Living in poverty puts demands on attention that impair decision-making

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If the interest rate banks paid on customers' deposits were to soar from 0.3 percent to 5 percent, you would expect that most people would start saving more. But, it turns out, most people aren't that calculating.

In a recent field experiment in Chile, a large majority of people did not increase their savings in response to the higher interest rate. But when their peers were watching, savings almost doubled when the participants in the experiment announced their savings goals to a self-help group and had their progress publicly monitored.

It is just one example of how behavioral science can help policymakers spur changes that help economic development around the world.

In a paper published in the journal *Behavioral Science & Policy*, Christopher Bryan, assistant professor in the University of Chicago Booth School of Business, and co-authors from several universities and development organizations find policies aimed at serving the poor are more effective when they take into account the human tendency to procrastinate and the limits poverty puts on attention spans.

The scholars focus on two well-studied psychological phenomena—present bias and limited attention—that have wide ranging implications for international development policy.

"Everyone has limited attentional bandwidth, but wealthy people, freed from having to spend this precious attention on acquiring food, shelter and other basics, have more attention available for handling unexpected hassles and making strategic decisions to improve their circumstances," the authors write.

Likewise, people often fail to expend small amounts of money, time or effort up front to obtain much larger benefits in the future. This human tendency toward present bias is common in rich and poor populations alike, but has a larger negative effect on people with low incomes.

The authors outline simple interventions that policymakers can take to overhaul international development policy with these behaviors in mind. Removing obstacles upfront—such as lowering upfront costs, simplifying or eliminating complicated paperwork, and timing the delivery of subsidies to correspond to when major payments (like school fees) will be due—improve outcomes.

How does it work?

- Helping households to fill out an application for an interest-free loan to cover the cost of piped water in Morocco increased participation from 10 percent to 69 percent.
- A small decrease in the purchase price of insecticide treated bed nets for avoiding mosquito-borne diseases saved 4 million lives in sub-Saharan Africa since 2000.
- In Tanzania, health insurance providers went to the distribution points of a cash transfer program to sign people up for health insurance when they received the transfers (and therefore had more liquidity), leading to a 20 percentage point increase in the use of health insurance.

"The bottom line here is that, by taking into account even just a couple of important behavioral principles, we can improve the effectiveness of many development programs and policies—often dramatically," said Bryan. "More exciting than that, we can often achieve those gains in effectiveness at little or no added cost once the policies are in place."

More information: Overcoming behavioral obstacles to escaping poverty: behavioralpolicy.org/articles/ … to-escaping-poverty/

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