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Current Opinion in Psychology

Decisions in poverty contexts

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The circumstances surrounding poverty — tight financial challenges, instability of income and expenses, low savings, no insurance, and several other stressors — translate into persistent and cognitively taxing hardship for people in poverty contexts. Thoughts about money and expenses loom large, shape mental associations, interfere with other experiences, and are difficult to suppress. The persistent juggling of insufficient resources affects attention, cognitive resources, and ensuing decisions. Despite the demanding struggle with challenging circumstances, people in poverty encounter disdain rather than admiration, and obstacles rather than support. Societal appreciation for the power of context, along with behaviorally informed programs designed to facilitate life under poverty, are essential for those in poverty contexts to be able to make the most of their challenging circumstances.

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Current Opinion in Psychology 2017, **18**:131–136

This review comes from a themed issue on **Inequality and social class 2017**

Edited by **Hazel Rose Markus** and **Nicole Stephens**

For a complete overview see the Issue and the Editorial

Available online 24th August 2017

http://dx.doi.org/10.1016/j.copsyc.2017.08.026

A major contribution of the behavioral sciences has been a deeper appreciation of the power of context to shape thinking and behavior. When situations are mild, people's traits and dispositions can shape what they do, but as contexts grow more powerful, individual differences become less relevant [1,2•]. And poverty is a very powerful context. In what follows, we consider some of the contextual aspects of poverty, and review recent research into the psychology that emerges as a result. We find people being attuned to and devoting substantial mental resources to the management of their insufficient resources. We also find them getting distracted, overly focusing on the here and now, and feeling discouraged. And instead of help and understanding, they encounter disdainful obstacles and traps. Naturally, this is not an exhaustive review, nor does it address the many ways in which poverty manifests itself across time, place, and culture. We set the stage predominantly in the modern American scene, with the presumption that the main features of living under poverty extend far beyond.

The context of poverty

Beyond levels of mere survival, poverty is partly a matter of norms and construal. As societies progress and norms evolve, things that were once considered luxurious can become commonplace. Tap water in the home, for example, was inconceivable in the mid-nineteenth century, and is still a dream in many places today. And yet, in the US, where tap water is now entirely normal, you can have it in your home and still be poor. Adam Smith, the Scottish economic thinker, explained it simply:

> 'A linen shirt, for example, is, strictly speaking, not a necessity of life. The Greeks and Romans lived, I suppose, 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 . . . ' [3].

Like the linen shirt, many things, including a place to live, heating, even a TV, are strictly speaking, not a necessity, but a basic feature of ordinary life. Being able to avail oneself of those things becomes part of a person's normal 'needs.' Of course, you could survive without them, but expecting them has become normal — like tap water and a shirt. And if you can't afford those basic things, you will feel — and depending on your exact situation, may officially be counted as — poor. If you cannot afford the basic things that make for a minimally acceptable life in the time and place in which you live, you are living in poverty.[1]

By its very nature, living in poverty — not being able to afford basic needs — entails persistent financial challenges. In the US today, roughly a hundred million people, a third of the nation, are living precariously near the poverty line, experiencing ongoing challenges trying to balance their finances [4,5]. Recent work has documented

[1] It is easy to think of ways to make this 'perceived' or 'relative poverty' argument sound silly. Yet, definitions of what is poverty are bound to remain fluid (as are definitions of wealth). What if everyone had a yacht and a summer house? Would you then be poor if you didn't?! In fact, two centuries ago a stove and running water were unimaginable for many, much like a yacht and a summer house today. Similarly, consider life expectancy. A person in a developed nation who dies at the age of 40 today has died 'young,' whereas that was beyond life-expectancy 200 years ago.

levels of abject poverty beyond those typically imagined [6•], and nearly two-thirds of Americans report living paycheck to paycheck. Over a half of low-income families are asset-poor, lacking the liquid resources necessary to finance consumption for three months [7–9].

In poverty contexts, unexpected issues and urgent needs regularly arise. A household survey in the Detroit area found that within a 12-month period, 90% of low to moderate income households experienced major illness or medical expense, eviction, utility shutoff, phone disconnection, insufficient food, or a bankruptcy filing [10]. Recent surveys describe persistent volatility in both income and spending that strain working families' efforts to meet basic needs [11•]. Many lower-income jobs offer no security and frequent fluctuations in hours and in wages [15]. With a modest budget and no savings, many expenses become prohibitively big. It is common, for example, to have more than thirty percent of your income devoted to housing costs when your income is low, but very rare when you are rich [7,12]. In 2013, one in four U.S. households used at least one alternative financial service, such as a pay day, auto-title, or refund anticipation loan, in the preceding year [13,14]. And, despite the high threat of adverse events, the poor are less likely to have unemployment insurance, life insurance, disability insurance, or other forms of insurance protection. (For more on trends in employment, social assistance, and other factors that make the everyday challenges of low-wage American workers more complex, see [8].)

This combination of circumstances — instability of both income and expenses, combined with low savings and no insurance — translates into persistent hardship, as adverse events challenge one's ability to meet basic needs, with no room to fail. Mullainathan and Shafir (2013) define 'slack' as the ease with which one can cut on other expenses in order to satisfy an unexpected need. When you spend more than thirty percent of your income on housing and add the cost of transportation, food, clothing, utilities, and the rising cost of education; you quickly find yourself with no slack. Low-income households have fewer financial buffers and limited access to liquid financial resources, such as savings or low-cost credit [16]. In the face of unanticipated shocks, they first cut back on slightly less urgent needs, such as certain foods and bills least likely to have dire consequences. Then, they must cut back on essentials, which means skipping payments and incurring costly late fees, utility or phone reconnection fees, eviction threats, and disruptions to work, education, and family life, not to mention the hassle, the phone calls, and the long-term and costly penalties to one's credit score [11•,17].

In addition to constantly living near a financial precipice, the poor face many other stressors. Neighborhoods are noisy, unsafe, and provide little community trust. Housing is substandard, health care and child care often unavailable, and close friends and relatives often need urgent help themselves [6•,18,19•,20–23]. Low-income people commonly experience chronic stress [24], 'suffering not so much from a dearth of possessions as from a cavalcade of chaos — pay cuts and eviction notices, car troubles and medical crises — that rattles [their] finances and nudges [families] toward the economic brink' [25].

The poverty mindset

Living in a context of scarcity and chaos, with no slack, where income instability requires a constant juggling of pressing tasks, affects people's attentional resources and decisions. When you manage scarce resources, you need to do so with great care. You do not have the luxury that abundance brings of being able to make mistakes. Persistent vigilance is required since any miscalculation or distraction can have dire consequences. Thoughts about money and finances are top-of-mind. Pressing needs capture attention [26–28], and render trade-offs highly accessible [29•,30]. Several studies have found that the poor tend to think about tradeoffs significantly more often, shop more carefully, attend to, know and remember prices better [29•,31]. Thus, persistent financial challenges become imposing mental ones as well. Thoughts about cost and money come to the minds of the poor spontaneously, and are difficult to suppress. Such thoughts can interfere with other experiences, and shape mental associations. The poor often see an economic dimension in everyday experiences — like going to the doctor, or having a flat tire — that to others may not appear economic at all [32].

Behavioral economics has long studied choice inconsistencies that arise from people's reliance on peripheral cues. Whereas the normative theory of choice posits that people's preferences are based on the options' consequences, people's actual choices often change with how an option is presented, or 'framed.' [33,34] Especially in the area of 'mental accounting,' various examples involve choice inconsistencies that arise from people's vague sense of the value of things. For example, the propensity to drive, say, 45 min in order to save $50 is significantly higher when the savings are off of a $100 purchase (and thus appear larger) than off of $1000 purchase (where they appear smaller). A poverty mindset, on the other hand, renders trade-offs more salient and the value of small transactions clearer. Consequently, it leaves people less susceptible to irrelevant cues, and significantly reduces inconsistent choices: low-income respondents, for example, were less likely to exhibit the differential propensity to travel in the $100 versus $1000 versions described above [35].

But while the poor focus on prices and tradeoffs and worry about pressing transactions, they are prone to neglect other things that at the moment appear less urgent [36]. Solving today's pressing needs may result in new