

## Poverty shown to damage decision-making

*The mental bandwidth needed to deal with being poor leads to poor financial decisions, suggests an experiment that traveled from a New Jersey mall to villages in India.*

Just being broke, in and of itself, damages people's abilities to make good decisions in a way roughly equivalent to losing 13 IQ points, or constantly losing a night's sleep, suggests a report out Thursday based on decision-making experiments.

Performed in a New Jersey mall and among sugar cane farmers in India, the experiments suggest that the mental bandwidth taken up with worries about being strapped explain the poor decision-making widely seen among low-income families. That includes taking costly payday loans to missing appointments. Rather than the poor being poor because they make bad decisions, they make bad decisions because they are poor.

"You and I would suffer the same way if we were broke," says study senior author Eldar Shafir of Princeton University. "It's not just abject poverty. Once your budget is constrained, your decision-making suffers."

In the experiments reported in the journal *Science*, Shafir and his colleagues first tested 336 shoppers at a New Jersey mall, people with an average household income of \$74,000. They were presented with financial problems such as deciding how to pay for hypothetical car repairs. Faced with easy \$150 car repairs, rich and poor alike made good decisions on whether to forgo the repairs, pay in full or take loans with varied, sometimes heavy, interest rates to pay for the repairs. The rich also performed well on weighing how to deal with \$1,500 repairs, but the poor did significantly worse, more often taking out onerous loans to immediately pay for repairs instead of longer-term ones with better rates. Variations in the experiments ruled out math anxiety, a lack of time or the structure of the test itself as an explanation for the results, leaving only the condition of being strapped as an explanation.

Looking to rule out cultural or seasonal explanations for the effect, the team next carried out similar experiments on 464 sugar cane farmers from 54 villages in the Tamil Nadu region of India. These small farmers are paid once yearly at varied times around the

year for their harvest. The researchers tested them when they had just been paid, and were flush, and when they were two months from their next payday, and broke. A similar pattern played out, with better financial decisions made by the same people when they were flush, compared to when they were broke 10 months later. The researchers tested for poor nutrition and physical stress as explanations, but found "attentional stress," persistent distractions from money worries weighing on decision-making, was a better explanation.

"Simply put, being poor taps out one's mental reserves," says University of Minnesota psychologist Kathleen Vohs, in a commentary on what she calls the "eye-opening" study. "These findings suggest that decisions requiring many trade-offs, which are common in poverty, render subsequent decisions prone to favoring impulsive, intuitive, and often regrettable options."

Shafir acknowledges the study results contrast with "pick yourself up by your own bootstraps" thinking about escaping poverty. "We only have so much bandwidth to make decisions and if yours is taken up daily with child care and getting to work on time when your boss yelled at you yesterday, you won't make good decisions," he says.

Vohs and the study authors suggest that ways to foster better decisions could include streamlining long forms and repeated appointments often imposed on the poor by unemployment agency bureaucracies. And they call for simplifying work hours and offering better access to child care, as well. The study offers another argument for further restricting high-interest "payday" loans..