сокращения разрыва, существующего в подушевом потреблении населения бедных и богатых стран. Работы А. Банерджи и Э. Дюфло учли этот опыт, но не ограничиваются им и находят новые методы повышения эффективности борьбы с бедностью. В центре исследований новых нобелевских лауреатов не вопросы теории, а вопросы практики. С этой целью они используют рандомизируемый подход. Поскольку очень сложно поставить контролируемый эксперимент, ученые вынуждены в основном полагаться на наблюдения. С этой целью они сравнивают результаты контрольной выборки с выборкой, в которой проходит эксперимент. В центре их внимания – исследование эффективности той помощи, которую оказывают международные организации развивающимся странам. В частности, новые нобелевские лауреаты доказывают, что средства борьбы с бедностью нужно искать совместно с получателями этой помощи. Это позволяет резко повысить ее эффективность. В результате в конце XX – начале XXI в. были достигнуты определенные успехи в этом направлении: общая численность людей, живущих за чертой бедности, сократилась на 750 млн чел., однако по-прежнему исчисляется сотнями миллионов людей.*

***Ключевые слова:*** *демографический взрыв, экономика бедности, беднейшие слои, методы борьбы с бедностью, микрокредит, человеческий капитал, экономика развития.*

***Благодарность.*** *Статья подготовлена по результатам исследований, выполненных за счет бюджетных средств по государственному заданию Финансовому университету при Правительстве РФ по теме «Семейные домохозяйства как экономический субъект».*

# POVERTY: THEORY AND PRACTICE. CONTRIBUTION OF ABHIJIT BANERJEE AND ESTHER DUFLO

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**Citation:** *Nureev, R. M.* (2020). Poverty: Theory and Practice. Contribution of Abhijit Banerjee and Esther Duflo. *Journal of Institutional Studies,* 12(1), 006-018. DOI: 10.17835/2076-6297.2020.12.1.006-018

*The article is devoted to the theory and practice of combating poverty, starting from G. Myrdal and A. Deaton and ending with A. Banerji and E. Duflo. The population explosion in developing countries exacerbated the problem of poverty, as it contributed to a sharp reduction in mortality and an increase in life expectancy of the population. As a result, many scholars began to study ways and methods to narrow the gap that exists in per capita consumption of the poor and rich countries. A special section is devoted to the experience of Grameen Bank in the use of microcredit to combat poverty in Bangladesh. The works of A. Banerji and E. Duflo took this experience into account, but were not limited to it and found new methods to increase the effectiveness of the fight against poverty. In the center of research of Nobel laureates, not questions of theory, but questions of practice. To this end, they use a randomized trial approach. Since it is very difficult to set up a controlled experiment, scientists are forced to rely mainly on observations. To this end, they compare the results of the control sample with the sample in which the experiment takes place. The focus of their study is the effectiveness of the assistance provided by international organizations to developing countries. In particular, the new Nobel laureates prove that the means to combat poverty must be sought together with the recipients of this assistance. This allows to dramatically increase its effectiveness. As a result, at the end of the XX - beginning of the XXI centuries, certain successes were achieved in this direction as the total number of people living below the poverty line decreased by 750 million people.*

***Keywords:*** *population explosion, poor economics, ultra-poor, poverty alleviation methods, microcredit, human capital, development economics.*

***JEL:*** *I15, I25, I32, I38, P46*

***Acknowledgments.*** *The article is funded via a state assignment «Households as a subject of economics» of the Financial University under the Government of the Russian Federation.*

The 2019 Nobel Prize in Economics has been awarded to Esther Duflo, Abhijit Banerjee and Michael Kremer for their experimental approach to eradicating global poverty. The problem of poverty is by no means new to development economics. To start our analysis, we briefly recall the main contributions to the subject, both from the point of view of theory and practice.

## 1. Predecessors.

Gunnar Myrdal, the 1974 Nobel Laureate, was one of the first to put a focus of his research not on the problems of growth, but on the problems of poverty and ways to overcome it. In 1968, his three-volume monograph “Asian Drama: An Inquiry into the Poverty of Nations”

(*Myrdal, 1968*) was published in New York. The title of the work clearly indicates a hidden polemic with A. Smith, whose focus was on the study of the causes of the wealth of nations. The author contrasts the research of economists involved in the problems of Asia and Africa with the classic political economy scholars, who studied the economics of the first nations to embark on the path of capitalistic development.

Traditional society is characterized by high fertility and high mortality rates. The widespread use of modern vaccines against cholera, smallpox, anthrax, etc., has led to a sharp decrease in mortality in the countries of Asia, Africa, and Latin America, which has led to an increase in overall life expectancy (see Fig. 1). Although it did not allow to reach the level of developed countries, it led to a significant increase in the population (see Fig. 2), which exacerbated the problem of poverty. Beginning in the middle of the 20th century, a certain discrepancy occurred: birth rates in developing countries are still governed by the laws of pre-industrial society, but mortality is governed by the laws of post-industrial society. In the 1960-1970s, this caused an explosion of neo-Malthusian literature. However, the predictions of the Malthusians did not materialize. "The world's population almost doubled from 1960 to 1998, but food production tripled during this period, both in rich and poor countries. Over the past twenty years, we have witnessed not an increase in food shortages, but an almost twofold drop in food prices" (*Easterly, 2006, p. 103*).

The concept of "Asian drama" arose not through mere chance. It reflected both the objective development of the liberated countries and the subjective awareness of the problems that faced the individuals in the third world. The population explosion was initially accompanied by a decline in living standards in developing countries. It coincided with a crisis of hope for the rapid transformation of traditional society, a disappointment in neo-Keynesian and neoclassical theories. Underdevelopment began to be perceived not as an evil which can be easily overcome,, but as a drama, the central figures in which were "the peoples of South Asia and, above all, the intelligentsia" (*Myrdal, 1972, p. 100*). It was the intelligentsia who first realized the depth of the gap between Western and Eastern societies, to develop its own strategy and tactics for solving complex practical problems. Moreover, in order to realize the ideals of modernization, the intelligentsia had to critically approach the cultural heritage, the national traditions on which it was brought up and the carrier of which it was. The situation was aggravated by the fact that when the intelligentsia came to power, it was obliged to fulfill its progressive mission in an extremely short period of time.

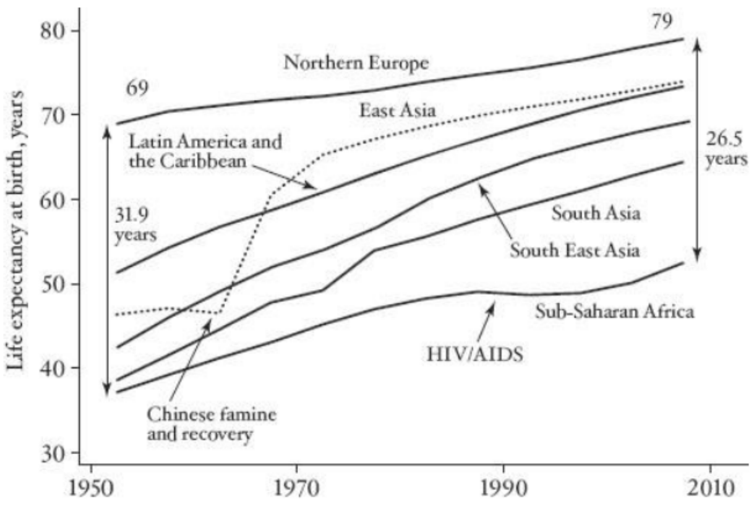


**Fig. 1.** Life expectancy in various regions of the world since 1950
**Source:** (*Deaton, 2016, p. 129*).

The study of Myrdal begins with sharp criticism of the Western approach to the analysis of the liberated countries. The methodological inconsistency of the Western approach lies in the fact that it is trying to transfer the realities of a developed society to an underdeveloped society. In practice, this translates into the creation of an enclave economy – a narrow sector of the Europeanized industry, more connected with the international than with the domestic market. Securing investment in priority sectors has proven to be much easier than implementing deep and comprehensive transformations of the economy as a whole. Gunnar Myrdal rightly draws attention to the importance of institutional conditions for overcoming poverty and to preserving the traditional mentality ("Asian values"), which in practice impede progress and the role of which most Western studies do not pay attention to (thus the prologue of Myrdal's book is characteristically named: "blinders before our eyes").

The main reason for underdevelopment is not the lack of foreign capital, but the underutilization of labor resources. People who are not interested in their work, says G. Myrdal work poorly and little, and in most countries the contempt for simple physical labor is not overcome. And this is primarily due to the system of traditional "Asian values." Recognition of this circumstance hurts national identity. Lack of external objective resources – goods, money, capital, etc. – does not affect national feelings so acutely as the recognition of one's own shortcomings.

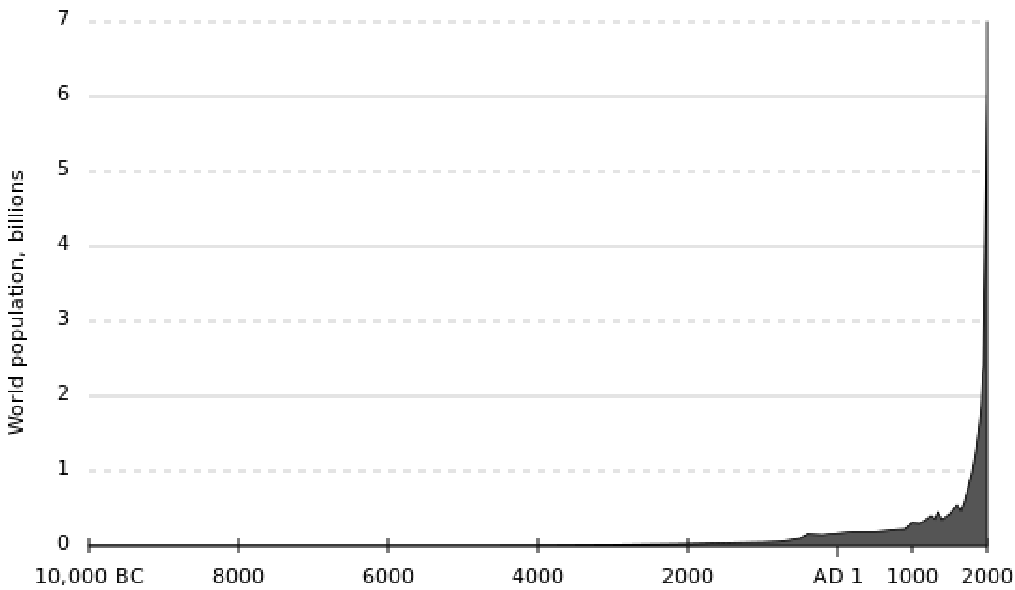


**Fig. 2.** The explosive growth of population
**Source:** S Census Bureau, Demographic Internet Staff.
Historical Estimates of World Population (EN-US). www.census.gov.

To overcome the backwardness, says Gunnar Myrdal, it is necessary to change the system of reimbursement of labor costs. In Asian countries, there is a direct relationship between living standards and productivity, and "... the growth of income should lead to an increase in labor intensity and efficiency" (*Myrdal, 1972, p. 251*). Therefore, G. Myrdal sees the main problem not in the growth of the rate of capital accumulation, but in providing the population with food in such a way as to stimulate more intensive and productive labor.

Under the influence of Myrdal's book, a strategy for meeting basic needs was prepared, recommended by UN experts to the liberated countries, and its author (along with Friedrich von Hayek) was awarded the Nobel Prize in 1974 for analyzing the interdependence of economic, social and structural phenomena. Thus, development, from G. Myrdal's perspective, is understood as an increase in the degree of satisfaction of the basic needs for all members of society.

The next major step was taken by Agnus Deaton, who received the 2015 Nobel Prize in Economics "for the analysis of consumption, poverty and welfare". On basis of his doctoral dissertation in 1992, A. Deaton published the monograph Understanding Consumption. In 1997, his new monograph, "The Analysis of Household Surveys", was published (*Deaton, 1997*), and in 2005, he edited the book "Data and Dogma: The Great Indian Poverty Debate" (*Deaton , 2005*). In 2013, his monograph "The Great Escape: Health, Wealth, and the Origins of Inequality" was published (*Deaton, 2016*).

Deaton's early work centered on the issue of consumption and its effectiveness. In the context of the population explosion, millions of people in Asia, Africa and Latin America faced the problem of survival. Therefore, the question naturally arises of how effectively those funds are spent on food by various categories of the population. S. Subramanian and A. Deaton set before themselves the task of estimating the relationship between the total costs of economic agents and the nutritional properties of the products they consume (*Subramanian, Deaton, 1996*). The purpose of their work was to assess how much the poor, wealthy and middle-class representatives spend their money in order to cover their need for calories.

Since urban households purchase most of the food in the form of processed foods, it is therefore difficult to estimate the number of calories that they absorb with these processed foods. This shifted the research focus to rural households. The authors examined ten families from 563 villages (5630 rural households) for 30 days and estimated the elasticity of their calorie consumption. To build the model, they used nonparametric methods. S. Subramanian and A. Deaton came to an unexpected conclusion, showing that the cost of acquiring the calories needed for daily activity is less than 5 per cent of wages per day. This approach was in contradiction with the ideas that go back to H. Leibenstein (*1957*), J. Mirles (*1975*) and J. Stiglitz (*1976, 185–207*) that the effectiveness of wages, determining the level of income, affects nutrition. According to their approach, productivity depends on nutrition. This relationship explains the unemployment of those who are undernourished.

The title of the book The Great Escape, released in 2013, is inspired by the film about prisoners of war who fled from the camp during the Second World War. "... The main idea of the film is not in the partial success of a particular escape, but in the person's irresistible desire for freedom, no matter how difficult the circumstances are." (*Deaton, 2016, p. 18*). "The Great Escape" is a story about how mankind tried to get rid of material deprivation and early death. In it, the economist notes that over the past 250 years, mankind has made a powerful leap in the development of health care and improving the well-being of people. And although not everyone was able to escape, and not everyone was ready to take advantage of the luck that opened up for them, he speaks of the great progress that mankind has experienced over the past 50 years.

And although the success in overcoming poverty in recent years is huge, a significant part of the money allocated for these purposes does not reach the goal. William Easterly drew attention to this fact in his 2001 book "The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics". From 1950 to 1995, Western countries spent $ 1 trillion (in 1985 dollars) on foreign aid" (*Easterly, 2006, p. 51*). Meanwhile, as Easterly rightly notes, most of the funds did not reach the goal. Having data on 88 countries for the period from 1950 to 1995, the author asks the following questions: "in order to be able to seriously talk about the relationship between the volumes of investment assistance, this dependence must meet at least two criteria. First, there must be a positive, statistically significant relationship between aid provision and investment. Secondly, aid should go into investments at least in a ratio of one to one: that is, each additional percentage of GDP in the form of aid provided should lead to an increase in investment by one percent." (*Easterly,* *2006, p. 55*). The first criterion was observed only in 17 cases out of 88. Of these 17, only 6 met the second criterion. This means that the vast majority of countries (82 out of 88) do not meet both criteria.

Naturally, after Easterly's criticism, the issue of the effectiveness of the World Bank and other international organizations became a subject of study. However, macroeconomic issues occupied the focus of Easterly's studies. The new Nobel laureates A. Banerjee and E. Duflo transferred the search for increased efficiency to the micro level. However, they had predecessors in this field too.

Certain prerequisites for the practical work of the 2019 Nobel laureates have developed in recent decades. Group lending programs for developing countries were in the spotlight at the end of the last century. Previously widespread assistance programs for women usually provided only training in traditional occupations (sewing, cooking, basic hygiene). Meanwhile, for the success of agrarian reforms it is necessary to increase women's labor productivity. The fact is that men seek to get paid work on plantations and in cities. Therefore, the share of women in the total number of people employed in the agricultural sector is quite high. In Latin America, it reaches 40%, and in Asia and Africa, even 60–80%. The role of women in providing the family with food is also high.

In Afro-Asian countries, discrimination against women has always been a common occurrence. Women could not create a security deposit. The law prohibited them from owning property. Wives could not conclude financial transactions without the permission of the husband.

Grameen Bank in Bangladesh has broken this tradition. Unlike other banks, Grameen Bank began to use the provision of credit to women widely. Its main clientele is the most oppressed part of the rural population. It serves 5400 villages, 250 thousand people and provides loans in small amounts. As a rule, loans do not exceed $100, and in the structure of loans for 1 year they occupy 97%, for two years – 99%. They account for 75% of borrowers. A high degree of repayment of loans is quite surprising and constitutes over 98% of loans granted. This dramatically increased investment efficiency. This microcredit experience was further developed in the works of the 2019 Nobel laureates in economics.

## 2. Doctoral dissertation by Esther Duflo

Esther Duflo, the youngest Nobel Prize winner in economics, was born on October 25, 1972, in Paris. First, Esther wanted to become a historian, and after joining the Ecole Normale Superieure (ENS) – an economist. Her thesis was devoted to the first Soviet five-year plan. To this end, she visited Moscow, where she studied not only the history of the construction of large enterprises during the first five years, but also worked as an assistant to Jeffrey Sachs, who advised Yegor Gaidar.

In 1994, she went on to continue her studies at the Massachusetts Institute of Technology, where she chose the course of Professor A. Banerjee, who became her scientific supervisor and, in 2015, her husband. An exception was made at MIT for Esther Duflo - usually this prestigious university does not retain its graduates for employment. Esther Duflo was the first graduate for whom this principle was violated. After defending her doctoral dissertation, she remained at MIT.

Abhijit Banerjee was born in India in 1961. After graduating from India, Banerjee joined Harvard and later became a professor at MIT.

Randomized trial approach is also actively utilized by Harvard professor Michael Kremer. He was born on November 12, 1964 in New York. After earning a Ph.D. in economics at Harvard, he worked at the Massachusetts Institute of Technology and the University of Chicago. In 1999, he was appointed professor of social development at Harvard University. He is the founder and president of WorldTeach, which involves Harvard graduate students in volunteer programs in developing countries.

In 1999, Esther Duflo defended her dissertation, which examined the impact of the Indonesian government program on raising the level of human capital in the country. Having received significant funds as a result of the oil crisis of 1973–1975, Indonesia was the only country that spent the funds received to implement a program to build elementary schools. In accordance with the presidential program (Sekolah Dasar INPRES program) in 1973 / 74-1978 / 79, 61,000 new school buildings were built, designed for 3 teachers and 120 students each (Duflo, 1999: 5–6). The government's goal was to increase enrollment in children aged 7–12 years from 69% in 1973 to 85% in 1978. The World Bank called this program one of the most successful cases of expansion of the school system in history.

Naturally, such a grandiose school construction led both to an increase in the level of education in the country and to an increase in wages. Preschool children (who in 1974, when the program began, were from 2 to 6 years old) received an increase in the duration of education from 0.12 to 0.18 years of education for each school built for 1000 people in their region.

To assess the contribution of education to wage growth, E. Duflo offers the following econometric model:

$$\ln w_i = \alpha + \beta * X_i + \delta * S_i + u_i,$$

where $X_i$ is work experience; $S_i$ – return on education.

A comparison of children covered by the new school curriculum with those that were unable to take advantage of it (older children and young people aged 12–24 years) allows the author to draw the conclusion that the implementation of the presidential program led to an increase in the wage of each educated Indonesian by an average of 3.8%. Calculations show that the economic return on schooling (expressed in wages) of age went up from 6.4% to 9.1% in Indonesia.

## 3. A Bit of theory

New Nobel laureates prove that poverty alleviation needs to be sought in conjunction with beneficiaries. This allows to increase its effectiveness dramatically. "The poor," says E. Duflo, "must take responsibility for their lives" (*Duflo, 2012*). E. Duflo speaks about this in detail in her first lecture "Paternalism vs Freedom".

According to E. Duflo, the ideas that have taken shape after the industrial revolution are based on the ideas of paternalism. "From the very beginning, paternalism was aimed at the poor and was offered as a substitute (and alternative) for individual responsibility and freedom, collective (class/community) solidarity and government intervention. It was based on views of the poor, that were often frankly humiliating, even when there was a sincere desire to help them" (*Duflo, 2012*). Under these conditions, the charity has become a peculiar way to get rid of our responsibility. Therefore, for E. Duflo, "charity" (top-down programs that do not require the poor to contribute) is not only morally reprehensible because it takes away freedom, but, in addition, the act of taking away this freedom also lures the poor into poverty" (*Duflo, 2012*).

Following Amartia Sen, Duflo defines freedom not negatively, but positively, "as the ability to realize one's potential." "We often take a somewhat condescending tone," writes E. Duflo, "thinking of the poor: why don't they boil water? Why don't they vaccinate their children? Why don't they save for a rainy day? Why don't they have a higher calorie diet? We can see that all these "right" choices are available to them, but we forget that they mean an active choice, when the "wrong" choices are hardly accessible to us. The freedom here is just the freedom to stumble." Besides, we often forget about another completely understandable reason, because "the choice does not come without expenses" of time, mental or emotional energy.

In the 2nd lecture, “Hope as Capability,” E. Duflo examines the effectiveness of the ultra-poor assistance program, implemented by Bandhan, one of India’s largest microfinance organizations. The results were extremely positive: “18 months after households received the asset (mainly livestock), per capita food consumption was on average 15% higher among beneficiaries than among non-beneficiaries. These increases in consumption are too large to be attributable to the cost of liquidating the asset (although about a third of the beneficiaries apparently did) or the scholarship they received over the course of several weeks.” (*Duflo, 2012*).

One way to understand the results is to analyze the concept of “poverty trap”. “The concept of the poverty trap plays a central role in the economics of poverty and development. The topic of this lecture is whether a deficit of hope can become a source of the poverty trap and, conversely, can hope feed a way out of the poverty trap” (*Duflo, 2012*). The author tries to find out whether hope or its absence can be a source of a “poverty trap”. To this end, she distinguishes three stages:

1. “Anticipation of a likely failure can lead a person to a rational decision to restrain his efforts, avoid investment and, thus, achieve even less than he could otherwise achieve.”
2. “Depression can make people less effective in focusing on the long term and, therefore, more prone to making decisions that are likely to leave us poor.”
3. “We ask what happens in a world where people can have rational expectations, but cannot behave in a completely rational, consistent way: does self-awareness improve or worsen the potential for a trap of poverty based on hopelessness?” (*Duflo, 2012*).

Many people do not know the degree of their true potential. If one does not try to overcome the existing situation, it is difficult to assess the missed opportunities. The author cites education as a classic example. Although, as a rule, the return on it seems linear. Many parents are inclined to believe that returns from it arise only at a sufficiently high level. Moreover, as a rule, parents are less ambitious about the careers of their daughters and more ambitious about the careers of their sons.

Esther Duflo stresses that passivity makes negative expectations more likely. This means that the more negative tests in a person’s life, the more he is inclined to see gloomy expectations about the future. So there is a vicious circle, which is quite difficult to get out of. Therefore, Esther Duflo believes that “more attention should be paid to mental health in developing countries than it is now.” (*Duflo, 2012*).

People, as a rule, are reluctant to talk about what awaits them in the future. Such an approach protects people from disappointment but does not make it possible to get out of poverty. Besides, the poor are especially cautious of activities that could violate their status quo. Therefore, Esther Duflo concludes that hope acts as a powerful incentive and, on the contrary, hopelessness and pessimism exert pressure and inhibit the improvement of living conditions. On the other hand, she cautions that the goals set by the poor should not be excessively high, because otherwise mistakes cause a lack of desire for further experiments.

Practice is Esther Duflo’s favorite word in her approach to economics.

## 4. The Experimental approach

At the center of research of these Nobel laureates, are not questions of theory, but questions of practice. To this end, they use a randomized approach.

Since it is very difficult to set up a controlled experiment, economists are forced to rely mainly on observations. To this end, they compare the results of the control sample with the sample in which the experiment takes place, according to very local factors that cannot be extrapolated to the general population, limited even by the framework of one region (country). The focus is on a study of the effectiveness of the assistance provided to developing countries.

The fact is that annual assistance to countries in Asia, Africa and Latin America is hundreds of billions of dollars. However, the effectiveness of most of them is rather low.

Therefore, the authors focus on the micro level in order to find out exactly which factors influence the comparative effectiveness of these programs in various households and villages.

The experimental approach is not new. The fact is that studying the natural course of the phenomena and processes of economic life has long put experiments on the agenda. “An economic experiment is an artificial reproduction of an economic phenomenon or process with the aim of studying it under the most favorable conditions and further practical changes” (*Nureev, 2008, p. 11*).

Attempts to experiment have arisen in economic science for a long time. Even Daniel Bernoulli (1700–1782) conducted an experiment in St. Petersburg dedicated to determining the probability of events. True, such experiments were more associated with the application of mathematics than with economic theory itself.

However, conscious mass economic experimentation is a product of the 19th century. The most famous economic experiments conducted at the micro level are connected with the activities of R. Owen, the “banks of fair exchange” P.Zh. Proudhon, as well as with theorists of scientific organization of labor, production and management – F. Taylor, G. Ford and E. Mayo.

The widespread appearance of laboratory economic experiments can be attributed only to the 30–40 years of the XX century. In 1931, an article by L. Thurstone (*1931*) appeared, which studied indifference curves, in 1944 – an article by W. Wallace and M. Friedman on decision-making (*Wallis, Friedman, 1942*), in 1948 – E. Chamberlain’s article on the formation of an equilibrium price in conditions of perfect competition.

Most of the subsequent controlled economic experiments were devoted to oligopolistic markets. In the late 1950s, articles by Hoggatt, Sauermann and Selten, Siegel and Fouraiker appeared (*Hogatt, 1959; Sauermann, Selten, 1960; Siegel, Fouraker, 1960*). These studies were supported by game theory, which was further developed after the publication of the fundamental work of J. von Neumann and O. Morgenstern (*1970*). Such was the level of development of economic experiments by the time V. Smith appeared in this area (*Smith, 1991; Smith, 2000*).

Unlike Vernon Smith, the focus of the 2019 Nobel laureates is not laboratory, but field experiments. Therefore, while W. Smith was awarded the Nobel Prize “for conducting laboratory experiments used for empirical economic analysis, especially in the study of alternative market mechanisms”, then A. Banerji, E. Duflo and M. Kremer “for an experimental approach to combating global poverty “.

Field experiments make it possible to verify cause-effect relationships. They allow scientists to create such an artificial environment in which all objects and states, except for the one being studied, are controlled by the researchers as much as possible, which allows you to accurately determine the effectiveness of the measures taken (for more details see Vorobyov, Kravchenko, Mayboroda, 2019). The idea at first glance is quite simple - to evaluate the impact of the assistance program, it is necessary to randomize the impacts. Over the past 25 years, randomized controlled trials have grown from a few units to several hundred. This was made possible thanks to the Poverty Action Lab (J-PAL) at MIT, created on the initiative of graduate Mohammed Abdul Latif Jamil (president of the Saudi company ALJ) in 2003. This laboratory has already conducted more than 1000 field studies in more than 50 countries. Over the past 15 years, over 400 million people have been involved in laboratory field projects. (https://www.povertyactionlab.org/)

Currently, 181 professors, as well as more than 400 full-time employees, work in this laboratory.

Let’s consider some practical experiments. The article “Movies, Margins, and Marketing: Encouraging the Adoption of Iron-Fortified Salt,” written by Abhijit Banerjee, Sharon Barnhardt, and Esther Duflo, provides a concrete example of the fight against anemia (*Banerjee, Barnhardt, Duflo, 2015*). Currently, 1.6 billion people are suffering from anemia in the world. In addition, one of the main causes of anemia is iron deficiency. Therefore, the authors consider a specific mechanism for increasing demand for iron-fortified salt. In 200 villages out of randomly selected 400 store owners, Tata plus salt was introduced. In order to stimulate its consumption, the authors ordered a 26-minute entertaining film, and also sought to stimulate store owners by randomly presenting store owners with one salt for sale containing iron, with higher profit margin for the product. The experiment was performed in the Bihar state of northern India, where one third of the population lives below the poverty line.

Laboratory staff worked in all 14 administrative blocks of the Badshahpur district. For the study, the authors randomly selected 27 villages in each block in order to obtain a total of 400 villages. At the same time, half of the villages were randomly selected for treatment, and half for control. The film had the greatest impact on the household; consumption grew by 5.5 percentage points, and to a much lesser extent incentives for shops that were given discounts on the sale of iron-enriched salt. However, the authors have no dizziness from success. They rightly point out that "even when salt is provided free of charge, only about half of households use it for cooking. When they have to buy it just below half the price, without any intervention, about 20% of the households try, but only 10% still use it after about three years." (*Banerjee, Barnhardt, Duflo, 2015*).

However, not all poverty eradication experiments are successful. Failure, in particular, ended in an attempt to combine health insurance and microfinance (*Banerjee, Duflo, Hornbeck, 2014; Duflo, Banerjee, Hornbeck, 2014*). The articles analyze the bad experience of SKS Microfinance, which in 2006–2007 decided to make the purchase of insurance a condition for extending microfinance. A typical health insurance policy cost 525 rupees (or about $13 at the 2007 exchange rate) compared with a loan extension of about 9,400 rupees. This amounted to 5.5% of the granted loan. The authors arbitrarily chose 101 villages, where it was possible to practically implement insurance from a list of 201 villages – candidates submitted by SKS.

The reason for failure was that many households could not decide in advance whether they would be able to use insurance in the future. It was much easier to predict pregnancy than other healthcare costs. But even those households that were supposed to receive real benefits did not dare to purchase insurance.

The requirement to purchase insurance led to a decrease in loan renewal by 22 percentage points (or 31% in the experimental groups compared to the control groups where the insurance policy was not introduced) (*Duflo, Banerjee, Hornbeck, 2014*).

The conclusion reached by the authors can be formulated as follows. Many are still convinced that microfinance can lead to a significant increase in business profits and, consequently, welfare. The first part is true: as with other microfinance organizations that have been evaluated, SCS loans contribute to improving business results. The second part is incorrect that many households making a profit earn very little in terms of welfare." (*Duflo, Banerjee, Hornbeck, 2014*).

### 4. "Poor Economics"

The results of these studies were summarized in a book published in 2011, entitled "Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty" (*Banerjee, Duflo, 2011*). The work consists of 10 chapters, which analyze the experience of helping international organizations in Asia and Africa. They relate to various aspects of the life of the poor. These are the problems of nutrition, health care, education, family planning, microcredit, as well as ways to form the middle class.

It is important that the authors are not limited to general reasoning, but explode the prevailing stereotypes about the poor of the "third world". They, in particular, note that the rationality of the poor is somewhat different from the usual perceptions in the West. Even in conditions of extreme poverty, the poor prefer spending that makes their lives less boring, spending money on mobile phones, television, cultural events, low-value but more expensive food. Irrationality is manifested in the fact that they often buy expensive drugs, rather than getting regularly engaged in the prevention of diseases. Unfortunately, preventive care in Asia and Africa is currently underutilized: medical facilities are often closed, the use of vaccines requires special training, and people are often inclined to procrastinate in situations where quick, effective decisions need to be made. Therefore, the authors do not tire of repeating that it is necessary to use additional incentives to overcome prevailing stereotypes (for example, provide free food as a reward for passing through the successive stages of vaccination).

The importance of education is gradually being recognized in the third world. It is much better in private schools, which are usually staffed by faculty. However, most parents are faced with the choice of which of the children to provide a higher level of education. As a rule, these are boys, as girls more often begin to help with homework in the family. However, the profitability of education is not linear and returns to it come only at a certain, rather high level, which a significant part of the third world population does not reach.

A separate chapter is devoted to family planning. Representatives of developing countries are still interested in having a large family, since the future wages of their adult children will help ensure that their parents live to an old age. The level of teenage pregnancy is still quite high, and it also prevents full education at school, as it forces parents to start their working life in an earlier period. The authors note that, unfortunately, abstinence-promoting programs as an HIV prevention strategy are far from always successful, as poor teens get impregnated by older men. Girls still hope that pregnancy from an older man will help to improve their well-being and ensure financial stability in the future.

The development of microfinance creates some prerequisites for the formation of small and medium-sized businesses. Unfortunately, until now, the extremely poor cannot regularly pay the required insurance premiums, so the authors believe that subsidized insurance from the government could reduce exposure to the level at which the poor are willing and able to pay. Underdeveloped credit leads to the fact that many poor families pay too high interest rates, since they rarely have access to the modern banking system. A special deficit currently exists in relation to the financing of medium-sized enterprises. Interestingly, many poor people, faced with the difficulties of accumulating money, use unconventional methods of saving, including partial construction of a house. Small and medium-sized enterprises are often ruined and most of these enterprises are struggling to overcome a five-year period. Therefore, until now, parents dream that children get paid work in the local or regional government, than how to start a small business. Since the likelihood of getting such a job is much higher in urban areas, parents are interested in sending older children to cities, although such a departure can be quite difficult and risky.

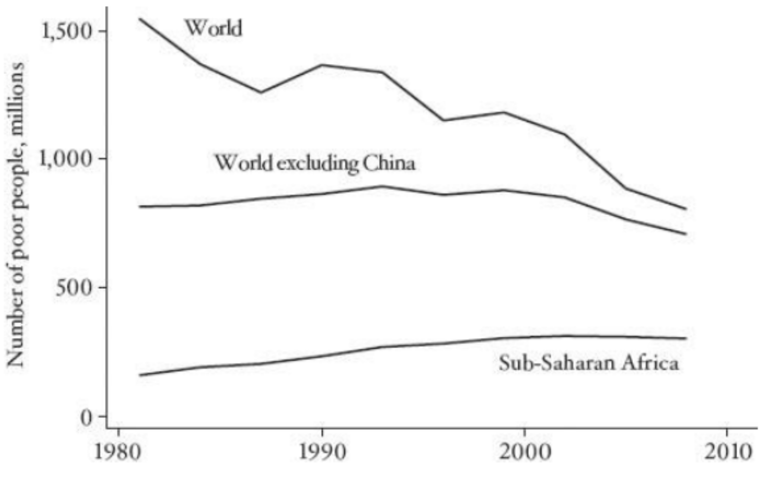


**Fig. 3.** Reduction in global poverty
**Source:** (*Deaton, 2016, p. 63*).

E. Duflo pursues an active policy of promoting her own views. For this purpose, mass open online courses are regularly organized (*Duflo, Banerjee, 2014*). They became widespread in the second decade of the 21st century. According to the data collected by A. Banerji and E. Duflo from 4600 students in the middle of the course, half of the participants were males from 194 countries. The leaders were listeners from the USA (28%), India (10%), Great Britain (5%), as well as Canada, Brazil and Germany, each of which accounted for 3%. The average age of students was 30 years. Students of this course came from relatively prosperous families, as 99% of students had a computer at home (*Duflo, Banerjee, 2014*).

However, the effectiveness of such courses is still relatively low. Many students only register for the course but do not participate in the learning process. Others attend lectures from time to time but are not active because they do not do homework. And although the Duflo student retention rate is relatively high, it is only 11% of the number of registered students, 18% of the number of beginner students and 36% of the number of active students (that is, those who tried to complete at least one task) (*Duflo, Banerjee, 2014*).

Of course, successes can be deceiving, but in recent years great progress has been made in eliminating poverty. From 1981 to 2008, the total number of people living below the poverty line ($1 per day) decreased by 750 million people (see Fig. 3). This happened due to the improvement in two countries: China and India, which allowed Deaton to characterize this process as the "Great Escape".

However, hundreds of millions of people remain below the poverty line, and much work is needed to increase the effectiveness of international assistance. A. Banerjee and E. Duflo not only show the existing reserves but also take practical steps in solving this enormous problem.

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