Scarcity: Why Having Too Little Means So Much

Eldar Shafir
Princeton University
Two Dominant Views of Behavior under Poverty

Rational Choice view
– Consistency, Willpower, Well-defined preferences,..
– Behavior: calculated adaptation to prevailing circumstances

Pathology view
– Psychological pathologies specific to the poor
– Impatient, no planning, confused
– Behaviors endemic to “culture of poverty”

An alternative:

Neither rational nor pathological; just plain human…
Indian fruit vendors (debt traps…)

- Indian fruit vendors: Persistent borrowers
  - (70% borrow daily…; average: 9.5 years of taking daily loans!!)

- At very high rates (4.9% average daily interest rate)

- Stark implication: If saved a little (& borrowed less), in **50 days** will have doubled income

  - Significant foregone income
Adherence...
Low income: One of the most consistent correlates of low adherence

Weeding...
High return: losses due to uncontrolled weed growth (>25%...) Consistent finding: Poor less likely to weed

Parenting...
Attention, consistency, engagement,... Consistent finding: Poor are worse parents

Payday Loans...
Short-term high (extremely high) interest loans...
Poverty

Behavior

Knowledge

Financial Literacy

Financial Services

Geography

Intelligence

Health

Political Representation

Incompetence

Peer Effects

Deviant Values

Neighborhood

Educational Services
Poverty

Laziness

Intelligence

Incompetence

Limited Ability

Deviant Values

Poor Socialization

Geography

Political Representation

Financial Literacy

Education

Health

Financial Services

Housing

Individual Characteristics

Psychology

Behavior

Environment
Understanding Behavior in Poverty

Is there something intrinsic to poverty? (besides the many covariates..)

The psychology of scarcity...

Conditions of scarcity (in money, time...) produce their own psychology.

This psychology, in contexts of scarcity, produces characteristic behaviors.
The Packing Problem: A Suitcase metaphor

Larger suitcase:
- pack everything important w. room to spare
- easy to leave slack, in case something comes up

Smaller suitcase:
- pack the very essentials
- need to choose among important items that don’t fit
- hard to maintain any slack

• Slack makes it easier to pack; Complexity higher when suitcase tight
  – Slack reduces cognitive cost: requires less focus, less vigilance

• Bigger suitcase means slack is “cheaper”
  – What you give up to maintain slack is (marginally) cheaper
The poor: A greater focus on tradeoffs
(\% who think about what they would not buy instead…)

The poor: Know prices better
(Taxi fare when you first get in?
South Station, Boston)

Focus – quite successfully -- on immediate prices & tradeoffs...
(but less mind left for other things…)
Percent willing to travel 45 mins to save $50:
Percent willing to travel 45 mins to save $50:
Willingness to travel to save $25…
(out of $800 / $100)
(South Station, Boston)

Across a wide set of classic behavioral findings…

The poor’s assessment of price and value: more robust; less affected by context and “frame”…
Heritage Foundation, 2011 Report: the poor in America “have air conditioning, cable TV, and a host of other modern amenities.”

“This report proves that poor people are just not living down to our expectations. If you still have the strength to brush the flies off your eyeballs, you’re not really poor.”

Stephen Colbert

“I'd never realized that poor people in this country had it so good. No wonder the middle class is pouring into their ranks in droves!”

Jon Stewart

"A linen shirt, for example, is…not a necessity of life. The Greeks and Romans lived…very comfortably though they had no linen. But in the present times, through the greater part of Europe, a creditable day-labourer would be ashamed to appear in public without a linen shirt. ...”

Adam Smith, *Wealth of Nations*
### Poor in...

<table>
<thead>
<tr>
<th></th>
<th>Money</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tradeoffs:</strong></td>
<td>If I buy this, what do I <em>not</em> buy instead?</td>
<td>If I do this, what do I <em>not</em> do instead?</td>
</tr>
<tr>
<td><strong>Temptations:</strong></td>
<td>Basic goods turn into “luxuries”</td>
<td>Basic activities turn into “luxuries”</td>
</tr>
<tr>
<td><strong>Indulgences:</strong></td>
<td>Given what you owe, what are you doing spending?!</td>
<td>Given what you owe, what are you doing here schmoozing?!</td>
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<td><strong>More consequential:</strong></td>
<td>When there’s lack of slack, bad tradeoffs, giving into temptation / indulging - all more consequential!...</td>
<td></td>
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</table>
SCARCITY

A source of demand on cognitive capacity…
Cognitive capacity is captured by scarcity automatically (a limited resource) we focus... (our mind has a life of its own...).
SCARCITY IS TOP OF MIND

WATER
JUICE
SODA
THIRST

CHAIR
FRIENDS
TREES
TALKING
Search times – *for neutral targets* – by condition and group

and SCARCITY IS DISTRACTING…
FINANCIAL CHALLENGES

(in a NJ mall…)

CRABTREE & EVELYN
Measures cognitive control & executive function…

“Driving test”…

“Measures high-level observation skills, clear thinking ability, and intellectual capacity.”

“Intelligence test”…
COGNITIVE CONTROL

Mani, Mullainathan, Shafir, & Zhao, Science, 2013

RAVEN’S MATRICES

Mani, Mullainathan, Shafir, & Zhao, Science, 2013
So far...

Scarcity is demanding of attention (intentionally and automatically)

It focuses us on immediate problems of scarcity, often at the expense of other things; distracting us and shortening our horizons...

And this is not about the poor – it’s about being poor...
20 rounds
“Rich”: 50 sec / rnd (1000 sec total)
“Poor”: 15 sec / rnd (300 sec total)
No borrowing vs. High Interest Borrowing

Debt Traps

Smoothing consumption

Figure 2. Average observer ratings of parent behavior on days with high and low perceived workload.
Irony of Poverty

• Poor must make higher quality decisions
  – Greater packing challenges under scarcity
  – Greater attention consumed under scarcity
  – More temptations under scarcity
  – Can’t afford mistakes under scarcity

• Poor are in worse position to make high quality decisions
  – Distracted by stressors/decisions/conditions
  – Depleted by challenges/temptations/load
  – Hampered by context/culture/stereotype
  – Unappreciated! (Both they and their packing problems...)
POLICY MAKERS NEED TO CARE ABOUT BANDWIDTH

Scarcity (e.g., in money) causes scarcity in bandwidth. (regressive tax).

Scarcity: function of one’s environment (not just income)!

- buffer savings, insurance to deal w. shocks, family/friends, can mean less scarcity at same level of income. (Portfolios of the Poor…)

Institutions/contexts can impact ease of packing

- Predictability (work hours, salary); Accounting ease; Nudges (defaults), Channel-factors (in vs out of the “tunnel”); Insurance
- Dodd-Frank, Consumer Protection, Qualified mortgages,…

Bad design of programs; psychic taxes, in/outside the tunnel…

- Relief payments (flood disaster), EIC, are paid in lump sum
- “Character obstacles” - time, self-presentation, planning…
- Lifetime welfare limits (SNAP); Penalize but fail to motivate
- Recertification (SNAP), long forms…
POLICY MAKERS NEED TO CARE ABOUT BANDWIDTH

Retirement Savings

(Bettinger, Long, Oreopoulos & Sanbonmatsu, 2009)
PUT A LOCK ON MARKET GAINS

PORTFOLIO INSURANCE: Can You Afford To Go Without It?

Portfolio insurance is being termed the most important new investment product of the decade. Billions of dollars of pension fund, endowment, and trust money now enjoy the security of Leland O'Brien Riskmanagement's protection programs, without missing the potential for further upside gains. With the return of high yields, it's time to consider locking in your gains!

Leland O'Brien Riskmanagement (LOR) originated portfolio insurance programs more than five years ago with the introduction of Dynamic Asset Allocation. But we aren't resting on our laurels. THE LEADER MOVES FURTHER AHEAD. We are now offering four major enhancements to give pension funds even more flexibility at lower cost.

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- BIA Associates, Inc.
- Aetna Carver Insurance Inc.
- Center Mutual Insurance Co.
- St. Louis First Chicago Investment Advisors
- Webster Capital Management
- Wells Fargo Investment Advisors
- Western Asset Management Company

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Behavioral (“Marketing”) Manipulations:

- # of loan examples shown
- subtle peripheral cues; photos

Some results:
1 vs. 4 examples: ~ 2.3 percent. points
For males: female picture = ~ 4.5 points
Aim to provide more bandwidth (pay day, work shifts, child care, transportation)
Aim to demand less bandwidth (reminders, flex demands, Financ. literacy?!?!)
Create more scarcity-proofing… (e.g., prof. training, consumer protection)

Because it’s the only bandwidth we got…

Design life’s cockpit with scarcity & bandwidth in mind…
Thank you!