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CURRENT AFFAIRS

**ANALYSIS
ELDAR SHAFIR: SCARCITY**

TRANSCRIPT OF A RECORDED DOCUMENTARY

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FIDGEN: I'm with a room full of Oxford students and I'm going to ask them a couple of questions. If you're listening at home, maybe you'd like to answer them too. Do you have enough time? Shout 'yes' if you do. Shout 'no' if you don't. (*students shout 'no'*) Do you have enough money? Shout 'yes' if you do. Shout 'no' if you don't. (*students shout 'no'*) Well that's pretty unanimous. Probably not surprising that most of us will say 'no' to one or both of those questions. What may surprise you is that being short of money or time may change the way we think, and that leads us to make things worse for ourselves. Psychology Professor at Princeton, Eldar Shafir, has been making waves with this theory. He's written a book with economist, Sendhil Mullainathan, called *Scarcity: Why Having Too Little Means So Much*. And in the book, Eldar Shafir, you say the poor make bad decisions, which make them more likely to stay poor. That's pretty controversial, isn't it?

SHAFIR: It is. We call it the elephant in the room. And we say it, but in some sense we conclude that it's right for all the wrong reasons – that in fact what we discover is it's not what people think that leads this to be the case.

FIDGEN: Okay, we'll explore those reasons as we go along. But being a psychologist, you conduct a lot of your research through experiments and we'll have an illustration of one a little later. First, let's talk about one of your key ideas. You say that when you feel a shortage of something - whether it's money or time or friends or calories (if you're on a diet) – it creates a scarcity mindset. What does that mean?

SHAFIR: It means that you enter a psychological state that comes with the feeling you don't have enough of something that's important to you. And in that psychological state, one of the main things that happens is you spend a lot of your attention, you devote a lot of your attention, a lot of your cognitive capacity to managing, to juggling, to worrying about the thing you don't have enough of, and that just leaves less mind for other things you have to worry about.

FIDGEN: It captures your mind? Scarcity captures your mind?

SHAFIR: Indeed. So we go to people who are shopping in a mall in New Jersey, ask them to participate in a study, and we put them in front of a computer screen where we present financial scenarios very close to everyday life – your car breaks down, it's going to cost a certain amount of money to fix. And when people sit and play these games, some of the scenarios come in a form that's very manageable – the car is going to cost \$150 to fix, which we know most people in the mall can easily do; and other scenarios come, which are very challenging – the car is going to cost \$1,500 to fix, which we know for roughly half the people in the mall is a major challenge to come by quickly. And as you're thinking about how you're going to take care of this problem, we'll let you play computer games which end up being classic ways to study cognitive control, fluid intelligence – it's a component of IQ. And independently we get their household income and what you find is that the rich respondents in the mall are not influenced by the scenario. The poor people in the mall look just like the rich when they're worrying about the scenario that's manageable – when it's a \$150 car, they do just as well – but when they're worried about the scenario that's challenging, that's occupying their mind, they now perform significantly less well. The effect size corresponds to roughly managing 13 IQ points lower than they did when they were less worried.

FIDGEN: Thirteen IQ points – that’s quite a significant drop.

SHAFIR: Thirteen IQ points on the qualitative scale that people typically use is enough to take you from average to borderline gifted or from average to borderline deficient. It’s a very big effect. To compare - if you spend a night without sleep, studies suggest that you are functioning at roughly 10 IQ points lower than usual.

FIDGEN: One of your other central concepts is bandwidth, which I’ve always thought of as head space, I suppose.

SHAFIR: You know we have lots of memory, but in terms of real time short-term thinking there’s only so much we can do. If we attend a lot to one thing, we have less mind left for other things. That’s our bandwidth, our cognitive capacity. It’s very limited.

FIDGEN: So the crucial point is the poor aren’t making bad decisions because they are inherently less capable or feckless, but that anyone who is worrying about being short of money will find their ability to make good decisions compromised?

SHAFIR: Indeed, that’s exactly so. What’s so nice about the studies is that we show that these same peoples’ capacity - which is exactly the same as their richer friends when financial problems are not capturing their mind - these same people are now functioning at a lower capacity when their mind is devoted to juggling to worrying about a financial challenge that’s hard to deal with.

FIDGEN: You’ve mentioned juggling, one of your key concepts. Another one – tunneling – which is, what, like focusing but the negative side of that?

SHAFIR: Indeed. So what’s so interesting, you know when we say the poor make bad decisions, the poor actually make very good decisions on the thing they’re focusing on. So you know we have data suggesting that the poor use their pound, their dollar, better than the rich. They do a very good job knowing how to shop more effectively, they make fewer mistakes, are less careless. But as they’re focusing heavily on managing this moment to moment challenge with their too few pounds, that’s when they tunnel. That’s when they focus on it so heavily that they have less mind left to focus on other things in their lives and they make mistakes elsewhere because you will have forgotten you know the kids’ homework, to take your medications or whatever else you need to do. Sometimes even other financial challenges, other financial responsibilities that you neglect while you’re tunneling right here right now.

FIDGEN: And that’s why you end up in a scarcity trap creating problems which become harder to solve?

SHAFIR: Indeed. And so what happens is when you're juggling and devoting too much attention and neglecting things in the periphery, you often end up worse tomorrow than you were today. The classic example, one on which we have a lot of data in both India and the US is payday loans – very expensive short-term high interest loans – where you know the metaphor I use is you have a fire in your bedroom and there is a bucket of water and obviously you're going to take the bucket and put it in the fire. You're not going to stop and ask how much does this bucket cost me two weeks from now. And so when you make very high interest short-term loans available to people, as they're tunneling and figuring how to pay rent tomorrow they resort to products that often hurt them more the next week; and the data suggests when you take a payday loan you then take the next one to pay the previous one. And you know right now in the US, the average payday loan taken, 70 per cent of it goes to pay the previous one. You just become a money pump. And that's the trap: it gets worse from week to week.

FIDGEN: I think we can all recognise what you're talking about – we'll all have tunneled and we'll all have juggled and felt our bandwidth shrinking you know as you've got worries and so on – but how is what you're saying different from simply being stressed?

SHAFIR: It's different first of all biologically, so we actually check and see that in some cases we do have elevated stress under scarcity but it doesn't explain the findings we get. And there are a lot of studies we do, including the people in the mall, they're not particularly stressed; they're just heavily focused on one thing and not able to focus enough on other things, and that's when you get these effects.

FIDGEN: Let's have a very simple demonstration. The good news everybody is that you're going on a weekend break. Those of you listening at home might want to imagine this scenario as well. So let's take those of you sitting on the right here. Let's say you've got to pack your suitcase. It's a very large suitcase - take anything you want really, maybe up to you know thirty items or so. Just imagine for a moment what you might take. Those of you on the left, you have a very small suitcase. You can take only six items with you. Have a think for a moment about what items you might take with you on this city break. Eldar Shafir, this is an experiment you have conducted?

SHAFIR: Yes we did some studies and it's a metaphor we use quite a bit about people's budget basically being a suitcase and you travel through life managing a suitcase.

FIDGEN: Did anyone here have any trouble packing your enormous suitcase? The woman at the front.

WOMAN: I had just one thought and that was that I can take all of my shoes. *(laughter)*

FIDGEN: Thank you. What about those with a much smaller suitcase? How did you find packing? Gentleman here.

MAN: I got down to the trade-off between a toothbrush and a second change of underwear. *(laughter)*

FIDGEN: That's not nice. (*laughs*) The lady here.

WOMAN 2: Well it seems that scarcity really helped me to think - maybe I will put my stockings in my sneakers to save space. But I really need to take a longer time to know how I can fit my things in my small suitcase.

SHAFIR: This is very much the focusing we talk about ... We actually use the example of rolling your belt around the edge of a suitcase and putting socks inside the shoes. It's exactly the tricks you do to manage to have a little bit more room. And when you have a very big suitcase with lots of slack and no room issues, ask yourself how worried were you about this packing, how much attention did it require? Did you ask yourself what might I not be able to take? And what we basically get is that you know you don't have to take everything in the house, but if you have a big enough suitcase and most things fit, you're done - you pack and you finish very quickly. People on this side of the room who had six items, exactly this intuition - you have to ask yourself now what do I do? I've put the first four or five things. I'm running out of room. Do I take the sneakers or the umbrella? Do I take the coat or the book? You're entering trade-off thinking mode. And what we find when we do studies is that in fact the people who are more comfortable in today's economy, those who are financially comfortable, a lot of everyday things - it's kind of interesting - contrary to standard economic assumptions, people don't ask themselves when I buy a book or a lunch or coffee what will I not buy instead. That trade-off thinking is not there. It's as if you're reaching in an infinite bucket of small expenses. People who are selling you the coffee often do ask themselves if I have lunch, what will I not do instead? They're in trade-off thinking mode a lot. Every time they're going to spend on something, they might not be able to spend on something else, and that trade-off thinking is taking a lot of their cognitive capacity. It's a constant juggling act if you want, thinking how am I going to manage this very limited suitcase? Similarly, when you walk in the streets of London and see a pair of shoes you want, in your big suitcase you say is the price right, and if it is you pick up the shoes and you throw them in the suitcase and you're done. People on this side of the room - if you see the shoes you want, you ask is the price right, and now you have to ask what do I take out of my suitcase to make room for the shoes? And that sort of activity is constantly occupying you as you travel with your insufficiently sized suitcase and it's a metaphor we use for the challenges that come with not having enough.

FIDGEN: One of the puzzling things about your theory is I mean these ideas of tunneling and juggling and bandwidth and slack and so on, I mean these are all things that feel so familiar. It feels like commonsense. What would you say is distinctively new about your theory?

SHAFIR: It's a great question and I think part of it is the extent of the effect. So the fact that things distract us, we all know. How much they distract us, how much less is left for other things that matter and what the impact is, I think to some extent was surprising to us as well.

FIDGEN: Well let's talk about the policy implications of that in just a moment, but first let's see if anyone in the audience wishes to raise a question on things that have been said so far. The woman there in the purple cardigan.

WOMAN: Yeah my name is Vrinda Bhandari and I'm from India. You talked about managing scarcity. How much can you manage that? So, for instance, if you're organised and you keep notes or a to-do list, how much would that impact on decision making in a scarcity context?

SHAFIR: Beautiful. So the question is you know once you recognise what scarcity does to you, what do you do to address it? And you know it depends a lot on you know what forms that scarcity takes for you. For some people it's literally having an alarm clock that gets you up and ... You know I just heard a sleep expert recently who talked about the problems of not sleeping enough. He puts an alarm clock in the evening to remind him to go to bed, which is you know an interesting touch if that's your problem. If some of us just fritter the night away because it's kind of fun to stay up, he's saying remind yourself to stop it. Some of us who are very, very busy, one thing that might be very smart is to leave a half hour a couple of times throughout the day unplanned because the unexpected phone call is actually expected, the unexpected email – you don't know which one it is going to be, but something's going to happen. What do you do? You borrow from tomorrow. You say I'll do this tomorrow. Tomorrow comes at a high cost and you enter a time poverty trap. So one suggestion, for example - I try to do this now – is to leave one or two half hour chunks free, which in itself is kind of interesting because people don't expect you to do that. So if you come and say, "Can I meet you at eleven?" and I say, "Sorry, I want to be on my own", that just sounds rude. So now what I do, I call it meeting with self. I say, "Sorry, I have a meeting." You know you don't have to know it's with myself. (*laughter*) "I have a meeting." That sounds perfectly reasonable and responsible. And you do that, and all of a sudden all the things you didn't expect you take care of in a half hour and you're clean again and it's a real ... it's like basically saving money for a rainy day.

FIDGEN: Lots of hands raised. Let's hear from the woman over here in the black.

SELENA: Thank you. My name is Line and I'm from Denmark. I was just wondering how do you make sure that the findings that you find in an experiment in a mall is also what happens in the real world?

SHAFIR: We've done the best we could So we ran these studies a number of times in malls in different ways. The big, very satisfying study we did was in India where we went to sugar cane farmers. We carefully chose. Sugar cane is a perfect set-up because you harvest only once a year. So these are people whose bucket of income happens once a year and because they are living in relative scarcity and fail to smooth, they basically run out of it too quickly. So these are people who are rich after the harvest and poor before. So now we run the same person on these cognitive tests – very similar to the ones I described in the mall except we change a bit because they have to be transportable to the fields – but we run the same people four months apart, and the same farmer when he inhabits scarcity before harvest is 10 IQ points less good at the performance of these tests than the same guy two months after harvest when he's inhabiting plenty. And that's again the test of course is in some ways not real, it's a test, but the situation is one where we haven't imposed anything. We just come to you when the world has made you poor or rich, keeping everything else constant – same education, same health. Everything is now kept constant and the effect replicates. So those are some suggestions in areas that see more real life.

FIDGEN: You're listening to Analysis with me, Jo Fidgen, today coming from the Blavatnik School of Government at the University of Oxford. And my guest is Eldar Shafir, Psychology Professor at Princeton. And you were until recently part of a team that advised President Obama on how to improve people's financial capability. If you had a direct line to him and could get him to implement one policy that would help the poor break out of the scarcity trap, what would it be?

SHAFIR: I'll give you a principle, not a specific change, because a change would depend enormously on whether you live in New York or in Oklahoma. But here is a principle. When you think about the limited bandwidth that people have, think about that. You have a very limited capacity bandwidth, which you use to manage your banking, remember to take your medications on time, help your kids with their homework. As a government you want to think about policies that simply give people a bandwidth gift and that could be childcare, it could be transportation – all the kinds of things that people spend an inordinate amount of time worrying about. If you are a low paid worker in a low paid job in America today, your supervisor gives you what hours you work every 48 hours from now. So he tells you what hours you work Thursday and what hours you work Friday. You come home and you have to manage childcare for two days from now and the same thing tomorrow and the same thing the next day. You're spending an enormous amount of bandwidth just taking care of childcare. If that boss simply gave you hours over a month that don't change, that could give you an enormous bandwidth gift because now you'd manage it once and you have more mind left to eat better. And so I would say focus on just managing to make people's lives easier.

FIDGEN: You've mentioned payday loans already, which come with a very high interest rate. You mention how very popular payday loans are with people who are desperately short of cash and yet there are much cheaper loans available. Why is it that people will go to the money lender rather than to the bank, say, when they've got financial difficulties?

SHAFIR: America and many places, it's not easy to get loans that are cheaper after a while. A lot of the unbanked in the US have tried banks and given it up because it's too expensive every time they make a mistake. And then getting loans – look, one is the issue of how do you find the right one? It's not simple. And two, often really what's available to you is very expensive. I'm not even proposing to get rid of payday loans because there are moments when an emergency loan is better than nothing. If I can't avoid you taking these high interest payday loans when you must, I can then at least build into it a situation where instead of paying all the interest back for just profit for the provider, half of it goes to the provider and the other half goes into an enforced saving account for you.

FIDGEN: Have you experimented with that?

SHAFIR: We have not done this in the US at all. We've tried things like impulse savings cards in India. So think about it. When you go on a day to day basis, the world is built so as to make it extremely easy for you to impulse shop, impulse spend. Impulse save is very hard. If you say I have five dollars, I'd love to save it, what do you do now? It's hard. Especially hard if you live in a context where people are poor and if you have five dollars it's five minutes before a good friend or a sister or brother or mother needs it. So it's very hard to save. We've tried to have these cards where you just go up to a store and say here's five dollars on my card. Put it in my bank.

FIDGEN: So instead of buying sweets at the counter, you just save some money?

SHAFIR: You just give your five and put it in savings, right. And it's been rather successful. It's complicated to gage, but they would be the sort of ideas to try.

FIDGEN: This has more than a hint of "nudge" about it, doesn't it - you know the approach which has been very popular in fact with the British Government at the moment of changing situations to nudge people towards a decision which is in their best interests? Is your approach any different from that?

SHAFIR: No, you know a lot of our approach has been really just to understand the mindset that comes from not having enough, so it's much more of a scientific behavioural attempt to understand what's happening in people's minds and leading to the behaviours that we see. Part of the policy implications, part of the attempts to help would be nudge-like; and in fact you're right, the Behavioural Insights Unit has been a terrific example of a well-implemented attempt to help along those lines. Not necessarily you know the poor who live in scarcity, but people who could use help in cases where their actions just don't capture their intention very well and they could use help doing the right things which they want to do to begin with.

FIDGEN: What about welfare? You hear the phrase 'benefits culture' a lot in the UK and it often seems to be implying that people stay on benefits for a lifetime or through generations out of choice because they're not motivated. That might be the case, mightn't it?

SHAFIR: Yeah, it might be the case. I see no evidence for it and I see tons of evidence for the opposite. So you know are there some who have endorsed a certain culture which leads them not to want to find work? Sure it's possible. Everything we know from research, everything from labour economics to decision making, to other areas, people prefer to work you know for the right wage as opposed to not work. People try very hard to do things well. And look we have the evidence - a lot of these people who don't do well when they're poor strongly would do things a lot better when they're less poor, and that's part of what the studies show.

FIDGEN: If you're right and if people who are you know stuck on benefits are there not because they don't want to work and don't want to make the effort but because they are trapped in a scarcity mindset, what then can policymakers do to change the way benefits are delivered that would help break that cycle?

SHAFIR: Well it's everything from how benefits are delivered to how difficult my daily life is. It's back to transportation, to childcare, to banking. What can you do to make people's lives better? The way I think about it is cockpit design. You know if you look at aviation, you design a cockpit. If you design it badly - and there's a lot of, unfortunately, a lot of very dramatic examples out in the aviation world of cockpits designed badly - pilots make mistakes. You know if you have to pull rather than push the stick, you end up going in the wrong direction; you put the wheels up when you land, things happen. And that happens to good and bad pilots. It's only when you design the right cockpit that's designed to elicit good flights that you can separate those who are very good pilots, who are doing everything right, from those who are not. In the same sense here, if you can design people's cockpit, design their lives in a way that allow them to thrive, you'll be able to tell which are the ones who are able and trying and motivated to succeed as opposed to those who are not. And then the answer, we'll see whether it's 10 per cent or 20 or 30 who are not trying hard enough. As long as you design a context that's guaranteed to lead me to failure because the banks are not reliable, because the loans are too high, because I can't manage childcare, transportation or anything else - everybody will fail. You can't tell anything about the motivation or the capacity.

FIDGEN: Poverty should be a much easier problem to tackle then if you're right because if the problem is not in people's minds but is in the environment, then you just have to change its structures, don't you?

SHAFIR: I think poverty is sort of a cause for true embarrassment for you know civilization in the 21st century. I think having landed people on the moon, we should be able to do a lot better with poverty. And it's not just a technical problem. It's a problem of attention you know among leaders of heart, of mind, of ethics and other issues, and you know conflicted sort of motives that you know obviously drives money not exactly into poverty programmes always. But yes, I don't think that poverty is mostly you know intellectually unachievable. Poverty requires a solution, it's one that we need to do. It just requires some changes in attitudes and principles and what people consider important who are doing policy.

FIDGEN: You said that you don't like to consider these problems in the light of personal responsibility, but a lot of people will say that's just politically unacceptable to say that - that people do need to stand up for themselves and stand by their decisions and their choices.

SHAFIR: I like personal responsibility. I just don't want to leave the solution to personal responsibility. So the cockpit is exactly that. The personally responsible pilot will fly well in a well-designed cockpit. If you design a cockpit that's designed with a major flaw, the well-intentioned, the person responsible, the pilot, will crash. And so in some sense if you design the cockpit well, if you design people's context smartly, that's when you allow those who are taking responsibility to succeed. As long as you design it for failure, you'll never know who is taking personal responsibility because it's not going to help them get out of it. And so in some sense I think the picture that says design things in an intelligent way that allows people to do better, alleviate some of the pressures, give them ways out is perfectly consistent with the notion that it's exactly those who take personal responsibility who will benefit from all this, and that's what we need to see.

FIDGEN: It's tempting to think that once you've escaped from the scarcity trap, you won't get caught again, but you conducted an experiment with market traders in Chennai in India which seemed to contradict that.

SHAFIR: It was a mixed story. So we took women who are fruit and flower vendors in an enormous market in Chennai. These are women who work extremely hard. They borrow 1,000 rupees, buy mangoes or flowers or whatever it is and spend the whole day in the market selling it for 1,100 rupees, and go back in the evening and pay 1,050 back to the person who lent them the 1,000, and get up again and do it again every day for ten years. And they're basically borrowing at 5 per cent a day, which is very, very high. And if you think about it, if they borrowed a little bit less every day they could be debt free in two months or less. So that was the story and we tried different things – explaining things to them. We even tried in one case to give them the full thousand rupees, so they don't have to borrow anymore. And it's a nice set-up. You can say if they don't understand, if they lack self-control or if they just do whatever they can with the money, when I give them 1,000 rupees they should spend it the next day on fun stuff and go right back. That's not what happens. They are very wise and they see that now they're debt free and they make twice as much - still very small but twice as much as before - and they live differently and everything is good. But in our data at least, somewhere around six to eight months one by one they start falling. And basically they're living at the edge and something happens – there's a medical emergency, there could be a giant wedding where they're expected to buy an expensive gift. Something happens to them that leads them to borrow again, spend 1,000, and they're right back to where they started. And so the point is that yes if you're living close to the edge, even if you're free of borrowing, the slightest unexpected shock can send you right back in and it's something that we need of course to worry about. And again in those cases allowing you to resort to loans for example that are not too punitive could be at least one step.

FIDGEN: So it's a question of slack, creating slack?

SHAFIR: Exactly – some ability to absorb you know a rainy day whether it's through savings or low loans, whatever you can do, to allow me quickly to recover and move on again.

FIDGEN: Let's take some more questions from the floor. Hands going up immediately. This man was first here in the middle row.

RAFI: My name is Rafi. I am from Pakistan. My question is that poor people make more efficient use of resources and they are more likely to come up with out of the box solutions for problems they are facing. So controlling for exposure and education, don't you think that in the long-run poor people are likely to be more creative and poor people are likely to become more temperamentally strong, and doesn't this gain offset the shortened drops in performance?

SHAFIR: I don't have any data for this. I don't know. I think there is a lot of creativity. There's also a lot of terribly poor performance and so it's hard for me to say. Now does chronic poverty make you stronger? Again I think it's not clear. I think there are some people who become very resistant and good and some people you know who have given up and have done much less well. I just don't know of anything systematic that would lead us to believe that you know practicing poverty long enough makes you better. It certainly makes you more efficient in going shopping, but it's different from you know running your life.

FIDGEN: And there's a woman here at the front.

JENNY: My name is Jenny and I'm from the US. When you say that government intervention is necessary because the actions of the poor don't capture their intentions, how do you avoid that that perception is demeaning?

SHAFIR: That's a wonderful question. I've thought about this a lot and I decided that I don't need to avoid it because it's there already. So basically the perception of the poor is so demeaned already that there's not much to lose. If you look at studies of stereotypes internationally, there are places where it's not so good to be a woman, places where it's not so good to be black - everywhere it's horrible to be homeless and poor. These are clear studies, and if you take a multi-dimensional space - the poor on the bottom left, they're untrustworthy, incapable, unintelligent everywhere and they know it. So I don't think there's that much to lose by saying yes, the poor are making mistakes. That's what everybody assumes already. And it's a very ... I may be wrong, but I think to say that is okay and then you say but notice it's because they're there and if you move them they'd stop looking that way. And so I think there is a risk, but I think the benefit is potentially much higher.

FIDGEN: I know there are many more of you wanting to ask questions, but we're experiencing a scarcity of time here and we will have to end. But thank you all very much indeed for being part of Analysis at the Blavatnik School of Government here at the University of Oxford and my special thanks to Professor Eldar Shafir. *(Audience applause)*