A Pragmatic Argument for Experimental Welfare Policy

Ryan Steed

The George Washington University

ryansteed@gwu.edu

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On the debate stage September 12th, Democratic primary candidate Bernie Sanders declared, "We are the wealthiest country in the history of the world. And yet, we have the highest child poverty rate of almost any country on earth."[1] Poverty *is* a serious issue limiting the full expression of human capacity for millions of people. But Bernie's claim is empirically exaggerated: in fact, a UNICEF Sustainable Development Goals 2017 report found the United States 7th in child poverty among the world's 41 richest countries.[2] Sanders' hyperbole characterizes a common trend in public discussion of poverty and welfare: macro-estimates like these do an excellent job of magnifying the problem of poverty but provide little direction for policy. When politicians do make overtures to international welfare, conflicting policy proposals tout byte-sized statistics. Even the most cursory investigation into effectiveness of an international welfare policy like foreign aid uncovers a roiling bed of conflicting evidence and rigid policy stances. To the tired public, a familiar story lurks: politicians eager to cut the Gordian knot brandish bold, normative policies only to be knocked

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1. "September Democratic debate transcript," *Washington Post*, September 2019.

2. The UNICEF Office of Research, "Building the Future Children and the Sustainable Development Goals in Rich Countries Children in the Developed World," *Innocenti Report Card* 14 (2017).

off course by anecdotal evidence or endemic bias. Inevitably, the idealistic intellect of the policymaker meets the harsh reality of welfare in practice. Grand aspirations become wasted funds.

Fortunately, there is another approach to the problem of welfare policy. This year, two MIT economists, Esther Duflo and Abhijit Banerjee, shared the Nobel Memorial Prize in Economic Sciences with Michael Kremer "for their experimental approach to alleviating global poverty." Duflo and Banerjee abandon the search for generalizable insight; instead, they break the problem of poverty into small, manageable experiments which build on the experiences of localized communities. They measure and experiment as close to the lived experience of the poor as possible.

The Laureates spent nearly two dozen decades conducting randomized controlled trials (RCTs) in multiple developing countries. Randomized trials are typically used in medicine to statistically estimate the treatment effect of new drugs. Duflo and Banerjee identified RCTs as the best way to measure the effectiveness of a policy because they help to control for the many confounding variables that affect welfare, from education to corruption. The results of RCTs are highly contingent; each experiment provides an accurate answer to a focused question for a small scope of the population. In their book *Poor Economics*, Duflo and Banerjee state, "The studies we use have in common a high level of scientific rigor, openness to accepting the verdict of the data, and a focus on specific, concrete questions of relevance to the lives of the poor."[3] As it turns out, remaining open to the data is harder than it sounds. *Poor Economics* is littered with cases where the outcome of an experiment contradicted the conventional wisdom of the parliament, instead pointing to insight lying in plain view within the actual practices of local communities. In India, Duflo was told that though seats in the village councils were reserved for women to ensure the representation of West Bengal's women, the infrastructure decisions were made by men. In fact, she found

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3. Abhijit Banerjee and Esther Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* (New York: PublicAffairs, 2012), 16.

that female leaders invested more in infrastructure plans popular with women, not men.[4] In another experiment, Duflo and Banerjee found that though many experts do not favor the free distribution of services, it is often actually cheaper to give away services for free than to collect a nominal fee.[5]

What prevented local government officials and aid workers from recognizing the practical effects of these policies? In both cases, the results are unintuitive because the institutional intuition of welfare policy is abstracted away from the facts of poverty, allowing institutional traditions and individual biases to rule judgments of value with broad generalizations. The experimental approach to welfare is not generalized; it depends on the sample, the method of measurement, and the statistical assumptions of the study. Duflo and Banerjee's experiments may produce one result in India, and another in West Africa – no matter. So long as each policy measured succeeds in improving the lives of the poor in each village, it will be a good policy *for that village*. Duflo and Banerjee's work shows that the problem of policymaking is not solved by an application of economic theory; it is solved, slowly, by reliable experimentation.

By emphasizing the statistical effects of policy, Duflo and Banerjee have transformed the problem of poverty from one of implementation to one of measurement. RCTs provide a statistically sound framework for comparing policies provided a target population and a metric for the relative success of each policy. The focus of policymaking shifts from the *a priori* formulation of the content of policies to the *a priori* choice of how to measure the practical effects of a policy on the lives of the poor. Herein lies the philosophical core of experimental economics: if poverty is a problem experienced by real people in real communities, solutions to poverty are good if they have the capacity benefit those same individuals by improving their lives. A successful welfare policy begins and ends in the lived experience of poor people.

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4. Banerjee and Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, 250.

5. Ibid., 270.

It follows that information gained from a given study on welfare is meaningful insofar as it increases a policymaker's ability to improve the lived experience of the poor. When decisions about welfare are determined by the institutional status quo and not the concrete experiences of constituents, it is no surprise that the resulting programs are ineffective. It is much harder to practicalize the intellectual knowledge of theoretical economists and establishment politicians than it is to intellectualize the practices found in experience, the very substrate of poverty.

The measurement paradigm takes two forms: first, as the challenge of accurately measuring the outcomes of certain policies, for which Duflo and Banerjee's work is invaluable; and second, as the need to form an accurate understanding of what the poor want their lived experiences to be. Empirical researchers do not know the concrete experiences of impoverished communities without asking; neither do they know how those experiences should be improved without evidence. How should they accurately assess and aggregate not only the experiences of the poor, but also their needs and desires? What is actually "relevant to the poor?" There is no objective standard: because poverty is experienced, only the poor can definitively say what conditions are relevant to their poverty. Development economics must be concerned with *human* development, and a truly humanistic measurement of welfare must include the full spectrum of feelings, sensations, doings, and sufferings human beings experience.

There are several moves in economics to better assess community needs. In addition to experiments, Duflo and Banerjee conducted surveys of workers, farmers, and families asking about topics ranging from family planning to mental health. Though the quantitative samples used for RCTs are a useful for effect estimation, qualitative data is equally useful if approached with the same rigor. After all, these studies are not conducted to uncover some objective truth about poverty; they are conducted to inform welfare policy. Elinor Ostrom, another Nobel Laureate, performed her research on economic governance primarily through intensive case studies that emphasize the particulars of individual public commons

across the globe.[6] Often, Ostrom showed that qualitative frameworks are more informative than quantitative models in the presence of complex sociopolitical contingencies. The field of behavioral economics, led by yet another Nobel laureate, Richard Thaler, has taken strides towards considering a larger slice of the spectrum of human behavior. Duflo and Banerjee cite Thaler's work on economic "nudging," the practice of structuring economic incentives to capitalize on people's irrational psychological tendencies, and test "nudge" policies from default options to positive reinforcements for savings and vaccination.[7] With behavioral incentives designed specifically for the populations they serve, the external sanctions imposed by distant researchers at mammoth NGOs are supplanted by the internal sanction of individuals struggling to improve their lives.

Despite the hundreds of experiments conducted, the concluding policy recommendations in *Poor Economics* are unapologetically marginal. Instead of asserting a new theory of welfare policy, Duflo and Banerjee list numerous, drab programs, from subsidies for fortified salt to de-worming at schools.[8] Some of the programs have big impacts: according to the Nobel press release, five million Indian children have benefited from remedial tutoring programs as a result of one of the Laureates' studies. But Duflo and Banerjee are content with small findings, too: the final chapter of *Poor Economics* is deliberately entitled "In Place of a Sweeping Conclusion." The programs they recommend are not universal, and they stress that constant maintenance and monitoring is required to keep programs on track. Though there are only a few generalizable policy recommendations in Duflo and Banerjee's work, there is certainly a general method for good policy*making* that emphasizes empiricism, ex-

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6. Elinor Ostrom, "Collective Action and the Evolution of Social Norms," *Journal of Economic Perspectives* 14, no. 3 (August 2000): 137–158.

7. Banerjee and Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, 65; Richard H. Thaler and Cass R. Sunstein, *Nudge: Improving Decisions About Health, Wealth, and Happiness* (New York: Penguin, 2008).

8. Banerjee and Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, 269.

perimentation, behavior, and marginal improvement. The specific content of experimental results, policies, and outcomes are variable, but the scientifically rigor and humanism of their method is fixed.

Unfortunately, localized programs tend not to play well in the political arena. In September's presidential debate, "sweeping" policy plans abounded, from Andrew Yang's "Universal Basic Income" to Bernie Sanders' "Medicare for All." Universal programs may be popular and beneficial, but more attention should be paid to programs that are *not* universal: programs that are conceived of and operate at the regional and municipal levels because of direct, concrete observations of and interactions with constituents. For an example, we need look no further than our own city. Here in D.C., a data science team in the Mayor's office dubbed "The Lab" surveys citizens about issues from housing to transportation, tests new programs such as flexible rent subsidies to prevent homelessness and evaluates government programs with scientifically rigorous methods. A consistent, widespread implementation of this kind of data-driven policymaking will generate more improvement in the lives of the poor in the long run than most universal policies.

Critics of Duflo and Banerjee's brand of developmental economics argue that their "practical philosophy" of reform will not "scale up" to the macroeconomic problems that define the setting for individual decision-making – in short, their methods are concerned with ameliorating poverty, not developing economies.[9] One response to these critiques is that the purpose of economic development is none other than ameliorating poverty and freeing up the full capacity for growth and productivity of every human being. The ends of all socially intelligent activity, from research to policymaking, are in the concrete conditions of human experience. Pragmatic welfare policy does not categorically prefer small, marginal improvements over institutional overhaul; rather, small, marginal improvements are prioritized because they are more practical. So long as there are opportunities for improvement within the bounds of

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9. Sanjay G. Reddy, "Randomise This! On Poor Economics," *Review of Agrarian Studies* 2, no. 2 (2013).

existing social structures, marginal programs exercise the most control over the future of collective human experience and provide the poor with the most potential for growth and self-determination. If the opportunities for small reforms dwindle, then experimental welfare will approach nation-wide reform with the same careful rigor and teleological concern.

There is another, more radical response to the critique that pragmatic reform is merely a mitigation of endemic conditions. There are substantial, revolutionary institutional reforms to be found in developmental economics; critics are simply looking in the wrong place. Though the concrete proposals that result from small experiments tend not to shift macroeconomic conditions except in aggregate, the pragmatic method of policymaking is itself an institutional reform. The trends in economics described in this lecture trace a positive trend towards a newly intelligent, pragmatic method for directing policy programs. The current method of directing policy is removed too far from experience; under the pragmatic method, any institutional overhauls suggested by political candidates or policymakers, no matter how erudite, must now meet the practical standards of local efficacy. Even as a social collective, humankind cannot hope to change the institutional setting of poverty until a scientific procedure for policymaking is established, adopted, and taught. In this sense, the practical philosophy of experimental intelligence must be the *first* sociopolitical reform if far-reaching social plans of any kind are to succeed. To all policymakers, researchers, and social leaders: let the pragmatic attitude that has transformed the field of developmental economics likewise transform the all policymaking. The edifices of intellect, unmoored by abstractions, will be anchored once again to the realities of practice, and the Gordian knot of poverty and development will be unraveled from within.

<div align="center">References</div>

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