

# Poor behaviour

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## **Behavioural economics meets development policy**

A bat and a ball cost \$1.10 between them. The bat costs \$1 more than the ball. How much does each cost? By paying attention to how people actually think, behavioural economics has qualified some of the underlying assumptions of classical economics, notably that everyone is perfectly rational. In fact, the mind plays tricks, dividing up \$1.10 (in this example) neatly into \$1 and 10 cents, rather than correctly into \$1.05 and 5 cents. People also tend to copy others and often prefer to co-operate rather than compete. For these reasons, some of the simplifying assumptions of economics are not always correct: people do not act in every instance in their long-term self-interest; they do not weigh up all the costs and benefits before taking a decision.

Many of the insights of behavioural economics were based on studies of American university students and other privileged folk. But they apply with greater force to the poor—both the poor in rich countries and the more numerous inhabitants of developing ones. Behavioural economics therefore has profound implications for development. The new “[World Development Report](#)”, the flagship publication of the World Bank, considers them.

As the report shows, the poor are more likely than other people to make bad economic decisions. This is not because they are irrational or foolish but because so much is stacked against them. They are more likely to lack the basic information needed to make good choices, such as which fertiliser to use or when to apply it. They are more likely to live in societies which hold mistaken or harmful views, such as that girls should not go to school.

Conventional economic thinking assumes the poor will want to earn their way out of poverty. But as studies from countries as different as Ethiopia and France show, poverty makes people feel powerless and blunts their aspirations, so they may not even try to improve their lot. When they do, they face obstacles everywhere. They have no margin for error, making them risk averse. If they do not know where their next meal is coming from, saving and investing for the future is hard. George Orwell said, “Within certain limits, the less money you have the less you worry.” He was wrong. The poor are subject to exceptional levels of stress: childhood sickness is more likely to be life-threatening; crop failure can lead to destitution. And stress makes good decision-making harder. Above all, the poor lack the institutional framework which, in the West, improves decisions. Everywhere, people underestimate the benefits of education and save too little for their retirement. But children in the West go to school as a matter of course; pension systems make some savings automatic. Poor countries provide few such props.

All this helps explain why the poor stay poor; why (for example) subsistence farmers do not buy fertiliser or put children into secondary school, though they

would benefit from doing so. More important, though, behavioural economics provides a different way of thinking about some of the problems of poverty.

Traditional development programmes stress resources and markets. People are poor, the argument goes, because they lack resources: not just money but roads, clinics, schools and irrigation canals. The job of development is to provide those things. And since resources also need to be allocated properly, prices have to be right. So a lot of development is about freeing prices and making markets more efficient.

A behavioural approach to development is different. It focuses on how decisions are made and how they can be improved. For example, in Bogotá a conditional-cash transfer programme paid mothers a monthly stipend if they took their children to school. Attendance during the school year was good but re-enrolment rates were low. A shift in the timing of the hand-out—withholding a part of the regular payment until just before the start of the school year—boosted enrolment sharply. This makes little sense in conventional economic terms: going to school is so beneficial that families should not need extra incentives and the overall sum available did not change. Yet the pay-off was substantial.

Actions like this sound marginal. Economists should be paying attention to the details of policy anyway. It may not seem to amount to a profoundly different approach—but it actually might.

#### A tweaking revolution

Some small-scale policies turn out to be far from marginal. A programme in Jamaica in the 1990s taught mothers of chronically malnourished toddlers how to play with them in such a way as to encourage greater verbal and physical skills—a behavioural tweak. Twenty years later, the average earnings of these children (among the most deprived in the country) were higher than those of children who had not been malnourished, and far higher than malnourished children who were not part of the programme. Paying attention to how the poor actually think would also imply big changes to financial-inclusion policies, encouraging financial products that people want to buy.

Moreover, development experts have their biases and blind spots, like anyone else. In principle, behavioural development could sit happily alongside the traditional sort. In practice, the two will compete for resources and professional attention.

A behavioural approach to poverty is not new. The World Bank has long had a behavioural unit. The Poverty Action Lab at the Massachusetts Institute of Technology has championed randomised control trials to test tweaks to policy. But by making this the subject of its main annual publication, the Bank has brought behavioural economics into the mainstream of development. It is likely to prove a challenge to traditional ways of combating poverty, as well as a complement to them.