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ECONOMIC SCENE

## Making Economics Relevant Again

It was only a decade ago that economics seemed to be an old and tired discipline. The field no longer had intellectual giants like [John Maynard Keynes](#) or [Milton Friedman](#) who were shaping public policy by the sheer force of their ideas. Instead, it was devolving into a technical discipline that was even less comprehensible than it was relevant.

Some Wall Street firms had become hesitant to hire Ph.D. economists, and the number of undergraduates majoring in the subject was [plummeting](#). “A good deal of modern economic theory,” John Cassidy [wrote](#) in an article titled “The Decline of Economics” that appeared in *The New Yorker* in 1996, “simply doesn’t matter much.”

Over the last decade, however, economics has begun to get its groove back. Armed with newly powerful tools for analyzing data, economists have dug into real-world matters and tried to understand human behavior. Economists have again become storytellers, and, again, they matter.

They have explained why Americans don’t save enough money — and come up with [clever ideas](#) to increase savings. They have discovered that modest increases in the minimum wage [don’t actually](#) destroy many jobs — and thus made possible the recent state-by-state push to raise minimum wages. Since the mid-1990s, the number of undergraduates majoring in economics has risen sharply.

But there are more than a few economists who believe that the renaissance has come with a big downside. They argue that the new research often consists of cute findings — which inevitably get covered in the press — about trivial subjects, like game shows, violent movies or sports gambling. Economics may be popular again, but there still is no one like a modern-day Milton Friedman or John Maynard Keynes.

So when I recently set out to conduct my second annual survey of economists, I decided to try to uncover the next best thing. In its [first incarnation](#), the survey simply asked for the names of the next generation of stars specializing in the economics of everyday life. This year, though, I went the other way — toward the big picture — and asked which economists were managing to do influential work on the crucial questions facing modern society.

Who, in other words, was using economics to make the world a better place?

I received dozens of diverse responses, but there was still a runaway winner. The small group of economists who work at the Jameel Poverty Action Lab at [M.I.T.](#), led by Esther Duflo and Abhijit Banerjee, were mentioned far more often than anyone else.

Ms. Duflo, Mr. Banerjee and their colleagues have a simple, if radical, goal. They want to overhaul

development aid so that more of it is spent on programs that actually make a difference. And they are trying to do so in a way that skirts the long-running ideological debate between aid groups and their critics.

“Surely the most important societal question economics can help answer is why so many people are crushingly poor and what can be done about it,” David Romer, a professor at the University of California, Berkeley, said. The macro issues (like how to build a democracy) remain maddeningly complex, Mr. Romer noted. But thanks in part to [the poverty lab](#), we now know much more about how to improve daily life in the world’s poorest countries.

The basic idea behind the lab is to rely on randomized trials — similar to the ones used in medical research — to study antipoverty programs. This helps avoid the classic problem with the evaluation of aid programs: it’s often impossible to separate cause and effect. If aid workers start supplying textbooks to schools in one town and the students there start doing better, it could be because of the textbooks. Or it could be that the town also happened to hire a new school administrator.

In a randomized trial, researchers would choose a set of schools and then separate into them two groups. The groups would be similar in every respect except for the fact that one would receive new textbooks and one wouldn’t. With a test like this, as Vinod Thomas, the head of independent evaluation at the [World Bank](#), says, “You can be much more accurate and much more clear about the effect of a program.”

The approach can sound cruel, because researchers knowingly deny help to some of the people they’re studying. But what, really, is the alternative? It’s not as if someone has offered to buy new textbooks for every child in the world. With a randomized study, you at least learn whether your aid money is well spent.

[Ms. Duflo](#), who’s 35, and [Mr. Banerjee](#), 46, came to economics from opposite ends of the intellectual spectrum. She was studying history at the École Normale Supérieure, one of the most prestigious colleges in France, when she decided that the more scientific approach of economics offered a better way to address global poverty. He dropped out of the similarly prestigious Indian Statistical Institute after two and a half months of studying math; he found the subject too abstract.

By 2003, they were both working on development at M.I.T. At the time, randomized trials were becoming more popular in the United States, but they were still fairly rare in the developing world. So along with Sendhil Mullainathan, a colleague, Ms. Duflo and Mr. Banerjee founded the lab. (It’s named for the father of an M.I.T. alumnus, who owned the exclusive right to sell Toyotas in Saudi Arabia.) Day to day, the lab is now run by [Rachel Glennerster](#), who came from the [International Monetary Fund](#), and it has become [a magnet](#) for some of the world’s best development economists, including Marianne Bertrand, Michael Kremer and Edward Miguel.

Mr. Kremer and two other economists, in fact, did the textbook experiment — and [found](#) that textbooks didn’t improve test scores or graduation rates in rural western Kenya. (The students were probably too diverse, in terms of preparation and even language, to be helped by a single curriculum.) On the other hand, another randomized trial in the same part of Kenya [found](#) that treating children for intestinal worms did lift school performance. That study has led to an expansion of deworming programs and, as Alan Krueger of Princeton says, is “probably improving millions of lives.”

Mr. Banerjee estimates, very conservatively, that \$11 billion a year — out of roughly \$100 billion in annual development aid worldwide — could be spent on programs that have been proved to work. Unfortunately, nowhere near \$11 billion is being spent on such programs. “Right now, we don’t have a lot of things that have been taken up by the policy world,” he said. “But the policy lag is usually substantial. Now that we have a lot more results, I expect that in the next 10 years we will have a lot more impact.”

Mr. Banerjee and Ms. Duflo may not be a modern-day Keynes or Friedman. But they have still managed to do something rather profound. They have brought together the best of the new economics and the best of the old.

As has been the trend over the last decade, they have plunged into the world around them, refusing to accept the idea that economics is merely an extension of math. Yet no one can accuse them of working on some little problem that doesn’t matter.

*E-mail: [leonhardt@nytimes.com](mailto:leonhardt@nytimes.com)*

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