Session: What Discipline X Can Teach Us about Inequality and Social Policy

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Recent insights about inequality offered by behavioral science

The literature is rife with illustrations of the behavioral failures of the poor, who, among other things, show low participation in the financial mainstream, fail to take advantage of entitlement programs, engage in less preventive healthcare and fail to adhere to drug regimens, are tardier and less likely to keep appointments, and are less attentive parents.

Theories about behavior under poverty typically fall into two camps. Some have focused on the *context* of poverty. They rationalize the observed behaviors as calculated and rational adaptations to prevailing circumstances. For example, there might be large hidden costs, like the stigma attached to participation, that dictate the supposed cost–benefit analysis the poor make when they decide not to participate in programs. Similarly, predatory lenders in poor areas may push high interest rate borrowing, and unreliable transportation can cause tardiness and absenteeism.

Other explanations have focused on personal characteristics of the poor; on a "culture of poverty" rife with psychological and attitudinal shortcomings that render the views of the poor lacking, and their behaviors fallible. Lower levels of education, for example, might account for misunderstandings about contract terms; deficient parental attention may influence the next generation's parenting style.

In research over the last decade or so, my collaborators and I have studied decision-making in contexts of scarcity. And our research suggests a rather different kind of explanation, which focuses on the mental processes engaged when people have too little.

I will argue that poverty captures the mind; that it requires substantial attentional resources. And that the attention persistently captured by poverty leaves reduced resources and leads to diminished performance elsewhere. The poor need to juggle and coordinate their expenses to coincide with sporadic incomes, and they must make difficult and recurring tradeoffs. Even when not actively engaged in making financial decisions, these preoccupations can be present, and distracting. The human cognitive system has limited capacity. Preoccupations with pressing budgetary concerns leave fewer cognitive resources available to guide choice and action. Just as an air traffic controller who is focusing on a potential collision course is prone to neglect other planes under her control, so do the poor, when attending to persistent monetary concerns, lose their capacity to give other problems their full consideration.

I will introduce a packing metaphor to capture our budgeting challenges. We have a suitcase into which we must pack all the things we want or need - housing, clothing, and all other expenses. Both large and small suitcases impose limits. Both require a choice of what to pack and what to leave out. Packing big suitcases is easy: we pack loosely, carelessly, with plenty of space available. We have slack in our budget. No real need to worry, or to attend with great care. It's when our suitcase is small, and not all essential stuff fits, that we must pay special attention to our packing, attend to the size of items (their prices), and carefully consider tradeoffs.

The packer of a big suitcase who contemplates adding a new item simply thinks about whether he really wants it. The packer of a small suitcase thinks about what he must take out to make room. And when you have little slack, with no room to fail, errors prove more costly and can quickly spiral into increasingly more difficult situations, poverty traps.

As the metaphor illustrates, scarcity introduces a need to focus, and persistent tradeoff thinking. Slack allows us to act as if there were no tradeoffs; scarcity renders tradeoffs salient and persistent. It is psychologically challenging. Those who pack very tight suitcases need to be experts—expert packers. Not having the luxury of slack, they need to be able to gauge the value of every little item. Indeed, in the experimental studies we run, we find that the poor are more knowledgeable about their spending costs and the prices if items. They also report more tradeoff thinking. And they also allocate more attention and get distracted when they are led to think of financial concerns, which causes them to perform less well on various cognitive tests, including ones used to gauge fluid intelligence and executive control.

And when they are focused heavily on managing their very tight present budget, people are more prone to borrow, and to borrow at high interest. We show that those who knew to avoid high-interest loans when they had abundance succumb to such loans when they experience scarcity. Finally, functioning at a stressed and less effective state also contributes to stigma, which itself causes distraction and reduces performance.

I'll review briefly some policy implications of this way of thinking. Of course, how tight one's suitcase is depends heavily on what one feels one ought to be able to fit in it. That, in turn, is an outcome of societal norms, and is exacerbated by inequality, where those who have little develop wants shaped by those who have more.