Book Review

More Than Good Intentions: How a New Economics is Helping to Solve Global Poverty

Dean Karlan and Jacob Appel
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Karlan and Appel present a number of case studies carried out in economically poor countries such as Ghana, India, Kenya, and Bangladesh to examine the effectiveness of developmental projects launched to reduce poverty. This book is also about how individual philanthropists of the developed world can help people of low-income countries improve their socioeconomic conditions. The authors use the Randomised Controlled Trial (RCT) as a method for assessing problems connected to poverty. They examine change in the lives of individuals with access to development programs such as microcredit, which involves “provision of small loans to the poor” (p. 9). Karlan and Appel go on to compare these peoples’ lives with those who did not have access to microcredit.

In all of the case studies, the authors show how small details could be a tool for assessing the effectiveness of development projects. “Getting poor people to borrow money has become one of the best hopes for alleviating poverty” (p. 57), but the problem with this is that poor people in the developing world hesitate to take loans. In their case studies, Karlan and Appel explain why poor people are reluctant to take loans. Firstly, many poor people do not perceive the provision of loans as a miracle cure for their problems; rather, they perceive it as a debt with a great challenge to repay. Secondly, many poor people are excluded from obtaining loans because of lenders’ “restrictions on the use of borrowed money” (p. 74). For example, in the case of Sri Lanka, Karlan and Appel find that borrowers were allowed to take loans only for financing business activities. But the reality was that everybody was not willing to and capable of conducting business.

The book has 308 pages and 12 chapters with short and simple headings such as To Buy, To Borrow, and To Save. The first half of the book takes a close look at microcredit, whereas in the second half, the authors try to convince donors to examine individual projects in terms of their potential impact on reducing poverty before making donations. Full of illustrations and metaphorical expressions, this is an easily readable book that could be persuasive to donors who would like to donate to projects focused on the reduction of poverty. The authors are successful in persuading potential donors that “good intentions” (p. 3) expressed in the provision of loans to the poor are not enough to solve the problem of poverty.

Karlan and Appel claim that small development actions such as the provision of microcredit should be scaled up so as to bring larger spillover effects in the endeavour to reduce poverty on a
national and global scale. They relate the concept of the microcredit system with the contribution of Muhammad Yunus, a 2006 noble laureate, to the field of development economics. Yunus and Jolis (1998) argue that all human beings have survival skills that make them able to be alive. Hence, rather than wasting our time by “teaching them new skills, we try to make maximum use of their existing skills” (p. 140). For this, Yunus pioneered the idea of microcredit for the poor who were traditionally ineligible for loans from major banks. He received a Nobel Prize for his idea and the banking system he established, known also as Grameen Bank, which resulted in a microcredit movement in poor countries. According to Hughes and Eades (2006), “the Grameen Bank has become the current model of microcredit practiced and promoted throughout the world as a development tool for poverty reduction” (p. 71).

By presenting cases identifying how loan providers charge interest indiscriminately, Karlan and Appel claim that microcredit is not operating as Yunus planned. Moreover, they find that the majority of the poorest people, or those who live on less than $2.50 USD per day, about 95% of them are not taking loans. In this sense, the book provides a critique of the current model of microcredit developed by Yunus. The authors argue that “if Yunus were right, and the poor already had skills for survival, then presumably they would already be operating efficiently, maximising their profit” (p. 94).

Above all, I have three fundamental critiques of the book’s arguments. Firstly, the authors overrate the validity and usefulness of randomisation and experiment methods for studying problems of poverty. In each experiment a group of randomly selected people was given some incentives and another group, the control group, was given no incentives. After a certain period of time comparisons were made and conclusions drawn. In a rather obvious sense, with few exceptions, the conclusions of the experiments revealed that the group of poor people with incentives had better lives than the members of control group.

The randomisation and experiment methods have their merits. Nevertheless, the practice of treating poor people as objects of experiments, I would argue, is an unethical act. In experiments, the authors provided randomly selected people with financial incentives and nothing else for others to assess the effectiveness of development projects and the RCT method. Not surprisingly, experiments were sometimes conducted to find out redundant and obvious information. For example, Karlan and Appel carried out research to find out if poor people wanted low interest loans. Hence, the authors’ methodology treats poor people as objects that could be triggered by some monetary stimuli in the form of loans.

Secondly, the authors apply the theory of behavioural economics or new economics as indicated in the book’s subtitle. They highlight the differences between the traditional economic theory based on cost-benefit analysis and behavioural economics as a new branch of economics. According to Ariely (2010), one of the pioneers of the theory of behavioural economics, traditional economics, especially the interpretation based on Adam Smith’s idea of the invisible hand of the market, is inadequate because the market (unlike the assumption made by Smith) fails to make rational decisions. The current global economic crisis is a result of this irrationality of the free market policy. Behavioural economists such as Ariely changed Smith’s thesis and claimed that irrationality of the market is due to the irrationality of individuals, who assumed that humans make mistakes systematically and consistently, and hence they are predictably irrational (Ariely, 2010). Karlan and Appel implement the assumptions of behavioural economics, mainly human irrationality and acts of making erroneous decisions, to examine how poor people fail to combat poverty and improve their socioeconomic conditions.
One problem I have with the book is if poverty is the consequence of mistakes and irrational decisions, then how is it actually possible for some people to be wealthy and others poor? If we are supposed to assume that some people who are poor committed more mistakes and made more irrational decisions than their wealthier counterparts then how could it be possible that the majority of the people in the global South, who are on average poorer than those in the North, are irrational? Is irrationality also a matter of geographical location? For example, is it justifiable that people who live in Asia and Africa, two continents where the majority of poor people live, are the most irrational ones? I could find no clear answer to these questions in the book. This leads me to conclude that Karlan and Appel ineffectively applied behavioural economics to illustrate the problem of poverty as it is discussed in this book.

The book has added a new dimension to the field of development economics by presenting cases that show how small details such as an understanding of why poor people are not actually benefiting from small short-term loans can be an effective tool to understand problems of poverty. Moreover, the book highlights the need to carefully assess what works and what needs to be improved for making individual donations more effective. Nevertheless, the arguments presented in the book imply that problems of poverty are mere consequences of mistakes poor people make.

Thirdly, the authors appear to take the position that only people from the West have the capacity to identify problems of the poor, suggest solutions, and contribute both financially and intellectually to help poor people in the global South. As a reader from one of the developing countries of the South, Nepal, I feel that the authors are othering now-western readers. Poverty is not solely the problem of poor people or the sole responsibility of donors; poor people are capable of finding strategies to solve problems of poverty.

The authors also claimed that “poor people make mistakes that end up making them poorer, sicker and less happy” (p. 20). Although Karlan and Appel explore several cases and identify some common mistakes such as farmers’ habits of using the same seeds, fertilisers, and methods in farming for a long time, they tend to avoid discussing historical mistakes committed by international donor agencies such as the World Bank, one of the major donors from which Karlan’s own organisation, Innovation for Poverty Action, gets funding. If the assumptions of behavioural economics are right, then it should be the mistakes not only of poor people but also the international donor agencies for the perpetuation of poverty in the third world.

Karlan and Appel appear to have a Western ethnocentric perspective to see the people living in poverty. I would have liked to have seen more discussion on impeding factors such as social and structural causes of social discrimination, lack of familial property, educational opportunities, and ways to create an environment that allow the impoverished to live in a peaceful and non-coercive environment with dignity and respect like those who are wealthy and prosperous in the West.

Something that surprises me most is the fact that western donor agencies, including some non-governmental organisations such as the Foundation for International Community Assistance, motivated poor people in the global South to take loans. When the poor defaulted on these loans, they were called delinquents, thieves, and liars. The authors (inappropriately) categorise the poor into high and low cultures and claim that “clients with higher culture … were more likely to make their payments on time” (p. 134).

Overall, Karlan and Appel apply behavioural economics as a lens to clearly see issues of poverty. However, they could have expanded behavioural economics to include a more contextualized picture of poverty within the lives of poor people. Almost all of the cases, in a
sense, come to me as acts of finding poor people’s mistakes rather than encouraging them to find permanent solutions to the problems related to poverty.

References


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