In Place of a Sweeping Conclusion

Economists (and other experts) seem to have very little useful to say about why some countries grow and others do not. Basket cases, such as Bangladesh or Cambodia, turn into small miracles. Poster children, such as Côte d'Ivoire, fall into the "bottom billion." In retrospect, it is always possible to construct a rationale for what happened in each place. But the truth is, we are largely incapable of predicting where growth will happen, and we don't understand very well why things suddenly fire up.

Given that economic growth requires manpower and brainpower, it seems plausible, however, that whenever that spark occurs, it is more likely to catch fire if women and men are properly educated, well fed, and healthy, and if citizens feel secure and confident enough to invest in their children, and to let them leave home to get the new jobs in the city.

It is also probably true that until that happens, something needs to be done to make that wait for the spark more bearable. If misery and frustration are allowed to have their way, and anger and violence take over, it is not clear that the spark will ever arrive. A social policy that works, that keeps people from striking out because they feel that they have nothing to lose, may be a crucial step toward preserving the country's date with that elusive takeoff.

Even if all this is not correct—if social policy has nothing to do with growth—the case for doing everything possible in order to improve the lives of the poor now, and not waiting for the growth spark, remains overwhelming. We made the moral case in our opening chapter: To the extent that we know how to remedy poverty, there is no reason to tolerate the waste of lives and talent that poverty brings with it. As this book has shown, although we have no magic bullets to eradicate poverty, no one-shot cure-all, we *do* know a number of things about how to improve the lives of the poor. In particular, five key lessons emerge.

First, the poor often lack critical pieces of information and believe things that are not true. They are unsure about the benefits of immunizing children; they think there is little value in what is learned during the first few years of education; they don't know how much fertilizer they need to use; they don't know which is the easiest way to get infected with HIV; they don't know what their politicians do when in office. When their firmly held beliefs turn out to be incorrect, they end up making the wrong decision, sometimes with drastic consequences—think of the girls who have unprotected sex with older men or the farmers who use twice as much fertilizer as they should. Even when they know that they don't know, the resulting uncertainty can be damaging. For example, the uncertainty about the benefits of immunization combines with the universal tendency to procrastinate, with the result that a lot of children don't get immunized. Citizens who vote in the dark are more likely to vote for someone of their ethnic group, at the cost of increasing bigotry and corruption.

We saw many instances in which a simple piece of information makes a big difference. However, not every information campaign is effective. It seems that in order to work, an information campaign must have several features: It must say something that people don't already know (general exhortations like "No sex before marriage" seem to be less effective); it must do so in an attractive and simple way (a film, a play, a TV show, a well-designed report card); and it must come from a credible source (interestingly, the press seems to be viewed as credible). One of the corollaries of this view is that governments pay a huge cost in terms of lost credibility when they say things that are misleading, confusing, or false.

Second, the poor bear responsibility for too many aspects of their lives. The richer you are, the more the "right" decisions are made for you. The poor have no piped water, and therefore do not benefit from the chlorine that the city government puts into the water supply. If they want clean drinking water, they have to purify it themselves. They cannot afford ready-made fortified breakfast cereals and therefore have to make sure that they and their children get enough nutrients. They have no automatic way to save, such as a retirement plan or a contribution to Social Security, so they have to find a way to make sure that they save. These decisions are difficult for everyone because they require some thinking now or some other small cost today, and the benefits are usually reaped in the distant future. As such, procrastination very easily gets in the way. For the poor, this is compounded by the fact that their lives are already much more demanding than ours: Many of them run small businesses in highly competitive industries; most of the rest work as casual laborers and need to constantly worry about where their next job will come from. This means that their lives could be significantly improved by making it as easy as possible to do the right thing—based on everything else we know—using the power of default options and small nudges: Salt fortified with iron and iodine could be made cheap enough that everyone buys it. Savings accounts, the kind that make it easy to put in money and somewhat costlier to take it out, can be made easily available to everyone, if need be, by subsidizing the cost for the bank that offers them. Chlorine could be made available next to every source where piping water is too expensive. There are many similar examples.

Third, there are good reasons that some markets are missing for the poor, or that the poor face unfavorable prices in them. The poor get a negative interest rate from their savings accounts (if they are lucky enough to have an account) and pay exorbitant rates on their loans (if they can get one) because handling even a small quantity of money entails a fixed cost. The market for health insurance for the poor has not developed, despite the devastating effects of serious health problems in their lives, because the limited insurance options that can be sustained in the market (catastrophic health insurance, formulaic weather insurance) are not what the poor want.

In some cases, a technological or an institutional innovation may allow a market to develop where it was missing. This happened in the case of microcredit, which made small loans at more affordable rates available to millions of poor people, although perhaps not the poorest. Electronic money transfer systems (using cell phones and the like) and unique identification for individuals may radically cut the cost of providing savings and remittance services to the poor over the next few years. But we also have to recognize that in some cases, the conditions for a market to emerge on its own are simply not there. In such cases, governments should step in to support the market to provide the necessary conditions, or failing that, consider providing the service themselves.

We should recognize that this may entail giving away goods or services (such as bed nets or visits to a preventive care center) for free or even rewarding people, strange as it might sound, for doing things that are good for them. The mistrust of free distribution of goods and services among various experts has probably gone too far, even from a pure cost-benefit point of view. It often ends up being cheaper, per person served, to distribute a service for free than to try to extract a nominal fee. In some cases, it may involve ensuring that the price of a product sold by the market is attractive enough to allow the market to develop. For example, governments could subsidize insurance premiums, or distribute vouchers that parents can take to any school, private or public, or force banks to offer free "no frills" savings accounts to everyone for a nominal fee. It is important to keep in mind that these subsidized markets need to be carefully regulated to ensure they function well. For example, school vouchers work well when all parents have a way of figuring out the right school for their child; otherwise, they can turn into a way of giving even more of an advantage to savvy parents.

Fourth, poor countries are not doomed to failure because they are poor, or because they have had an unfortunate history. It is true that things often do not work in these countries: Programs intended to help the poor end up in the wrong hands, teachers teach desultorily or not at all, roads weakened by theft of materials collapse under the weight of overburdened trucks, and so forth. But many of these failures have less to do with some grand conspiracy of the elites to maintain their hold on the economy and more to do with some avoidable flaw in the detailed design of policies, and the ubiquitous three I's: ignorance, ideology, and inertia. Nurses are expected to carry out jobs that no ordinary human being would be able to complete, and yet no one feels compelled to change their job description. The fad of the moment (be it dams, barefoot doctors, microcredit, or whatever) is turned into a policy without any attention to the reality within which it is supposed to function. We were once told by a senior government official in India that the village education committees always include the parent of the best student in the school and the parent of the worst student in the school. When we asked how they decided who were the best and worst children, given that there are no tests until fourth grade, she quickly changed subjects. And yet even these absurd rules, once in place, keep going out of sheer inertia.

The good news, if that is the right expression, is that it is possible to improve governance and policy without changing the existing social and political structures. There is tremendous scope for improvement even in "good" institutional environments, and some margin for action even in bad ones. A small revolution can be achieved by making sure that everyone is invited to village meetings; by monitoring government workers and holding them accountable for failures in performing their duties; by monitoring politicians at all levels and sharing this information with voters; and by making clear to users of public services what they should expect—what the exact health center hours are, how much money (or how many bags of rice) they are entitled to.

Finally, expectations about what people are able or unable to do all too often end up turning into self-fulfilling prophecies. Children give up on school when their teachers (and sometimes their parents) signal to them that they are not smart enough to master the curriculum; fruit sellers don't make the effort to repay their debt because they expect that they will fall back into debt very quickly; nurses stop coming to work because nobody expects them to be there; politicians whom no one expects to perform have no incentive to try improving people's lives. Changing expectations is not easy, but it is not impossible: After seeing a female *pradhan* in their village, villagers not only lost their prejudice against women politicians but even started thinking that their daughter might become one, too; teachers who are told that their job is simply to make sure that all the children can read can accomplish that task within the duration of a summer camp. Most important, the role of expectations means that success often feeds on itself. When a situation starts to improve, the improvement itself affects beliefs and behavior. This is one more reason one should not necessarily be afraid of handing things out (including cash) when needed to get a virtuous cycle started.

Despite these five lessons, we are very far from knowing everything we can and need to know. This book is, in a sense, just an invitation to look more closely. If we resist the kind of lazy, formulaic thinking that reduces every problem to the same set of general principles; if we listen to poor people themselves and force ourselves to understand the logic of their choices; if we accept the possibility of error and subject every idea, including the most apparently commonsensical ones, to rigorous empirical testing, then we will be able not only to construct a toolbox of effective policies but also to better understand why the poor live the way they do. Armed with this patient understanding, we can identify the poverty traps where they really are and know which tools we need to give the poor to help them get out of those.

We may not have much to say about macroeconomic policies or institutional reform, but don't let the apparent modesty of the enterprise fool you: Small changes can have big effects. Intestinal worms might be the last subject you want to bring up on a hot date, but kids in Kenya who were treated for their worms at school for two years, rather than one (at the cost of $1.36 USD PPP per child and per year, all included), earned 20 percent more as adults every year, meaning $3,269 USD PPP over a lifetime. The effect might be lower if deworming became universal: The children lucky enough to have been dewormed may have been in part taking the jobs of others. But to scale this number, note that Kenya's highest sustained per capita growth rate in modern memory was about 4.5 percent in 2006–2008. If we could press a macroeconomic policy lever that could make that kind of unprecedented growth happen again, it would still take four years to raise average incomes by the same 20 percent. And, as it turns out, no one has such a lever.

We also have no lever guaranteed to eradicate poverty, but once we accept that, time is on our side. Poverty has been with us for many thousands of years; if we have to wait another fifty or hundred years for the end of poverty, so be it. At least we can stop pretending that there is some solution at hand and instead join hands with millions of well-intentioned people across the world—elected officials and bureaucrats, teachers and NGO workers, academics and entrepreneurs—in the quest for the many ideas, big and small, that will eventually take us to that world where no one has to live on 99 cents per day.