Behavioral Economics and Marketing in Aid of Decision-Making among the Poor

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Abstract

This paper considers several aspects of the economic decision making of the poor from the perspective of behavioral economics, and with a focus on potential contributions from marketing. Among other things, we consider some relevant facets of the social and institutional environments in which the poor interact, and review some behavioral patterns likely to arise in those contexts. A behaviorally more informed perspective can help make sense of what might otherwise be seen as “puzzles” in the economic comportment of the poor. A behavioral analysis suggests that substantial welfare changes may result from relatively minor policy interventions, and insightful marketing might provide much needed help in the design of such interventions.

1. Introduction

Theorizing about poverty typically falls into two camps. Social scientists as well as regular folk regard the behaviors of the economically disadvantaged either as calculated adaptations to prevailing circumstances, or as emanating from a unique "culture of poverty," rife with deviant values. The first view presumes that people are highly rational, that they hold coherent, well informed, and justified beliefs and pursue their goals effectively, with little error, and with no need for help. The second perspective attributes to the poor a variety of psychological and attitudinal short-fallings that are endemic and that render their views often misguided, their behaviors lacking, and their choices fallible, leaving them in need of paternalistic guidance.

We are driven by a third view. The behavioral patterns of the poor, we propose, may be neither perfectly calculating nor especially deviant. Rather, the poor may exhibit basic weaknesses and biases that are similar to those of people from other walks of life, except that in poverty, with its narrow margins for error, the same behaviors often manifest themselves in more pronounced ways and can lead to worse outcomes (see Bertrand, Mullainathan, & Shafir, 2004). Those living in poverty, according to this view, are susceptible to many of the same idiosyncrasies of people living in comfort. But whereas those better off typically find themselves, either by default or through minimal effort, in the midst of a system composed of attractive "no fee" options, automatic deposits, reminders, etc., that is built to shelter them from grave or repeated error, those less well off often find themselves without such "aids" and are instead confronted by obstacles – institutional, social, psychological – that render their economic conduct all the more overwhelming and fallible.

Marketing, we propose, plays a significant role in the current context in which the poor find themselves, both in what it does and in what it has so far failed to do. On the one hand, marketing has been used profusely and effectively by for-profit businesses and, at least on occasion, will have contributed to making the lives of the poor even poorer. Aggressive marketing campaigns have targeted the poor on products ranging from fast foods, cigarettes and alcohol, to predatory mortgages, high interest credit cards, payday loans, buy-to-own, and a variety of other fringe-banking schemes (see, e.g., Caskey, 1996; Mendel, 2005). At the same time, significantly less has been done by way of aggressively promoting more positive options, such as healthy diets, various non-for-profit services, union banks, prime-rate lenders, etc.

One explanation for the discrepancy is in terms of market forces: those offering predatory rates have more to gain from aggressive marketing than governmental agencies or non-for-profits with their severely limited budgets. Another explanation, we suggest, is a tendency to under-appreciate the potential impact of marketing as a "superficial" yet highly effective intervention, even in situations

where the product offered is indeed quite advantageous (and, therefore, the thinking might go, might not need the help of marketing “gimmicks.”) In light of the systematic impact of subtle, context-dependent nuances on human behavior, there are likely to be simple and insightful marketing manipulations that can make a real difference in socially desirable ways.

In what follows, we illustrate the kinds of insights that might be gained from a behaviorally more realistic analysis of the economic conditions of the poor. The behavioral perspective we impose is essentially that provided by current empirical research in behavioral economics and decision making, supplemented by insights from social and cognitive psychology. We consider how social and situational factors might interact with commonly observed behavioral patterns, and we propose some nuanced factors that ought to be taken into account in the design and implementation of policies intended to ameliorate the economic predicament of the poor. In that context, we highlight those areas where we think simple marketing interventions may provide a useful tool. The paper proceeds as follows. In the next section, we briefly review some important lessons from recent behavioral research on decision-making. Then, in section 3, we present a selected sample of problems and “puzzles” concerning the economic behavior of the poor. We consider how simple behavioral considerations might help make sense of those puzzles and we discuss where marketing might play a role. Section 4 lists some general implications and policy recommendations, and Section 5 briefly concludes.

2. Psychology Background

Construal: A major development in psychological research, central to the demise of behaviorism and to the emergence of the cognitive sciences, has been an appreciation of the role of “construal” in mental life. People do not generate direct responses to objective experience; rather, stimuli are mentally construed, interpreted, and understood (or misunderstood). Behavior is directed not towards actual states of the world, but towards our mental representation of those states. And those representations do not bear a one-to-one relationship to states of the world, nor do they necessarily constitute faithful renditions of actual conditions. As a result, many otherwise well intentioned social interventions can fail because of the way in which they are construed by the targeted group, for example, “as an insulting and stigmatizing exercise in co-option and paternalism” (Ross & Nisbett, 1991), or as an indication of what the desired behavior is, or what it might be worth. Thus, people who are rewarded for a behavior that they would otherwise have found interesting and enjoyable can come to attribute their interest in the behavior to the reward and, consequently, come to view the behavior as less attractive (Lepper, Greene, & Nisbett, 1973). For example, children who were offered a “good player award” to play with magic markers – something they had previously done with great relish in the absence of any extrinsic incentive – subsequently showed little interest in the markers when these were introduced as

a classroom activity (in contrast with kids who had not received an award and showed no decrease in interest.)

For another example, Cialdini (2001, 2003) discusses nuances in messages intended to produce socially beneficial conduct, which can easily backfire. There is an understandable tendency, Cialdini explains, to try to mobilize action against a problem by depicting it as regrettably frequent. Information campaigns proclaim that alcohol use is intolerably high, that adolescent suicide rates are alarming, or that rampant polluters are spoiling the environment. Although such claims may be true and well intentioned, they may miss something critically important: Within the intended injunctive statement "Many people are doing this *undesirable* thing" lurks the powerful and undercutting descriptive message "Many people *are* doing this." And the latter message stands to imperil the appeal intended by the former.

Critical for the success and effectiveness of policy conduct and implementation is the need to phrase messages and devise contexts in ways that not only convey the correct information, but that generate the intended construal.

The power of the situation: A truism about human behavior is that it is a function of both the person and the situation. One of the major lessons of psychological research over the last half century is the great power that the situation exerts, along with a persistent tendency to underestimate that power relative to the presumed influence of personality traits. Research has documented the oftentimes shocking capacity of situational factors to influence behaviors that are typically seen as reflective of personal dispositions. Consider, for example, the now-classic Milgram obedience studies, where people proved willing to administer what they believed to be grave levels of electric shock to innocent subjects (Milgram, 1974), or Darley and Batson's (1973) Good Samaritan study, which recruited students of a Theological Seminary to deliver a practice sermon on the parable of the Good Samaritan. While half the seminarians were running ahead of schedule, others were led to believe they were running late. On their way to give the talk, all participants passed an ostensibly injured man slumped in a doorway, coughing and groaning. The majority of those with time to spare stopped to help, whereas among those who were running late a mere 10% stopped, the remaining 90% simply stepping over the victim and rushing along. Despite years of ethical training, biblical reading, contemplating life's lofty goals, the contextual nuance of a minor time constraint proved decisive to the decision to stop help a suffering man.

As it turns out, the pressures exerted by apparently trivial situational factors can create restraining forces hard to overcome, or can yield potent inducing forces that can be harnessed to great effect. What is so impressive is the fluidity with which construal occurs, and the sweeping picture it can impose. In fact, alongside the remarkably powerful impact of context emerges a profound under-appreciation of its effects. The Fundamental Attribution Error, a central construct in modern social psychology, refers to the tendency, when interpreting behavior,

to overestimate the influence of internal, personal attributes and to underestimate the influence of external, situational forces. As Ross and Nisbett (1991) point out, where standard intuition would hold the primary cause of a problem to be human frailty, or the particular weakness of a group of individuals, the social psychologist would often look to situational barriers and ways to overcome them.

Channel factors and tension systems: In opposition to major interventions that prove ineffectual, seemingly minor situational changes can have a large impact. Kurt Lewin, in the middle of the last century, coined the term "channel factors." Certain behaviors, Lewin (1951) suggested, can be facilitated by the opening up of a channel (such as an a priori commitment, or a small, even if reluctant, first step), whereas other behaviors can be blocked by the closing of a channel (such as the inability to communicate easily, or the failure to formulate a simple plan.) A well-known example of a channel factor was documented by Leventhal, Singer, and Jones (1965) whose subjects received persuasive communications about the risks of tetanus and the value of inoculation, and were told where they could go for a tetanus shot. Follow-up surveys showed that the communication was effective in changing beliefs and attitudes. Nonetheless, only 3% actually took the step of getting themselves inoculated, compared with 28% of those who received the same communication but were then also given a map of the campus with the infirmary circled, and urged to decide on a particular time and route to get them there. Related findings have been reported in studies of the utilization of public health services, where a variety of attitudinal and individual differences rarely predict who will show up at the clinic, whereas the mere distance of individuals from the clinic proves a strong predictor (Van Dort & Moos, 1976). Consistent with this interpretation, Koehler and Poon (2005) argue that people's predictions of their future behavior overweight the strength of their current intentions, and underweight situational or contextual factors that influence the likelihood that those intentions will be translated into action.

Another impressive illustration of a channel factor can be observed in Asch's (1956) conformity studies, where participants are led to make wildly misguided judgments that conform to those expressed by a group of the experimenter's confederates. Remarkably, any dissent from unanimous opinion – even if in favor of a mistaken judgment – opens an appropriate channel, leading to an 80% reduction in participants' tendency to conform.

Individual psyches can be understood as "tension systems" (Lewin, 1951), composed of coexisting proclivities and impulses, in which certain incentives, if they run against substantial opposing forces, will have little influence, whereas other interventions, when the system is finely balanced, can have a profound impact. In other words, big manipulations can sometimes have negligible effects whereas apparently small manipulations can have a dramatic influence.

In what proved to be the precursors to today's participatory management and focus groups techniques, a series of studies conducted in the fifties by Kurt Lewin and his associates (summarized in Lewin, 1952), focused on how entrenched patterns of behavior could be altered by identifying and redirecting group influences. These studies were predicated on the realization that when trying to change people's familiar ways of doing things, social pressures and constraints emanating from their peer group often represented the most formidable restraining forces that needed to be overcome, as well as the most effective inducing forces that could be harnessed to achieve success. In various studies designed to change entrenched behaviors involving dietary, health, and child care practices, among others, it was demonstrated that information introduced in the context of small discussion groups was substantially more effective than the same information conveyed, in control conditions, via lectures. One study, for example, advised rural mothers in a maternity ward to administer cod-liver oil to their infants. Whereas roughly 20% complied following individual consultation with a nutritionist, compliance climbed to 45% among those who were presented with the same information in the context of 6-person discussion groups (see Ross & Nisbett, 1991, for further discussion). At the individual level, the information, however persuasive, failed to counteract the pressures of group norms and expectations; in contrast, the introduction of the same information in the context of newly created groups allowed for new norms to be created, communicated, and conveyed through public support and professed intent.

Cognitive principles: The summary above focuses on the behavior in a social context of a system – the human information processing system – that is itself rather idiosyncratic and complex. Contrary to standard assumptions made in economics and other social sciences, the psychological carriers of value are gains and losses, rather than anticipated final states of wealth, and people's attitudes towards risk tend to shift from risk aversion in the face of gains to risk seeking for losses (Kahneman & Tversky, 1979). In addition, people are highly loss averse (the loss associated with giving up a good can be substantially greater than the utility associated with obtaining it; Tversky & Kahneman, 1991). This, in turn, can cause a general reluctance to depart from the status quo, because things that need to be renounced loom larger than those potentially gained (Knetsch, 1989, Samuelson & Zeckhauser, 1988).

Contrary to standard assumptions of fungibility, people compartmentalize wealth and spending into distinct budget categories, such as savings, rent, and entertainment, and into separate mental accounts, such as current income, assets, and future income (Thaler, 1985; 1992). Typically, people exhibit different degrees of willingness to spend from these accounts; for example, the marginal propensity to consume (MPC) from one's current income is very high compared, for example, to one's current assets (where MPC is intermediate), and to future income (where it is low). This yields consumption patterns that are overly dependent on current income, with people willing to save and borrow (often at a

higher interest rate) at the same time (Ausubel, 1991).

People's tendency to focus on local decision contexts is related also to familiar problems having to do with procrastination, planning and self-control. In the somewhat metaphorical parlance of Tom Schelling (1984), the self who, the evening before, intends to get up and exercise early the following morning is in conflict with the self who, early in the morning, much prefers to stay in bed. Similarly, the person who, upon cursory inspection of her "open" calendar, agrees to deliver a final project, or make a payment, by a specified date often fails to anticipate the variety of factors that, between now and the deadline, will likely interfere. (See, e.g., Buehler et al., 1994; also Lynch & Zauberman, in this issue, for related discussion of temporal construal and self control.)

As in other areas, here, too, minor contextual nuances can make a difference. The self who wants to exercise puts the alarm clock across the room from the self who will prefer to stay in bed, and the self who commits to a deadline may choose a variety of effective devices (including self-imposed penalties or the avoidance of distraction) to help abide by the committed date (Schelling, 1984). Modern research on attitudes has looked at "implementation intentions" (Gollwitzer & Brandstatter,1997) and the conditions under which attitudes strongly correlate with behavior (see, e.g., Ajzen & Fishbein, 1980 ; Eagly & Chaiken, 1993; Fazio, 1986; Zanna & Fazio, 1982; see also Verplanken & Wood, 2006, in this volume). It appears that attitudes have better predictive validity in situations in which they are strongly activated and the link between attitude and behavior is readily apparent.

Whereas the assumptions and language of economic theory often render many of the aforementioned issues peripheral if not irrelevant to the conduct of policy (Ferraro, Pfeffer, & Sutton, 2005), good exposition of policy-relevant insights can be found in the domain of social psychology (e.g., Ross and Nisbett, 1991); and in the realm of cognitive phenomena relevant to individual decision-making (e.g., Kahneman & Tversky, 2000).

3. Behaviors of interest

In this section, we describe a number of broad issues, particularly related to financial behaviors and the take up of social programs, that marketing interventions might fruitfully address. Each of these is chosen on two criteria. First, these are practically important issues. Second, they represent challenges for traditional economic views of poverty.

3.1. Low Participation in the Financial Mainstream

About 10 percent of all American households, the great majority living in poverty, are un-banked. These households have to rely on alternative financial institutions, such as check-cashers, to cash in or process their checks. Such

alternative financial institutions typically charge very high fees, and the households that use them do not have access to formal borrowing instruments. Instead, they resort to pay-day loans or they borrow from friends and relatives to make ends meet or to cover emergency spending. In addition, these households can only rely on a very limited number of formal saving tools, if any. The keeping of cash on hand that comes with being un-banked has potentially serious ramifications for spending and savings, issues we return to in the next section.

What explains the low participation rate of the poor in the financial mainstream? Of course, this low participation rate could be the result of a rational choice based on a cost-benefit analysis. If households have little to save, then the benefits of being banked may simply be outweighed by the financial costs of maintaining an account, such as the minimum balance fees that are required by most banks. Other costs that may rationally underlie the decision to be "un-banked" could be the sheer hassle and long traveling time, since few banks have branches open in disadvantaged neighborhoods. Alternatively, low participation rates may reflect various cultural factors. Some have argued that the poor do not have a culture of savings and may simply prefer living one day at a time, with little planning for the future. Along similar lines, some have attributed to the poor a persistent culture of distrust of financial institutions and have suggested that low take-up rates reflect a preference to stay away from banks because of such distrust. A theme that is common to these accounts is their tendency to explain "big" problems, such as millions of un-banked households, through appeal to "big" factors, such as the dearth of local banking options, or a deep mistrust combined with a culture of living-from-day-to-day. To explain big and serious problems, big and serious causes are invoked, which typically suggest big and serious interventions, such as relocating banks, subsidizing accounts, or re-educating the poor and, in particular, their young.

In contrast, as explained above, a behavioral perspective suggests that even in the context of big problems, small factors may sometimes play a decisive role. One classic "small factor" are "defaults," which are often determined by chance or fiat. Whereas, from a normative perspective, defaults are seen as largely irrelevant "starting points" which can then be easily altered, it turns out that, descriptively speaking, the status quo, bolstered among other things, by loss aversion, indecision, procrastination, or even a simple lack of attention, has a force of its own (Samuelson & Zeckhauser, 1988).

The striking power of defaults was documented in the context of insurance decisions, when New Jersey and Pennsylvania both introduced the option of a limited right to sue, entitling automobile drivers to lower insurance rates. The two states differed in what they offered consumers as the default option: New Jersey drivers had to acquire the full right to sue (transaction costs were minimal: a signature), whereas in Pennsylvania, the full right was the default, which could be forfeited in favor of the limited alternative. Whereas only about 20% of New Jersey drivers chose to acquire the full right to sue, approximately 75% of

Pennsylvania drivers chose to retain it (with financial repercussions estimated at nearly $200 million; Johnson, Hershey, Meszaros, & Kunreuther, 1993). Another naturally occurring "experiment" was recently observed in the context of Europeans' decisions to be potential organ donors (Johnson & Goldstein, 2003). In some European nations drivers are by default organ donors unless they elect not to be, whereas in other European nations they are, by default, not donors unless they choose to be. Observed rates of organ donors are almost 98% in the former nations and about 15% in the latter, a remarkable difference given the low transaction costs and the significance of the decision.

When it comes to bank accounts, the default option is often different for the poor than it is for those who are better off. Consider, for example, the simple option of direct deposit. A recent survey conducted by the American Payroll Association in 1998 shows that "American employees are gaining confidence in direct deposit as a reliable method of payment that gives them greater control over their finances, and that employers are recognizing direct deposit as a low-cost employee benefit that can also save payroll processing time and money." The employers of the poor, in contrast, often do not require nor propose electronic salary payments. In particular, they prefer not to offer direct deposit to hourly/non-exempt employees, temporary or seasonal employees, part-timers, union employees, and employees in remote locations, all categories that correlate with being low-paid. All this creates a missed opportunity to turn checking accounts into default alternatives for those needy individuals, whose de-facto default consists of taking a check, often after hours, to a place, often costly, where it can be cashed. Given the aforementioned power of default options, even among the comfortable, it seems safe to assume that defaults would have at least as substantial an impact on the poor, whose options are inherently inferior, and who may be less informed about available alternatives.

Another "small" upfront hurdle may come from the many choices that must be contemplated, often for the first time, when going to a bank to open an account. A proliferation of alternatives may prove confusing and menacing without a tutorial from a helpful employee, and may thus further dissuade the un-banked from pursuing the banking option. Contrary to standard economic assumptions, the availability of multiple alternatives can increase decisional conflict and reduce take-up. (Botti & Iyengar, in this volume; Shafir, Simonson, and Tversky, 1993; Tversky & Shafir, 1992). In one study, for example, expert physicians had to decide about medication for a patient with osteoarthritis. They were more likely to decline prescribing a new medication when they had to choose between two new medications than when only one new medication was available (Redelmeier and Shafir, 1995). Apparently, the difficulty in deciding between the two medications led some physicians to recommend not starting either. A similar pattern was documented with shoppers in an upscale grocery store, where tasting booths offered the opportunity to taste any of 6 jams in one condition, or any of 24 jams in the second. Of those who stopped to taste, 30% proceeded to purchase a jam

in the 6-jams condition, whereas only 3% purchased a jam in the 24-jam condition (Iyengar and Lepper, 2000).

In a related manipulation that was part of a larger study discussed further below, Bertrand, Karlan, Mullainathan, Shafir, & Zinman (2005) conducted a field experiment in South Africa to assess the relative importance of various subtle psychological manipulations in the decision to take-up a loan offer from a local lender. In practice, clients were sent letters offering large, short-term loans at randomly chosen interest rates. Various psychological features on the offer letter were also independently randomized, one of which was the number of sample loans displayed: the offer letters displayed either one example of a loan size and term, along with respective monthly repayments, or it displayed four examples of loan sizes and terms, with their respective monthly repayments. In contrast with standard economic prediction, we found higher take-up under the one-example description than under the multiple-example version. The magnitude of this effect was large: the simpler (one example) description of the offer had the same positive effect on take-up as dropping the monthly interest on these loans by more than 2 percentage points. Similarly, Iyengar, Jiang, and Huberman (2004) show that employees' participation in 401(k) plans drop as the number of fund options proposed by their employer increases.

Physical distance to formal financial institutions may also fall into the "small factor" category. Indeed, even when distance – a factor often appealed to as a potentially "real" cost -- is not substantial, the slight nuisance involved may turn it into a significant obstacle. As mentioned earlier, studies of the utilization of public health services have found that the distance of an individual from a medical facility can be a strong predictor of utilization of facility services (Van Dort & Moos, 1976). It is possible that the "small" upfront hurdle of some distance required to get to the bank prevents people from getting it done, despite what may be high advantages and a cost-benefit analysis that would not otherwise "add up."

In addition, simple in-group/out-group perceptions, reinforced by advertising clearly intended for people of substantially greater wealth, may help reinforce the impression that banking and the like are not intended for, and ought not to appeal to, those of lesser means. Indeed, decisions that involve being subjected to scrutiny, interview by an authority, official requests and applications, are all likely to have a non-trivial affective component. Not surprisingly, affective states can interact with things such as risk perception and susceptibility to framing (e.g., Johnson & Tversky 1983; Keller et al., 2003.) And those who are most vulnerable are likely to feel the weight of such sentiments even more than the rest. As a number of ethnographic studies suggest (LeBlanc, 2004; deParle, 2004), the poor often are painfully aware of society's norms and of their own inability to abide by them. A single mother who, lacking access to childcare, needs to present herself at a bank in the company of her small children, may be aware of the fact that, ideally, children are not brought into a bank. Along with a severely

limited knowledge/understanding of financial instruments, and with very little money to show for it all, a poor client may feel reluctance, shame, and a general sense that they could never be important/valued customers to the bank.

As Anderson (1999) writes in his remarkable book on “The Code of the Street”:

> “The hard reality of the world of the street can be traced to the profound sense of alienation from mainstream society and its institutions felt by many poor inner-city black people, particularly the young. The code of the street is actually a cultural adaptation to a profound lack of faith in the police and the judicial system - and in others who would champion one’s personal security.” (Anderson, p.34)

As others have summarized, there is also good reason to assume that 1) such a feeling of alienation impedes trust, 2) that such mistrust can, in turn, cause motivation and performance to suffer, and 3) that allaying such stigmatization may help create trust and improve motivation (Cohen & Steele, 2002).

Tom Tyler and his colleagues have conducted many studies trying to underscore the role of trust in motivation. They find repeatedly that the quality of one’s relationship with the authorities is among the strongest predictors of people’s willingness to embrace the values of the organization, or of society, Perceived procedural justice, it turns out, plays a decisive role in people’s willingness to follow the law, vote, cooperate with the police, and so on. (Tyler, 2000, and references therein).

Also, cognitive load has been shown to affect performance in a great variety of tasks, from memory retrieval, peripheral vision, and self-presentation, to reliance on stereotypes and self-control. To the extent that the poor find themselves in situations (say, filling out an application at a bank) that are somewhat unfamiliar, threatening, or stigmatizing, (all of which can consume cognitive resources), less resources will remain available to process the information that is relevant to the decision at hand. As a result, decisions may become even more dependent on situational cues and irrelevant considerations, as is observed, for example, in research on “low literate” consumers, who purportedly experience difficulties with effort versus accuracy trade-offs, show overdependence on peripheral cues in product advertising and packaging, and show systematic withdrawal (Adkins & Ozanne, 2005, and references therein.)

A behavioral perspective on the un-banked suggests several possible interventions.

3.1.1 Creating the “right” channel factors

In order to increase take-up of bank accounts among the poor, the behavioral discussion above suggests that much more attention should be devoted to trying

to make the task of “meeting with the bank” an easier and more appealing one, ideally a task that does not even involve what feels like a “decision.” This leads to a set of possible small, low-cost, interventions that could have first-order effects on the take-up of bank accounts among the poor.

A good illustration of the importance of creating the “right” channel factors comes from our experience studying the First Account Program that has been implemented by the Center of Economic Progress in the Chicago area since the end of 2002. This goal of this program was to entice an un-banked, lower-income population that is mostly dependent on check-cashers to open low fee accounts at a local bank.

In order to evaluate this program, we conducted a phone survey of a random sample of individuals that had participated in the financial education workshops organized by the Center for Economic Progress. Participants in these workshops took part in a two-hour lecture and discussion covering the mechanics of opening a bank account, an overview of basic banking products, personal budgeting and goal setting. The lecture was also used as a way to introduce participants to the First Account Program. If interested, participants could obtain a referral letter that they could take to the bank to start the process of opening a First Account. From this survey, we hoped to glean a better understanding of why some participants decided to open First Accounts and others did not.

A few interesting findings reminiscent of the importance of small channel factors emerged from our analysis. First, while only about 50 percent of respondents reported opening a First Account following the workshop, close to 90 percent reported *thinking* they would do so. We asked those respondents who did not open an account but reported having planned to do so, why they had not. Interestingly, among those who provided an answer, a large fraction reported some form of time mismanagement as the main cause for their having failed to open a First Account (either they missed the deadline and the referral letter they needed to take to the bank had expired or they were too busy to complete the take-up process). Taken at face value, this suggests that take-up could have been much improved had small hurdles to take-up been removed.

More direct evidence on this came from comparing take-up and usage of the First Accounts across two types of workshops. In the standard workshop, as mentioned above, participants interested in opening a First Account received a referral letter that they could take to the bank to complete the take-up process. In a subset of workshops, participants interested in opening a First Account had the opportunity to complete most of the paperwork at the workshop itself because a bank representative was present. From an economic perspective, there is little reason that the presence of a bank representative should have large effect on take-up as it does not significantly alter the cost-benefit analysis at the core of the decision of whether or not to open a First Account. However, from a behavioral perspective, this small change in implementation could have a large

effect on take-up as it reduces the likelihood that people will get derailed by procrastination, or forget about their earlier intention to sign up.

In practice, we found a large positive effect on take-up associated with the presence of a bank representative on-site. Of course, a higher take-up may not have real effects on behavior if people simply end up opening more accounts but do not actually use these accounts (and/or close them very rapidly). In fact, we found that the presence of a bank representative at the workshop was also associated with a higher likelihood of still having an account open at the time of the survey. In addition, the presence of a bank representative on site was positively correlated with usage of complementary services offered by the bank, such as Electronic Fund Transfer, direct deposits, and the usage of ATM cards. In other words, contrary to the notion that the un-banked are plagued by “cultural norms” or a general distrust of banks, those who attended a workshop with a bank representative on site did not simply open more accounts - they also used these accounts.

The channel factor literature suggests other high-impact small changes in the marketing of bank accounts to the poor. First, banks should be marketed to the poor in ways that are natural and genuine. This could include public announcements by figures that are identified with and trusted (clergy, sports figures, popular politicians, etc.). Second, very simple instructional flyers should be more widely adopted. Such flyers could for example clearly delineate the steps to follow to open an account, or offer precise maps on bank location (maybe bus routes to get there), or describe how to use an ATM card.

3.1.2 Appealing to the right identities

Recent research has highlighted the relevance of identity salience for people’s decisions (see, e.g., LeBoeuf & Shafir, 2005, and references therein). People derive their identity in large part from the social groups to which they belong (Turner, 1987). A person may alternate among different identities - she might think of herself primarily as a mother when in the company of her children, but see herself primarily as a professional while at work. The list of possible identities is extensive, with some identities (e.g., “mother”) likely to conjure up strikingly different values and ideals from others (e.g., “CEO”).

Of particular relevance here might be the natural salience of a “poor, incapable, untrustworthy” identity, that is likely to loom in the background of any potential transaction, and could have substantially detrimental effects. Several studies have confirmed the notion of “stereotype threat,” (Steele, 1997; Steele & Aronson, 1995), according to which a prevalent stereotype about a group creates a burden on group members that acts as a threat. The threat arises whenever stigmatized individuals’ behavior runs the risk of substantiating the stereotype, and this threat can distort or disrupt the performance of those individuals. In one study, for example, Asian women whose race (stereotypically strong in math) was made salient performed significantly better on a tough mathematics exam

than when their gender (stereotypically threatened in math) was rendered salient (Shih, Pitinski, & Ambady, 1999). Several studies have shown similar effects with African Americans, and some have replicated these effects on people from low socioeconomic backgrounds. As students from a low SES are subjected to doubts about their intellectual ability that are similar in kind to those experienced by African Americans, the threat has similarly disruptive effects. In one study, low SES students performed worse than high SES students when the test was presented as a measure of intellectual ability; however, the low SES students' performance matched that of the high SES when the test was not presented as measuring intellectual ability (Croizet & Claire, 1998).

Similar phenomena will likely be observed in other behavioral domains; for example, where stereotypes involving intellectual and professional ability might interfere with a person's willingness to, say, interact with a bank. Adkins & Ozanne (2005) discuss the impact of a low literacy identity on consumers' behavior, and argue that when low literacy consumers accept the low literacy stigma, they perceive market interactions as more risky, engage in less extended problem solving, limit their social exposure, and experience greater stress.

Identities that are salient can impact behavior even when they do not directly involve stereotype threat. We ran pilot surveys with 60 women at a non-for-profit that caters to the nonworking poor in Trenton, NJ. Half of the participants were asked some simple questions (What do you like to do for fun? Do you have a favorite place to hang out?) intended to bring out their "social" self. The other half responded to questions intended to make salient their "family" self (Who do you live with? Which of your family members do you feel closest to?) Following this salience manipulation, all participants were presented with hypothetical financial choices (Would you open a savings account that requires a $20 deposit each month? If it were offered, would you attend a free night course on the basics of financial management for lower-income people?). Indeed, those whose family self was primed were more prone to express interest in opening an account or taking a financial literacy course than their counterparts, with a primed social self ($p < .07$).

Along similar lines, some have suggested that one reason for the relative success of EITC is that it explicitly appeals to people's identity as taxpayers, rather than poor. In fact, specific personality traits, for example, people's "regulatory" (promotion versus prevention) orientation, may also fit certain decision-making contexts better than others. Thus, research by Higgins and his colleagues (Higgins, 2000; Higgins, Idson, Freitas, Spiegel, & Molden, 2003) has argued that people value items more when these were chosen using a strategy that fit their orientation than a strategy that did not fit. Related discussion of the role of identity and construal is provided by Aaker & Briley in this volume.

All of the above suggests that when it comes to bank accounts and other services intended for the poor, government and banks should promote such

services to those identities – head of family, working taxpayer -- that might trigger a more positive response in the intended recipients.

3.1.3 Improving information processing

Because of a limited history of banking among family and friends, the poor may have little information about what may be some of the benefits of a bank account. They may also find themselves under emotional stress and cognitive load. This suggests potentially large positive welfare effects from well-designed information campaigns on the benefits of being banked. While this may appear obvious, the idea that the poor are operating under incomplete information about the financial environment they face, or that they might be operating under emotional and cognitive duress, is not part of the standard economic model, which assumes information is easily accessible and easily understandable.

The literature on influence and persuasion also offers some guidance on possible best practices to increase the efficacy of information campaigns. As we discussed above, studies designed to alter entrenched behaviors (involving, for example, dietary or health practices) have found that information presented in the context of small discussion groups is substantially more effective than the same information conveyed individually through lectures. Even when the information is persuasive, when presented individually it fails to counteract the pressures of group norms. When introduced in the context of newly created groups, on the other hand, it allows for new norms to be created and communicated by public support and through declared intent. This suggests that a potentially large social gain of organizing more discussion groups in less advantaged areas that would focus on the costs and benefits of being banked, as well the ways to open and manage a bank account.

The cognitive literature also suggests ways to improve responsiveness to the information being provided. In particular, because of the asymmetry in the perception of gains and losses, and in light of the earlier discussion of construal, one might expect a marketing frame that stresses the *losses* associated with staying un-banked to be more effective than an alternative frame that stresses the benefits associated with banking.

3.2. Consumption and Savings

Saving rate among the poor is very low. In addition, there is some evidence showing that the poor may have difficulty in smoothing their consumption over time. This tends to be associated with drop in consumption towards the end of the month and various utilities being turned off at a high rate. What can explain such patterns? A large part of it, we want to argue, might be due to the psychological ramifications of being un-banked. There are at least two specific

psychological consequences of having no bank account that may affect consumption and saving patterns: (bad) defaults and mental accounting issues.

As we noted earlier, in contrast with classical analyses, which impute substantial planning and control, numerous studies of middle-class savings suggest that saving works best as a default. For example, Madrian and Shea (2001) show that 401(k) participation is significantly higher when an employer offers automatic enrollment; in addition, they show that participants are very likely to retain both the default contribution rate and default fund allocation. In a similar vein, Benartzi and Thaler (2004) document increased savings as a result of agreeing to default deductions from future raises. Yet the poor have little recourse to this kind of default savings and programs. Instead, ethnographic studies of the poor suggest drastically different forces at play, for example, in the form of friends and family in dire straits, who frequently request help. Rather than default savings venues, this creates situations where spending is often the safest way to "save."

Interestingly, even in welfare policies where great effort and resources are invested to try to get the poor to save more, defaults are often ignored. For example, many IDA programs leave it to individual participants to invest part of their cash in savings accounts rather than institute automatic deductions.

Because "good" defaults are less available to those without bank accounts, the poor have to revert to alternative and typically expensive commitment schemes to try to save towards big purchases. Specifically, one can view participation in programs such as rent-to-own or layaway schemes as such alternative commitment devices. Along related lines, some have argued that the poor may purchase actuarially unattractive lottery tickets as a saving mechanism, which leaves them occasionally in possession of larger amounts than they would be able to reach through regular attempts to save.

Being un-banked typically means that whatever little cash is available is readily available. In other words, the storage mechanisms the poor have access to are extremely fungible. Keeping money in cash rather than in the bank may increase the desire to spend immediately, making it difficult to achieve any asset accumulation towards a larger purchase. In fact, even among the non-poor, small – as compared to large – amounts are more likely to be spent than saved. (In a study of Israeli recipients of German restitution, those who received large windfalls spent, on average, 23%, whereas those who received the smallest windfalls spent 200%; Landsberger, 1966). Since the poor typically deal with rather small amounts, savings is thereby further discouraged.

There is also evidence supporting the view of different propensity to consume out of different "accounts." Among the non-poor, it has been shown that that there is a much lower propensity to consume out of a saving account and that people are transferring money into their saving account in order to save more (Thaler, 1990).

What are possible low cost marketing-like interventions that could help with these issues? Given the discussion above, it is clear that a behavioral view would predict large positive effects on saving from the opening of bank accounts. Such accounts should generate a "good" savings default to replace the "bad" money-on-hand situation. In addition, the transfer of cash from, say, checking to savings can trigger the expected propensity to save more. In fact, bank accounts could be designed specifically to conform to people's "mental accounting" schemes (Thaler, 1999). People may choose to label one account their "fridge account," another their "education account," or yet another their "car account." The labeling of accounts, while nonsensical from the perspective of standard economic assumptions of fungibility, could help with the allocation and safe-keeping of specific funds and may provide a salient reminder of what one is saving towards. Indirect evidence suggests that such nominal labeling effects may have real consequences. For example, reports concerning a rise in child allowance payments in Sweden were found to have disproportionate effects on intended recipients' spending on children (discussed in Thaler, 1990). Such labeling is reminiscent of other, already existing schemes such as education funds, Christmas clubs or even layaways.

Some organizations have already taken significant steps in the aforementioned directions. The State Employees Credit Union (SECU) in North Carolina, for example, offers an alternative to payday lending, called the Salary Advance Loan Program (SALO), intended to help break the payday lending cycle. The program allows members to take out salary advance loans without having to pay the typically exorbitant fees and percentage rates, with the loan plus accrued interest to be repaid by an automatic debit from an SECU account on the member's next pay date. The program, available to members whose paycheck is on direct deposit with SECU, minimizes the application and underwriting requirements, making the loans convenient and accessible. In addition, and most relevant to our discussion, SECU has implemented a SALO Cash Account, which is a pledge against the salary advance loan, aimed at breaking the payday loan cycle altogether and helping the member build personal savings. Each time a loan is granted, 5% of the advance is deposited into the SALO Cash Account and accumulates interest at the prevailing passbook rate. The cash partially securitizes the loan and initiates savings.

Similarly, Barr (2004) describes the impressive achievements of Banco Popular, which "has made great strides in reaching the 50% of Puerto Rican residents who are unbanked. Banco Popular's Acceso Popular account has a $1 monthly fee, no minimum balance, free ATM transactions, and free electronic and telephone bill payment. To encourage savings, Acceso Popular has a savings "pocket" into which small sums (initially, $5 per month) are automatically transferred from the Acceso Popular transaction account. The savings "pocket" pays modest interest. Funds may only be withdrawn by seeing a teller and account holders must pay a fee to see a teller more than once a month to

discourage withdrawals. Banco Popular opened nearly 60,000 such accounts in 2001, with half of those activating the savings "pocket" in their accounts."

Also, as of fiscal year 2005, the IRS has acquired the technical capacity to split refunds, making it possible for refunds to be direct deposited into more than one bank account. This not only allows for tax preparers to be directly paid for their services but, combined with public and private sector efforts to bring EITC recipients into the banking system, this ought to allow portions of the refund to be direct deposited into client's own bank accounts and other saving vehicles. Beverly, Schneider, & Tufano (2005) report on a study that encouraged eligible low-income individuals to open a low-cost savings account and then to direct part of their refund to it. Their pilot study suggests there is demand among low-income people for a refund-splitting program that supports asset building.

It is interesting in this context also to consider programs such as payroll cards, electronically based payroll services increasingly being adopted by employers, which allow banked employees to direct deposit funds from their cards to their personal accounts and allow the un-banked to withdraw funds through ATM's. While payroll cards have been lauded, and rightly so, for serving as "useful starting points towards an increasing range of financial services—including bill payment, savings, and bank accounts—for low-income persons" (Barr, 2004), it is noteworthy that, unless such cards are linked in some clever ways to alternative accounts, it is difficult to envision how they might encourage savings.

Carefully chosen defaults and mental accounting insights can further strengthen a broader use of complementary services associated with bank accounts, such as the use of direct deposit and default deposit to savings. By eliminating the cash-in-hand "step", direct deposit naturally reinforces the good default situation. On the demand side, this requires a stronger marketing of direct deposit among the lower-income population. On the supply side, employers of the poor should be encouraged to more widely provide this payment method to their employees.

3.3 Take up of Welfare Programs

The poor have access to a myriad of transfer programs in the United States. Yet, one stunning fact about these programs is their remarkably low take-up rate. Currie (2004), for example, documents take-up of a variety of programs. The poor elderly participate in SSI at a 45 to 60% range, which is surprising given that it is a cash program. Similarly, TANF participation rates are in the 50 to 55% range for poor single mothers. Smaller programs have even smaller take-up rates. For example, State Children Health Insurance programs have take-up rates in the 8.1% to 14% range. Economists' answer to this puzzle has been to look for large economic costs in an attempt to rationalize the supposed cost-benefit analysis the poor are making when deciding not to participate. One often cited big cost is the "stigma" attached to program participation.

A behavioral perspective suggests at least three other factors that could play an important role in explaining this low take-up. First, a critical requirement for the success of any elective social program is that the intended beneficiaries know and understand it. Instead, there is the problem of rampant ignorance of program rules, benefits, and opportunities, and not only among the poor. Surveys show that fewer than one-fifth of investors (in stocks, bonds, funds, or other securities) can be considered "financially literate" (Alexander, Jones, & Nigro, 1998), and similar findings describe the understanding shown by pension plan (mostly 401(k)) participants (Schultz, 1995). Indeed, even older beneficiaries often do not know what kind of pension, defined benefit or defined contribution, they are set to receive, or what mix of stocks and bonds they are invested in. Also, people often are unaware of the programs they are eligible for. Thus, some have attributed the recent decline in food stamp participation to the fact that many of those who leave TANF to go to work remain eligible for food stamps but do not know it.

Furthermore, people may not know or may not fully understand the relevant incentives in a given program. Liebman and Zeckhauser (2004) make a compelling case along these lines, by reviewing a variety of studies that show that individuals do not know many of the incentives that they face. For example, people are poor estimators of their marginal tax rates. Such lack of knowledge is important because it suggests that incentives may work only dully. It also suggests that mechanisms that make incentives more salient and easier to understand can prove extremely useful.

Duflo, Gale, Liebman, Orszag, & Saez (2005) describe a large randomized field experiment offering matching incentives for IRA contributions at the time of tax preparation. They find overall a much larger economic response to these matching incentives than that found in the context of the Saver's Credit program, which provides the same economic incentives under the tax code. They suggest that part of this differential response may be due to the lack of transparency of incentives offered under the Saver's Credit, where "both the equivalent match rate and maximum eligible contribution are not easy to decipher" (Duflo et al., 2005). They conclude that "an important task for future empirical work is to go beyond merely estimating the size of behavioral responses in specific contexts and start exploring the factors that shape the size of the behavioral response."

Another factor that is likely to contribute significantly to low take-up are the small hassle costs that dissuade action. (See also Kahn & Luce, in this volume, for a discussion of hassle factors in women's failure to undergo mammography screening.) Whereas hassle costs might appear to a classical economist as too minor to be taken seriously, such hassles are likely to be especially detrimental in the context of program take-up. America's Second Harvest documents some such hassles in a report entitled "The Red Tape Divide". As they describe in the introduction:

The [California] food stamp application was 13 pages long, with a complexity that would put the Internal Revenue Service to shame. Just what is a person with limited education to make of a question that says, "If you are a non-citizen applying for Medi-Cal and you are not (a) LPR (an alien who is a lawful permanent resident of the U.S.), (b) an amnesty alien with a valid and current I-688, or (c) PRUCOL (an alien permanently residing in the U.S. under color of law), please do not fill in the shaded box for 'Birthplace.'"?
…

In all, to complete the form an applicant must fill out more than 120 separate items. And if that applicant is nervous about misunderstanding these almost comedically complicated questions, he or she will hardly be comforted by a sentence above the signature line that says, "If I do not follow food stamp rules … I may be fined up to $250,000 and/or sent to jail/prison for 20 years." That's pretty threatening when one considers that buying diapers or soap rather than food constitutes "not following food stamp rules." The California application takes hours and hours to complete, for a benefit that averages $75 per person, per month. That can mean hours and hours of missing work, for a new employee who often can't even get leave.

Finally, consider the sheet, "What to Expect When You Come In For Your Intake Appointment," that accompanied the food stamp application. It says in part:

"At 7:25 AM Report to Window 8 to check in."
"At 7:30 AM an orientation will begin that reviews your rights and responsibilities."
"At 7:31 AM you are late for this appointment and you will be rescheduled for another day."
"Please be prepared to spend several hours (noon or longer) completing the intake process."

In the space of this document, the applicant will have been presented with information requiring higher education; she will have been treated like a potential criminal facing a possible jail sentence, and she will have been treated like a child warned in advance about being 6 minutes late. Hassle of this kind is not limited to California. The report provides a comprehensive review of application procedures across the country. Among its findings:

a. The average length of a state food stamp application is 12 pages. More than half the states (29) have applications between 10 and 36 pages.
b. Thirty eight states ask questions regarding sources of income that cannot or would not ordinarily be used to determine eligibility.
c. All but one state had certification statements that must be signed (under penalty of perjury) that were written at the 9th to 12th grade reading level.

Such barriers to program take-up, while probably small in an economic model, are exactly the kind of channel factors that might greatly dissuade individuals.

Finally, just as people procrastinate in getting regular medical check-ups or in signing up for 401(k)s, the poor may procrastinate in signing up for welfare programs. One interesting piece of evidence suggestive of procrastination is the correlation of take-up with re-certification. Households participating in the food stamp program are required to re-certify in person in general at least once every year. Many states, however, require re-certification every 90 days. These states show much lower take-up rates for food stamps (Currie and Grogger, 2001). While this might reflect economic costs (people cannot take the days off work to go and re-register for the program), it may also reflect procrastination. Each re-certification requirement is one more time the person may end up delaying and not getting the program.

Procrastination may be exaggerated by the hassle factors we discussed above. It may be even stronger when people know that, even if they go to the welfare office today, the chance that they will get “all signed up” today is low (long lines and delays, forms so complicated that you often need to go back for information or help; numerous requirements, so that you are bound to have forgotten to bring one required document or another). Procrastination may be further enhanced by wishful thinking. If people believe they will soon get out of poverty or get a well-paying job, then the cost of not applying for a benefit today may appear low since tomorrow it will no longer be needed.

Take-up problems could in principle be addressed with some marketing. In recent work (Bertrand, Karlan, Mullainathan, Shafir and Zinman), we have assessed the importance of marketing in affecting take-up. In that paper we conducted a large-scale field experiment involving large stakes and real decisions. A lender in South Africa mailed out nearly 60,000 letters to incumbent clients offering them short-term loans at a specific, randomly chosen interest rate. Several psychological ``features'' of the offer letter were also independently randomized. The independent randomization of interest rates along with various psychological features allows for a precise quantification of the monetary impact of psychological factors in this take-up problem. We can scale the impact of a given psychological feature on take-up by the impact of the interest rate on take-up and hence ``price'' the importance of that psychological feature.

The psychological features to be incorporated in the letter were chosen based on prior psychological research and ease of implementation. For example, the Lender varied the description of the offer, either showing the monthly payment for one typical loan or for a variety of loan terms and sizes. In all cases, it was specified that this was only a sample term and loan size, and that other terms and loan sizes were available. This particular manipulation aimed at contrasting the economic truism that having more options is always good against the psychological perspective that a greater number of alternatives can increase

decisional conflict and overload decision-makers. Other randomizations included whether and how the offered interest rate compared to a ``market'' benchmark, the inclusion of a photo in a corner of the letter that differed on race and gender, the expiration date of the offer, whether the offer included a promotional giveaway, and whether suggested uses for the loan were included in the offer letter. The lender also performed several phone-calls either to remind consumers of the offer or to prime them through suggestion (explained further below). Using administrative data from the lender, we can measure how actual take-up of the loan responds to the interest rate as well as to the various psychological factors.

As economic models predict, the interest rate strongly affects take-up. There appears to be a robust, negatively sloping, demand curve in this market. Yet, some of the psychological factors also strongly affect demand in ways that are difficult to reconcile with the rational choice model. For example, consumers are more likely to take-up a loan if only one term and size are described in the offer letter than if many examples are provided. For another example, male customers' take-up increases substantially with the inclusion of a woman's photo in a corner of the offer letter. While not all of the psychological factors had a significant effect on take-up, many did, and their impact was large. On average, any *one* “positive'” feature increased take-up by almost as much as a one percentage point drop in the *monthly* interest rate.

As a whole, these results suggest the power of marketing nuances to affect take-up, in this case of a loan offer. We think similar principles can be applied to the take-up of social programs. Other interventions might also prove effective.

3.3.1 Address time management problems

Several interventions might help reduce procrastination. The simplest is a well-timed reminder, which, by drawing attention to the program, can facilitate take-up. In the foregoing South Africa study, reminders were found to have a very large impact. An alternative to dealing with the procrastination problem is to give people a concrete deadline by which they need to sign up. However, while appealing in the abstract, deadlines can present some practical difficulties. For example, in the South Africa study, a well-timed deadline proved difficult to determine. Deadlines that were too short were hard to fit into people’s schedules; Deadlines that were too long would presumably have little motivating effect. Likely as a result, we found shorter deadlines diminishing take-up. Moreover, deadlines for social programs could prove politically costly, as it looks like (temporal) constraints are being imposed on people, and the sudden unavailability of a program may be perceived as haphazard and unjustified.

Another approach in dealing with procrastination is for some governmental or not-for-profit agencies to explore novel channel factors. They could contact “at risk” populations, ask them whether they signed up for a particular program and,

if not, help them complete the first steps of the application form. These first steps may be enough to get many people to complete the process. Such intervention could also take place for individuals who are naturally about to come off the program and thus need to be re-certified.

Another important area is the design of incentives, and a behavioral perspective suggests various insights into what kind of temporal welfare incentives are likely to motivate, or not. The TANF program provides a good example. In order to motivate welfare recipients to get off welfare, the new TANF program utilized a 5 year life-time term limit. In the economic model, such a term limit could be rationalized. If individuals know a resource is limited (only 5 years of eligibility), they will allocate it across time wisely. This would mean looking for a job and "saving" up the eligibility.

In the psychological view, such a limitation can prove exceptionally costly. As we have seen in numerous other contexts, people are not always good at long-term decision making. All too often, the pressures of the moment can overwhelm long term cost benefit calculations. As a result, long run incentives may have negative consequences. Individuals may use up much of their eligibility before the fact of its increasing scarcity begins to exert its appropriate weight. A psychologically more insightful intervention might have been to devise incentives that have salient short-term costs rather than ones to be expected only in the long-term.

3.3.2. Framing; "non-take up" is a loss

The apparent cost of procrastination may appear especially low if it involves what is typically seen as a foregone gain. Instead, the cost of non-participation in a social program could be framed as an ongoing loss, rather than a foregone gain, thus increasing its perceived impact. One could argue, for example, that "not getting food stamps takes good food away from your kids," or "by not enrolling in food stamps, your children are being deprived of essential nutrients," or "every month you go without signing up for food stamps costs your child." Such "loss" framed messages may generate greater responsiveness than their gain framed alternatives (e.g., "Getting food stamps helps you buy good food for your kids.")

In one field experiment conducted as part of a workplace health-promotion program at a large telephone company, women were encouraged to take mammograms (Banks et al., 1995). Women (N=133) who had obtained fewer than 50% of the mammograms they should have at their age were invited to view a 15-min videotape on breast cancer and mammography. They were randomly assigned to two conditions: half viewed a video labeled "The Benefits of Mammography," framed in "gain" terms, emphasizing the potential benefits to be had from a mammogram. The other viewed a video entitled "The Risks of Neglecting Mammography," which went on to point out the potential costs borne by women who neglect to get a mammogram. Women who viewed the gain- or loss-framed video did not differ in their liking for the video nor did they differ in

what they learned from it, as measured immediately afterwards. However, twelve months later, 66.2% of the women who viewed the loss-framed video had obtained a mammogram compared with 51.5% of the women who had viewed the gain-framed version. Similar results have been replicated with larger samples, once again showing the power of the loss-frame to spur behavior.

The framing of messages can be altered in other ways as well. For example, framing outcomes in aggregate (yearly income) as opposed to segregated (weekly income) formats can have an impact, as can mere labeling, e.g., 3% mortality versus 97% survival rates. Decision frames, however, are often chosen inadvertently, and as if they mattered little. If the results from other domains generalize to social program take-up, far greater care should be taken in designing the optimally framed message.

3.3.3. Improving information processing

Finally, one could attempt to reduce the complexity and increase the cooperativeness of application forms. The first point of change could be the government itself. Through some small investments, it may be able to simplify these forms so that they are easier to read and understand. It is possible, of course, that for various political economy reasons, this is not feasible. For example, governments may fear the ramifications of making it appear “too easy” to get social welfare.

An alternative would be the creation of standard procedures – readily available and patient consultants, software, or other programs -- that make these forms substantially easier to fill out. In other contexts, such as Medicaid, the not-for-profit sector has been extremely successful in this activity. Such work has been especially impressive because it allows a small amount of investment (easing of channel factors) to have large returns (the transfer provided by the social welfare program).

4. Policy Implications

What do the results and patterns reviewed above imply for policy? We outline some broad implications.

Implication 1: Simplicity matters

Contrary to the “irrational culture of poverty” argument,” there is evidence that the poor do respond to incentives. The response to incentives, however, may often be weaker than it should be because the program or its incentives are not transparent. With one month left before the new Medicare prescription drug benefit program, “Part D,” – the most expensive program to be introduced in the US in the last 30 years -- begins on January 1, 2006, fewer than one in nine low-

income seniors had been approved to receive the low-income drug subsidies. “Without such subsidies,” explains *Families USA,* a national organization for health care consumers, “participation in the new drug program will be unaffordable for those low-income seniors.” *Families USA* goes on to point out that little attention “has been given to the complexity of the special drug coverage and subsidies intended for low-income seniors,” and that “the complexity of the Part D benefit is almost certainly discouraging potentially eligible low-income beneficiaries from applying.” An important goal for governmental and not-for-profit agencies should be to provide some of this missing transparency.

Just like there are minimum benefit rules, there should be maximum “hassle cost” rules. Application and re-certification forms could be made substantially easier. They could be pre-filled to speed up and help demystify the process, as is often done in the private sector in other contexts. Simplification of public welfare program forms, such as has been obtained with tax forms or other applications for government services, may help raise take-up. Similarly, a government program to improve transparency of eligibility rules for different welfare program seems necessary. This may include the development of shorter, user-friendly federal application models for state use. In the same vein, a single – and manageable -- form that determines eligibility for all programs (as is already done in a few states) may be especially helpful.

All along we have assumed that policymakers are trying to encourage participation. But there certainly are instances where local officials may actually be trying to do the opposite. An important part of any decentralization policy needs to be to guarantee that state and local governments do not simply dissuade take-up (and save money) through the maintenance of numerous hassles that can have a powerfully negative impact on potential beneficiaries, particularly the poor.

Much of this is neither new nor shocking. Part of its force comes from the fact that the potential impact of many of these “minor” factors is easy to under-appreciate, if not entirely to disregard. In other words, the overly complex nature of program rules and procedures, the extensive verification requirements, the multiple office visits at limited hours, the frequent mandatory reporting requirements, are all not just hassles to be grappled with and overcome, but may actually figure as significant factors in the eventual renunciation of various beneficial programs.

Implication 2: Persuasion matters

It is noteworthy that whereas the private sector spends great amounts of money and attention on marketing, government and non-for-profits typically do not. The latter appear to be driven by the assumption that their policies and social programs, well intentioned and worthwhile as they are, will work for themselves. But much of what we have seen above suggests this may not be the case. Not

surprisingly, even the people who present the policies or programs to potential clients are a heterogeneous group that differs in levels of enthusiasm, effort, as well as understanding of the relevant detail. As Duflo et al. (2005) report in their experiment incentivising IRA contributions, the average take-up rates and amounts contributed by clients who worked with tax professional who had been more successful prior to the experiment were higher than those of clients who met with historically less successful professionals.

What is suggested by the behavioral literature is that a lot of effort should go into how the particular programs and specific program details are crafted and then communicated to the eligible population. Even when incentives are clear, people may not take-up a program because the context is not right. We discussed factors as diverse as the number and nature of the alternatives (Are there too many options? Is there a natural – and desirable – default?), how the options are described (e.g., as gains or as losses, as injunctive or popular norms), the format of communication (where small groups may work better), or the identity that may be "right" to trigger for the specific purpose at hand. Interestingly, even the possession of stigma does not necessarily lead to decreased self-esteem, because the stigma can be rendered impotent through resistance and the right contextual circumstances (Crocker et al., 1998.)

Clearly, these issues do not summarize the typical context at the welfare office or bank. The use of persuasion need not be confined to mass marketing; instead, it can be implemented at the level of programmatic detail. For example, what is the tone and structure of the brochures handed out about the program? What is the program's name?

Implication 3: Program details matter

As discussed above, defaults and assorted other nuances of social policies and programs are often not viewed as highly significant drivers of behavior. Instead, given their often pivotal role, a much greater focus should be placed on the nuanced design of policies and programs. How much initiative is expected? What are the defaults? And how are these construed by the intended clients? Whereas nuanced considerations of this type could have a large effect on take-up and well-being, they are mostly left to the whims of bureaucratic administrators, who typically (and often rightly) see themselves as responsible for other issues.

In contrast to the intrepid sophistication on matters behavioral in the private sector, it is noteworthy that public programs often look a lot less thoughtful. For example, welfare recipients who receive earnings benefit transfer (EBT) need a bank account to which the benefit is deposited. However, once they move into the workforce, these people are not permitted to retain those accounts. Of course, as Barr (2004) correctly points out, permitting the retention of these accounts is likely to decrease the likelihood that these new laborers with turn to check cashing services, and increases the likelihood that they might avail

themselves of direct deposit and other services. Given the high turnover rates of households on and off welfare, permitting families to retain EBT-issued bank accounts could be important to those families' financial stability and welfare.

Along these lines, governments may want to give financial incentives to private sector employers to provide direct deposit to their employees. If we believe the discussion above, we ought to expect clear positive externalities associated with direct deposit. Similarly, direct billing should help in the management of spending. If having a bank account helps set a bunch of good defaults, as discussed above, then a strong case might be made for giving banks subsidies to start such low fee accounts for the poor. Barr (2004) makes a similar argument, suggesting tax incentives for financial institutions which, "taking into consideration research and product development, account opening and closing costs, marketing and financial education, and the training of bank personnel," and "using Treasury's analysis conducted for ETA's," he estimates at a tax credit of "between $20 and $50 per account opened.

Implication 4: Honesty matters

A behavioral perspective has implications for what ought to count as honest, and perhaps legal. Because, according to the rational view, actors are well informed and in control, various enticements that are better avoided are seen as merely that – enticements, that, if harmful enough, will be avoided. Similarly, information that is hard to find or to understand is viewed as merely a nuisance, to be deciphered if deemed important. Instead, a more insightful behavioral account suggests that such "nuisances" can become tremendous obstacles.

Consider, for example, the credit cards market, which has benefited from deregulation coupled with technology enabling the almost real-time tracking of personal financial information. A recent report by FRONTLINE® and *The New York Times* documents some of the techniques used by the credit card industry to get consumers to take on more debt. (The industry calls those who pay their full balances "deadbeats," while using creative marketing tactics to seek the "revolvers," those who carry a monthly debt.) Revenues come from tactics that include hidden default terms, penalty fees and higher rates that can be triggered by just a single lapse -- a payment that arrives even hours late, a charge that exceeds the credit line by a few dollars, or a loan from a separate creditor (such as a car dealer) which renders the cardholder "overextended." "[Banks are] raising interest rates, adding new fees, making the due date for your payment a holiday or a Sunday on the hopes that maybe you'll trip up and get a payment in late." The average American family now owes roughly $8,000 on its credit cards. Of course, the flurry of unexpected fees and rate hikes often comes just when consumers can least afford them,

Such tactics, of course, are not limited to the credit card industry. Many bank fees, according to *Consumer Reports,* are "no-see-ums embedded in fine print or

collected so seamlessly that consumers don't realize they've paid them until long after the fact". Various application and re-certification forms, as discussed above, can be unfriendly and complicated to the point of being surreal. As reported by the Association of Community Organizations for Reform Now (Acorn),

> "Much of the competition between lenders in the subprime industry is not based on the rates or terms offered by the different lenders, but on which lender can reach and "hook" the borrower first. Predatory lenders employ a sophisticated combination of "high tech" and "high touch" methods, using multiple lists and detailed research to identify particularly susceptible borrowers (minority, low-income, and elderly homeowner) and then mailing, phoning, and even visiting the potential borrowers in their homes to encourage them to take out a loan." "One of the methods used routinely and successfully by predatory lenders…is the practice of sending "live checks" in the mail to target homeowners. The checks are usually for several thousand dollars and the cashing or depositing of the check means the borrower is entering into a loan agreement with the lender. The appeal of the checks is that are a fast and easy way for a homeowner to obtain cash."

Of course, regulating such markets is a non-trivial proposition. On the other hand, where human frailty is recognized, such regulation is attainable, as can be witnesses, for example, in the Federal Trade Commission's Funeral Rule, which lists a number of procedures every funeral home must follow, and services it must explicitly describe and provide. "When a loved one dies," explains the "Consumer Rights under the Funeral Rule" brochure, "grieving family members and friends often are confronted with dozens of decisions about the funeral - all of which must be made quickly and often under great emotional duress."

Systematic human frailty, as it turns out, is exhibited not only when loved ones die. Recognition of such frailty suggests we ought seriously to consider ways to attain a healthy balance between libertarianism and paternalism (Thaler & Susnstein, 2003), or between free market competition and consumer protection (see, e.g., Gans, 2005; Sylvan, 2004).

5. Conclusion: Behavioral factors matter

Human decision behavior is rich in nuance, malleable, and context dependent. Behavioral research presents a family of insightful phenomena, and some important emergent principles. It does not, however, provide an alternative account that has the precision and closure of the classical normative model. As a result, behavioral considerations are not easy to incorporate into standard policy practice. This notwithstanding, we have tried to outline some general principles that are likely to prove useful in the design and implementation of policy, particularly with an eye towards marketing techniques. Whereas the private sector spends great amounts of money and attention on marketing, government and non-for-profits, typically do not.

It is important to repeat that the general issues raised in this paper are largely true not only about the poor, but about the comfortable and the very rich as well. Of course, a rich person's sense of procedural justice may be triggered in the allocation of time on the golf course (apologies for the stereotype!) rather than in line for a shelter for the night. And the impact of a framing or default manipulation on a rich person's allocation of investment or savings may be more substantial monetarily, but is unlikely to bring this person, as opposed to their impoverished counterpart, close to the brink. Our behavioral repertoire arises from an interaction of the mental apparatus we bring, which is confined to a remarkably impressive 3-pound machine behind our eyes and between our ears, and the contextual influences that lead it to react in specific ways. Interestingly, we tend to think that it is us who do most of the behaving, whereas research demonstrates the indisputable and substantial influence of situational factors on how we behave. When it comes to helping the decision making practices of the poor, this paper suggests we pay greater attention to those purportedly minor situational factors because they in fact can make or break good decision behavior.

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