

Some Consequences of Having Too Little (Shah, Mullainathan, and Shafir 2012)

Gambling, excessive borrowing and insufficient savings are behaviors associated with poverty status. Surprisingly, busy people also share these behaviors. The connection is simple. Both have little of one resource, the former lacks money while the latter lack time. Scarcity seems to be a culprit.

One Sentence Summary

Through several experiments, this paper studies how scarcity badly influences decision making by assigning more attention to certain tasks.

Main Findings

This study used experiments too understand the effects of relative poverty status. Each one consisted on playing a game to beat a certain amount of “levels” with limited resources They categorized four types of participants. The main groups where rich participant and poor participants. Then subdividing each group into those who can borrow in-game, and those who couldn't.

For example, in experiment two, participants played a game like Angry Birds. Where each needed to hit all the targets in a level to clear it. Some (poor participants) had an initial 3 shots per level, while others (rich participants) had 12. Every participant could borrow a shot from later levels, but they would lose two shots later. Practically, borrowing with an interest rate of 100%.

Poor participants spent more time on each shot. Because they lacked shots, it made the single decision of each shot more important. Subsequently, they put more effort into a single shot.

Poor borrowers reached lower levels than poor non-borrowers. Because their main goal shifted from beating the game to beating the current level. This shift made borrowers overborrowed shots which negatively impacted their performance. However, if poor participants didn't have the option to forsake future levels it lessened their relative importance of a single level.

Scarcity made a participant care more for the immediate goal. Which influenced their borrowing decision, and subsequently made them worse of. To illustrate this point, the poor are relatively more worried about paying rent this month compared to their rich counterpart. They quickly search for a loan; in their desperation they take a high interest one. In the long run, this will make later months even more difficult to pay, now that he needs to pay interests.

Concluding Remarks

These experiments shed some light into the cognitive mechanisms of poverty. Poverty is not only a status but also a state of mind, which can trigger a vicious cycle.

A paternalistic government could reduce poverty by reducing the feeling of scarcity. Once an individual is not in a scarcity state of mind, he/she will make better decisions – like borrowing less shots to finish a game. Social programs like a universal income - all citizens get a minimum wage per month - could be an excellent policy to reduce chronic poverty.

Reference:

- Shah, Anuj K., Sendhil Mullainathan, and Eldar Shafir. 2012. “Some Consequences of Having Too Little.” *Science*. www.sciencemag.org/cgi/doi/10.1126/science.1222426.