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Behavioral Economics and Marketing in Aid of Decision Making Among the Poor

Marianne Bertrand, Sendhil Mullainathan, and Eldar Shafir

This article considers several aspects of the economic decision making of the poor from the perspective of behavioral economics, and it focuses on potential contributions from marketing. Among other things, the authors consider some relevant facets of the social and institutional environments in which the poor interact, and they review some behavioral patterns that are likely to arise in these contexts. A behaviorally more informed perspective can help make sense of what might otherwise be considered "puzzles" in the economic comportment of the poor. A behavioral analysis suggests that substantial welfare changes could result from relatively minor policy interventions, and insightful marketing may provide much needed help in the design of such interventions.

Theories about poverty typically fall into two camps. Social scientists and regular people regard the behaviors of the economically disadvantaged either as calculated adaptations to prevailing circumstances or as emanating from a unique "culture of poverty" that is rife with deviant values. The first view presumes that people are highly rational; hold coherent, well-informed, and justified beliefs; and pursue their goals effectively, with little error and with no need for help. The second view attributes to the poor various psychological and attitudinal shortcomings 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. We propose that the behavioral patterns of the poor 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, there are narrow margins for error, and the same behaviors often manifest themselves in more pronounced ways and can lead to worse outcomes (see Bertrand, Mullainathan, and Shafir 2004). According to this view, people who live in poverty are susceptible to many of the same idiosyncrasies as those who live in comfort, but whereas better-off people 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, and so forth, that is built to shelter them from grave or repeated error, less-well-off people often find themselves without such "aids" and instead are confronted by obstacles—institutional, social, and psychological—that render their economic conduct all the more overwhelming and fallible.

Marketing plays a significant role in the current context in which the poor find themselves, both in what it does and in what it has failed to do. On the one hand, marketing has been used profusely and effectively by for-profit firms and, at least on occasion, has 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, rent-to-own, and various other fringe-banking schemes (see, e.g., Caskey 1996; Mendel 2005). On the other hand, significantly less has been done to aggressively promote more positive options, such as healthful diets, various not-for-profit services, union banks, prime-rate lenders, and so forth.

One explanation for the discrepancy is in terms of market forces: Firms offering predatory rates have more to gain from aggressive marketing than governmental agencies or not-for-profit companies, which have severely limited budgets. Another explanation is a tendency to underappreciate the potential impact of marketing as a "superficial" yet highly effective intervention, even in situations in which the product offered is indeed 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 which current empirical research in behavioral economics and decision making provides, 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 should be taken into account in the design and implementation of

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policies that are intended to ameliorate the economic predicament of the poor. In this context, we highlight the areas in which we believe simple marketing interventions may provide a useful tool. The article proceeds as follows: In the next section, we briefly review some important lessons from recent behavioral research on decision making. Then, we present a selected sample of problems and "puzzles" that pertain to the economic behavior of the poor. We consider how simple behavioral considerations might help make sense of those puzzles, and we discuss how marketing might play a role. We list some general implications and policy recommendations and then briefly conclude.

Psychology Background

Construal

A major development in psychological research, central to the demise of behaviorism and 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 toward actual states of the world but toward mental representations 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 they are construed by the targeted group, for example, "as an insulting and stigmatizing exercise in co-option and paternalism" (Ross and Nisbett 1991, p. 11) 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, view the behavior as less attractive (Lepper, Greene, and 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 they were introduced as a classroom activity. (In contrast, children who did not receive an award showed no decrease in interest.)

As another example, Cialdini (2001, 2003) discusses nuances in messages that are intended to produce socially beneficial conduct, which can easily backfire. Cialdini explains that there is an understandable tendency 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 that is 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"; 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 also 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 past 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 viewed as reflective of personal dispositions. For example, consider the now-classic Milgram (1974) obedience studies, in which people proved willing to administer what they believed to be grave levels of electric shock to innocent participants, 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. Half of the seminarians were led to believe that they were running ahead of schedule, while the other half believed that 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, and the remaining 90% simply stepped over the victim and rushed along. Despite years of ethical training, biblical reading, and contemplation of life's lofty goals, the contextual nuance of a minor time constraint proved decisive to the decision to stop and help a suffering man.

The pressures exerted by apparently trivial situational factors can create restraining forces that are difficult 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. Alongside the remarkably powerful impact of context emerges a profound underappreciation of its effects. The fundamental attribution error, a central construct in modern social psychology, refers to the tendency to overestimate the influence of internal, personal attributes when interpreting behavior and to underestimate the influence of external, situational forces. As Ross and Nisbett (1991) point out, when standard intuition holds that the primary cause of a problem is human frailty or the particular weakness of a group of individuals, social psychologists often examine 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 (1951) coined the term "channel factors," suggesting that certain behaviors can be facilitated by the opening up of a channel (e.g., an a priori commitment or a small, even if reluctant, first step), whereas other behaviors can be blocked by the closing of a channel (e.g., the inability to communicate easily or the failure to formulate a simple plan). Leventhal, Singer, and Jones (1965) documented what has since become a well-known example of a channel factor. In their study, respondents 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% took the step to get inoculated, compared with 28% of those who received the same communication but were also given a map of the campus with the infirmary circled and urged to decide on a particular time and route to get there. Related findings have been reported in studies of the utilization of public health services, in which various attitudinal and individual differences rarely predict who will show up at the clinic, whereas the mere distance of people from the clinic is a strong predictor (Van Dort and Moos 1976). Consistent with this interpretation, Koehler and Poon (2006) 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, in which 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 it is 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) that are composed of coexisting proclivities and impulses in which certain incentives, if they run against substantial opposing forces, have little influence, whereas other interventions, when the system is finely balanced, can have a profound impact. In other words, large 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 group techniques, a series of studies that Kurt Lewin and his associates conducted in the 1950s focused on how entrenched patterns of behavior could be altered by identifying and redirecting group influences (for a summary, see Lewin 1952). These studies were predicated on the realization that in trying to change people's familiar ways of doing things, social pressures and constraints emanating from their peer group often represented both the most formidable restraining forces that needed to be overcome and the most effective inducing forces that could be harnessed to achieve success. In various studies designed to change entrenched behaviors, including 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 through lectures in control conditions. For example, one study advised rural mothers in a maternity ward to administer cod-liver oil to their infants. Whereas approximately 20% complied after individual consultation with a nutritionist, compliance climbed to 45% among those who received the same information in the context of six-person discussion groups (for further discussion, see Ross and Nisbett 1991). 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 new norms to be created, communicated, and conveyed through public support and professed intent.

Cognitive Principles

The preceding summary 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, not anticipated final states of wealth, and people's attitudes toward risk tend to shift from risk aversion in the face of gains to risk seeking in the face of losses (Kahneman and 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 and Kahneman 1991). In turn, this tendency can cause a general reluctance to depart from the status quo because things that need to be renounced loom larger than those that are potentially gained (Knetsch 1989; Samuelson and 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, a person's marginal propensity to consume from his or her current income is very high compared with, for example, his or her current assets (where marginal propensity to consume is intermediate) or future income (where it is low). This yields consumption patterns that are overly dependent on current income; people are 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 of 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, prefers to stay in bed. Similarly, the person who, on cursory inspection of his or her "open" calendar, agrees to deliver a final project or make a payment by a specified date often fails to anticipate the various factors that will likely interfere between now and the deadline (for a related discussion of temporal construal and self-control, see, e.g., Buehler, Griffin, and Ross 1994; Lynch and Zauberman 2006).

As in other areas, 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 various 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 examined "implementation intentions" (Gollwitzer and Brandstatter 1997) and the conditions under which attitudes strongly correlate with behavior (see, e.g., Ajzen and Fishbein 1980; Eagly and Chaiken 1993; Fazio 1986; Zanna and Fazio 1982; see also Verplanken and Wood 2006). 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, and Sutton 2005), a 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 that are relevant to individual decision making (e.g., Kahneman and Tversky 2000).

Behaviors of Interest

In this section, we describe several broad issues related particularly to financial behaviors and the take-up of social programs that marketing interventions might fruitfully address. We chose each of these issues on the basis of two criteria: First, these are important, practical issues. Second, they represent challenges to the traditional economic views of poverty.

Low Participation in the Financial Mainstream

Approximately 10% of all U.S. households, the great majority of which live in poverty, are "unbanked." These households must rely on alternative financial institutions, such as check cashers, to cash 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 payday loans, or they borrow from friends and relatives to make ends meet or to cover emergency spending. In addition, these households rely on a limited number of formal savings tools, if any. The keeping of cash on hand that comes with being unbanked has potentially serious ramifications for spending and savings, issues to which we return subsequently.

What explains the low participation rate of the poor in the financial mainstream? This low participation rate could be the result of a rational choice based on a cost–benefit analysis. If households have little to save, the benefits of being banked may simply be outweighed by the financial costs of maintaining an account, such as the minimum balance fees that many banks require. Because few banks have branches in disadvantaged neighborhoods, other costs that may rationally underlie the decision to be unbanked could be sheer hassle and long traveling time. Alternatively, low participation rates may reflect various cultural factors. Some commentators 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 common theme to these accounts is their tendency to explain "big" problems, such as millions of unbanked 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 reeducating the poor and, in particular, their young.

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

The striking power of defaults was documented in the context of insurance decisions, when both New Jersey and Pennsylvania 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 needed 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 approximately 20% of New Jersey drivers chose to acquire the full right to sue, approximately 75% of Pennsylvania drivers chose to retain the right (with financial repercussions estimated at nearly $200 million; Johnson et al. 1993). Another naturally occurring "experiment" was recently observed in the context of Europeans' decisions to be potential organ donors (Johnson and Goldstein 2003). In some European countries, drivers are organ donors by default unless they elect not to be, whereas in other European countries, they are not donors by default unless they choose to be. Observed rates of organ donors are approximately 98% in the former countries and approximately 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. For example, consider the simple option of direct deposit. A 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" (American Payroll Association 2006, "Results" section). In contrast, employers of the poor often neither require nor propose electronic salary payments. In particular, they prefer not to offer direct deposit to hourly/nonexempt employees, temporary or seasonal employees, part-time employees, union employees, and employees in remote locations, all categories that correlate with low-paying jobs. This creates a missed opportunity to turn checking accounts into default alternatives for those needy people whose de facto default consists of taking a check, often after hours, to a place where it can be cashed, often at relatively high cost. Given the aforementioned power of default options, even among the comfortable, it seems safe to assume that defaults would have at least as substantial of an impact on the poor, whose options are inherently inferior and who may be less informed about available alternatives.

Another "small," up-front 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 thus may further dissuade the unbanked person from pursuing the banking option. Contrary to standard economic assumptions, the availability of multiple alternatives can increase decisional conflict and reduce take-up (Botti and Iyengar 2006; Shafir, Simonson, and Tversky 1993; Tversky and Shafir 1992). In one study, for example, expert physicians decided about medication for a patient with osteoarthritis. They were more likely to decline prescribing a new medication when they needed 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. Tasting booths offered participants 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-jam 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 (which we discuss further subsequently), Bertrand and colleagues (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 that offered 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 four examples of loan sizes and terms along with their respective monthly repayments. In contrast with standard economic prediction, there was greater 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 two 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 we mentioned previously, studies of the utilization of public health services have found that the distance to a medical facility can be a strong predictor of use of facility services (Van Dort and Moos 1976). It is possible that the small, up-front hurdle of some distance required to get to the bank prevents people from using this service, despite what may be fairly advantageous and despite a cost–benefit analysis that would not otherwise "add up."

In addition, simple in-group/out-group perceptions, reinforced by advertising that is clearly intended for people of substantially greater wealth, may help reinforce the impression that banking and the like are not intended for and should not appeal to those of lesser means. Indeed, decisions involving being subjected to scrutiny, interviews by an authority, and official requests and applications are all likely to have a nontrivial affective component. Not surprisingly, affective states can interact with things such as risk perception and susceptibility to framing (e.g., Johnson and Tversky 1983; Keller, Lipkus, and Rimer 2003), and those who are most vulnerable are likely to feel the weight of such sentiments even more than the rest. As several ethnographic studies suggest (DeParle 2004; LeBlanc 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 child care, needs to present herself at a bank in the company of her small children may be aware that, ideally, children are not brought into a bank. Along with a severely limited knowledge or understanding of financial instruments and with very little money to show for it, a poor client may feel reluctance, shame, and a general sense that he or she could never be an important or valued customer to the bank.

As Anderson (1999, p. 4) writes in his remarkable book *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.

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

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

In addition, 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 (e.g., filling out an application at a bank) that are somewhat unfamiliar, threatening, or stigmatizing (all of which can consume cognitive resources), fewer 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 tradeoffs, show overdependence on peripheral cues in product advertising and packaging, and show systematic withdrawal (see Adkins and Ozanne 2005, and the references therein).

A behavioral perspective on the unbanked suggests several possible interventions. In the following subsections, we discuss some of these interventions in more detail.

Creating the "Right" Channel Factors

To increase take-up of bank accounts among the poor, the preceding behavioral discussion 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 of studying the First Account Program that has been implemented by the Center of Economic Progress in the Chicago area since the end of 2002. The goal of this program is to entice an unbanked, lower-income population that is mostly dependent on check cashers to open low-fee accounts at a local bank.

To evaluate this program, we conducted a telephone survey of a random sample of people who 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 that covered 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. Although only approximately 50% of respondents reported opening a First Account after the workshop, approximately 90% reported *thinking* that 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. Notably, 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 certain small hurdles been removed.

More direct evidence of this came from a comparison of take-up and usage of the First Accounts across two types of workshops. In the standard workshop, as we mentioned previously, participants who were 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 who were interested 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 a large effect on take-up because it does not significantly alter the cost–benefit analysis at the core of the decision of whether to open a First Account. However, from a behavioral perspective, this small change in implementation could have a large effect on take-up because it reduces the likelihood that people will be derailed by procrastination or forget about their 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 not actually using them (and/or close them very rapidly). However, 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 (automated teller machine) cards. In other words, contrary to the notion that the unbanked are plagued by "cultural norms" or a general distrust of banks, those who attended a workshop with a bank representative on-site not only opened more accounts but 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 (e.g., clergy, sports figures, popular politicians). Second, simple instructional flyers should be more widely adopted. For example, such flyers could clearly delineate the steps to follow to open an account, offer precise maps on bank location (and perhaps bus routes to get there), and describe how to use an ATM card.

Appealing to the Right Identities

Recent research has explored the relevance of identity salience in people's decision making (see, e.g., LeBoeuf and Shafir 2005, and the 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; for example, a woman might think of herself primarily as a mother when in the company of her children, but she may primarily consider herself a professional while at work. The list of possible identities is extensive, and some identities (e.g., mother) are likely to conjure up strikingly different values and ideals from others (e.g., chief executive officer).

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 and Aronson 1995), that is, a prevalent stereotype about a group that creates a burden on group members and acts as a threat. The threat arises whenever stigmatized individuals' behaviors run 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, Pittinsky, and Ambady 1999). Several studies have shown similar effects with African Americans, and some have replicated these effects on people from low–socioeconomic status (SES) backgrounds. Because 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 students when the test was not presented as measuring intellectual ability (Croizet and Claire 1998).

Similar phenomena are likely to be observed in other behavioral domains, for example, when stereotypes involving intellectual and professional ability might interfere with a person's willingness to interact with a bank. Adkins and Ozanne (2005) discuss the impact of a low-literacy identity on consumers' behaviors 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 affect behavior even when they do not directly involve a stereotype threat. We ran pilot surveys with 60 women at a not-for-profit company that caters to the nonworking poor in Trenton, N.J. We asked half of the participants some simple questions (e.g., What do you like to do for fun? Do you have a favorite place to hang out?) that were intended to bring out their "social" self. The other half responded to questions that were intended to make salient their "family" self (e.g., Who do you live with? Which of your family members do you feel closest to?). Following this salience manipulation, we presented all participants with hypothetical financial choices (Would you open a savings account that requires a $20 deposit each month? If it were offered, would you attend a free night course on the basics of financial management for lower-income people?). Indeed, those whose family self was primed were more prone to express interest in opening an account or taking a financial literacy course than their counterparts, whose social self was primed ($p < .07$).

Along similar lines, it has been suggested that one reason for the relative success of Earned Income Tax Credit is that it explicitly appeals to people's identity as taxpayers rather than as poor. Specific personality traits—for example, people's "regulatory" (promotion versus prevention) orientation—may also fit certain decision-making contexts better than others. Thus, Higgins (2000) and Higgins and colleagues (2003) argue that people value items more when they choose them using a strategy that fits their orientation than when they choose them using a strategy that does not fit. Briley and Aaker (2006) provide a related discussion of the role of identity and construal.

All of the examples in this subsection suggest that when it comes to bank accounts and other services intended for the poor, government and banks should promote such services to those identities (e.g., head of family, working taxpayer) that might trigger a more positive response from the intended recipients.

Improving Information Processing

Because of a limited history of banking among family and friends, the poor may have little information about what some of the benefits of a bank account may be. 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. Although 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 that 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 previously, studies designed to alter entrenched behaviors (involving, e.g., 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 it is presented individually, it fails to counteract the pressures of group norms. Conversely, when such information is introduced in the context of newly created groups, it allows new norms to be created and communicated by public support and through declared intent. This suggests that there are potentially large social gains in organizing more discussion groups in less-advantaged areas that would focus on the costs and benefits of being banked and on how 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 our previous discussion of construal, it might be expected that a marketing frame that stresses the *losses* associated with being unbanked would be more effective than an alternative frame that stresses the benefits associated with banking.

Consumption and Savings

The savings 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 a drop in consumption toward the end of the month and various utilities being turned off at a high rate. What can explain such patterns? We argue that a large part of it might be due to the psychological ramifications of being unbanked. There are at least two specific psychological consequences of having no bank account that may affect consumption and savings patterns: (bad) defaults and mental-accounting issues.

As we noted previously, in contrast to 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 likely to retain both the default contribution rate and the 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 in which spending is often the safest way to "save."

Notably, even in welfare policies that invest great effort and resources to try to get the poor to save more, defaults are often ignored. For example, many individual development accounts programs leave it to individual participants to invest part of their cash in savings accounts instead of instituting automatic deductions.

Because "good" defaults are less available to those without bank accounts, the poor must revert to alternative and typically expensive commitment schemes to try to save toward big purchases. Specifically, participation in programs such as rent-to-own or layaway schemes constitutes such alternative commitment devices. Along related lines, it has been 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 unbanked 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 the form of cash rather than in the bank may increase the desire to spend immediately, making it difficult to achieve any asset accumulation toward a larger purchase. Even among the nonpoor, small (versus large) amounts are more likely to be spent than saved. (In a study of Israeli recipients of German restitution, on average, those who received large windfalls spent 23%, whereas those who received the smallest windfalls spent 200%; Landsberger 1966.) Because the poor typically deal with rather small amounts, savings is further discouraged.

There is also evidence in support of the view of a different propensity to consume out of different "accounts." Among the nonpoor, it has been shown that there is a much lower propensity to consume out of a savings account and that people transfer money into their savings account to save more (Thaler 1990).

What are possible low-cost marketing-like interventions that could help with these issues? Given our previous discussion, 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 checking to savings, for example, can trigger the expected propensity to save more. Bank accounts could be designed specifically to conform to people's mental-accounting schemes (Thaler 1999). People could choose to label one account their "fridge account," another their "education account," and yet another their "car account." The labeling of accounts, though nonsensical from the perspective of standard economic assumptions of fungibility, could help with the allocation and safekeeping of specific funds and may provide a salient reminder of what a person is saving toward. Indirect evidence suggests that such nominal labeling effects can have real consequences. For example, reports about a rise in child allowance payments in Sweden had 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. For example, the State Employees Credit Union (SECU) in North Carolina offers an alternative to payday lending called the Salary Advance Loan Program (SALO), which is intended to help break the payday lending cycle. The program allows members to take out salary-advance loans without paying the typically exorbitant fees and percentage rates; the loan plus the accrued interest is repaid by an automatic debit from a SECU account on the member's next pay date. The program, which is 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 and is 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 (2004a, p. 191) 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.

In addition, as of fiscal year 2005, the Internal Revenue Service has acquired the technical capacity to split refunds, making it possible for refunds to be directly deposited into more than one bank account. Not only does this allow tax preparers to be directly paid for their services, but combined with public and private sector efforts to bring Earned

Income Tax Credit recipients into the banking system, it should also allow portions of the refund to be directly deposited into the client's own bank accounts and other saving vehicles. Beverly, Schneider, and Tufano (2005) report a study that encouraged eligible low-income people to open a low-cost savings account and then direct part of their refund to it. Their pilot study suggests that there is demand among low-income people for a refund-splitting program that supports asset building.

In this context, it is also interesting to consider programs such as payroll cards; these electronically based payroll services, which employers are increasingly adopting, allow banked employees to deposit funds directly from their cards to their personal accounts and allow unbanked employees to withdraw funds through ATMs. Although 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 2004b, p. 11), 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 the 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 provide this payment method to their employees.

Take-Up of Welfare Programs

The poor have access to myriad transfer programs in the United States. Yet these programs have a remarkably low take-up rate. For example, Currie (2004) documents take-up of a variety of programs. The poor elderly participate in Supplemental Security Income at a 45%–60% range, which is surprising given that it is a cash program. Similarly, Temporary Assistance for Needy Families (TANF) participation rates are in the 50%–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%–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 make when they decide not to participate. One often-cited large 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. This is not only the case among the poor; surveys show that fewer than one-fifth of investors (in stocks, bonds, funds, and other securities) can be considered "financially literate" (Alexander, Jones, and 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 the mix of stocks and bonds in which they are invested. In addition, people often are unaware of the programs for which they are eligible. Thus, some have attributed the recent decline in food stamp participation to the problem 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 various studies that show that people do not know many of the incentives 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 and colleagues (2005) describe a large randomized field experiment that offers matching incentives for individual retirement account contributions at the time of tax preparation. Overall, they find 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 (p. 30) that part of this differential response may be due to the lack of transparency of incentives offered under Saver's Credit, for which "both the equivalent match rate and maximum eligible contribution are not easy to decipher." They conclude (p. 30) 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."

A second factor that is likely to contribute significantly to low take-up is the small hassle factors that dissuade action (for a discussion of hassle factors in women's failure to undergo mammography screening, see Kahn and Luce 2006). Whereas hassle costs may 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 titled "The Red Tape Divide" (O'Brien et al. 2001, p. 2):

> 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 buy-

> ing 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," which accompanied the food stamp application. It says in part:

> At 7:25 A.M. Report to Window 8 to check in.
>
> At 7:30 A.M. an orientation will begin that reviews your rights and responsibilities.
>
> At 7:31 A.M. 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, applicants will have been presented with information that requires higher education, they will have been treated like potential criminals who face a possible jail sentence, and they will have been treated like children warned in advance about being six minutes late. Hassles of this kind are not limited to California. The report provides a comprehensive review of application procedures across the country. Among its findings are the following:

- 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.
- Thirty-eight states ask questions about sources of income that cannot or would not ordinarily be used to determine eligibility.
- All but one state have certification statements that must be signed (under penalty of perjury) that are written at the 9th- to 12th-grade reading level.

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

Third, just as people procrastinate in getting regular medical checkups or in signing up for 401(k) plans, the poor may procrastinate in signing up for welfare programs. An interesting piece of evidence that is suggestive of procrastination is the correlation between take-up and recertification. In general, households that participate in the food stamp program are required to recertify in person at least once every year. However, many states require recertification every 90 days. These states show much lower take-up rates for food stamps (Currie and Grogger 2001). Although this might reflect economic costs (people cannot take the days off work to go and reregister for the program), it may also reflect procrastination. Each recertification requirement is one more thing the person may end up delaying and thus may not get the program.

Procrastination may be exaggerated by the previously discussed hassle factors. It may be even stronger when people know that even if they go to the welfare office, the chance that they will get "all signed up" that day is low (because of long lines and delays, forms so complicated that additional information or help is often needed, and numerous requirements so that some required document is bound to be forgotten). Procrastination may be further enhanced by wishful thinking. If people believe that they will soon get out of poverty or get a better-paying job, the cost of not applying for a benefit today may appear low, because it will no longer be needed tomorrow.

In principle, take-up problems could be addressed with some marketing. Recent work (Bertrand et al. 2005) has assessed the importance of marketing in affecting take-up. Bertrand and colleagues (2005) conducted a large-scale field experiment that involved large stakes and real decisions. A lender in South Africa mailed out approximately 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 allowed for a precise quantification of the monetary impact of psychological factors in this take-up problem. The impact of a given psychological feature on take-up can be scaled by the impact of the interest rate on take-up, and thus the importance of that psychological feature can be "priced."

The psychological features to be incorporated in the letter were chosen on the basis of prior psychological research and ease of implementation. For example, the lender varied the description of the offer, showing the monthly payment either 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 to contrast the economic truism that having more options is always good with 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 with 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 telephone calls either to remind consumers of the offer or to prime them through suggestion (we explain this further subsequently). Use of administrative data from the lender allowed for the measurement of how actual take-up of the loan corresponds with the interest rate and 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. As another example, male customers' take-up increases substantially with the inclusion of a woman's photo in a corner of the offer letter. Although 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 believe that similar principles can be applied to the take-up of social programs. Other interventions might also prove effective.

Address Time Management Problems

Several interventions might help reduce procrastination. The simplest is a well-timed reminder, which can facilitate take-up by drawing attention to the program. In the foregoing South Africa study, reminders were found to have a 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, although this may be 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 difficult to fit into people's schedules, and deadlines that were too long would presumably have little motivating effect. Likely as a result, it was found that shorter deadlines diminished take-up. Moreover, deadlines for social programs could prove politically costly; it can appear as though (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 people who are naturally about to come off the program and thus need to be recertified.

Another important area is the design of incentives, and a behavioral perspective suggests various insights into what kind of temporal welfare incentives are (un)likely to motivate. The TANF program provides a good example. To motivate welfare recipients to get off welfare, the new TANF program uses a five-year lifetime term limit. In the economic model, such a term limit could be rationalized. If people know that a resource is limited (only five years of eligibility), they will allocate it across time wisely. This would mean looking for a job and "saving" up the eligibility.

According to the psychological view, such a limitation can prove exceptionally costly. As we have observed 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-term incentives may have negative consequences. People may use up much of their eligibility before its increasing scarcity begins to exert its appropriate weight. A psychologically more insightful intervention might be to devise incentives that have salient short-term costs rather than costs expected only in the long run.

Framing: "Non-Take-Up" Is a Loss

The apparent cost of procrastination may appear especially low if it involves what is typically considered a forgone gain. Instead, the cost of nonparticipation in a social program could be framed as an ongoing loss rather than a forgone gain, thus increasing its perceived impact. For example, the following arguments could be made: "Not getting food stamps takes good food away from your kids"; "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-minute videotape on breast cancer and mammography. They were randomly assigned to two conditions: Half viewed a video called "The Benefits of Mammography," which was a gain-framed presentation that emphasized the potential benefits of getting a mammogram. The other half viewed a video called "The Risks of Neglecting Mammography," which was a loss-framed presentation that pointed 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 or in what they learned from it; these responses were measured immediately afterward. However, 12 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, again showing the power of the loss-framed messages to spur behavior. In a recent intervention addressing the take-up of flexible-spending accounts, an increased take-up was observed under a loss compared with a gain frame (Schwartz et al. 2006).

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). However, decision frames 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.

Improving Information Processing

Finally, attempts could be made 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, the government may be able to simplify these forms so that they are easier to read and understand. It is possible 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).

Policy Implications

Implication 1: Simplicity Matters

Contrary to the "irrational culture of poverty" argument, there is evidence that the poor do respond to incentives. However, the response to incentives may often be weaker than it should be because the program or its incentives are not transparent. At the time this article was written, there was one month left before the new Medicare prescription drug benefit program—"Part D," the most expensive program to be introduced in the United States in the past 30 years —began, and fewer than one in nine low-income seniors had been approved to receive the low-income drug subsidies. "Without such subsidies," explains Families USA (2005), 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 as there are minimum benefit rules, there should be maximum "hassle cost" rules. Application and recertification forms could be made substantially easier. They could be prefilled 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 that which exists for tax forms and other applications for government services, may help raise take-up. Similarly, a government program to improve transparency of eligibility rules for different welfare programs 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.

In general, it is assumed that policy makers try to encourage participation, but there certainly are examples of local officials actually 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 notion that the potential impact of many of these "minor" factors is easy to underappreciate, if not to disregard entirely. In other words, the overly complex nature of program rules and procedures, the extensive verification requirements, the multiple office visits at limited hours, and the frequent mandatory reporting requirements are all not just hassles to be grappled with and overcome; they may 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 not-for-profit organizations typically do not. The latter appear to be driven by the assumption that their policies and social programs, as well intentioned and worthwhile as they are, will work for themselves. However, much of what we have discussed in this article suggests that this is not always 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, and understanding of the relevant detail. As Duflo and colleagues (2005) report in their experiment on incentivizing individual retirement account contributions, the average take-up rates and amounts contributed by clients who worked with tax professionals who had been more successful before the experiment were higher than those of clients who met with historically less successful professionals.

The behavioral literature suggests 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 losses, as injunctive or popular norms), the format of communication (situations in which small groups may work better), and the identity that may be "right" to trigger for the specific purpose at hand. Notably, 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, Major, and Steele 1998).

It is clear that 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 we discussed previously, defaults and assorted other nuances of social policies and programs are often not viewed as highly significant drivers of behavior. Instead, given their potentially 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? 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) view themselves as responsible for other issues.

In contrast to the intrepid sophistication on matters that are behavioral in the private sector, it is noteworthy that public programs often appear to be less thoughtful. For example, welfare recipients who receive earnings benefit transfers need a bank account into which the benefits are deposited. However, when they move into the workforce, these people are not permitted to retain those accounts. As Barr (2004) correctly points out, permitting the retention of those accounts is likely to decrease the likelihood that these new laborers will turn to check-cashing services and increase the likelihood that they will avail themselves of direct deposit and other services. Given the high turnover rates of households on and off welfare, permitting families to retain earnings benefit transfer–issued bank accounts could be important to their 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 there is any truth to our preceding discussion, we should 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 good defaults, as we previously discussed, a strong case could be made for giving banks subsidies to start such low-fee accounts for the poor. Barr (2004a, p. 224) makes a similar argument, suggesting tax incentives for financial institutions: "[T]aking into consideration research and product development, account opening and closing costs, marketing and financial education, and the training of bank personnel," and "using [the] Treasury's analysis conducted for ETA's [electronic transfer accounts]," Barr estimates a tax credit of "between $20 and $50 per account opened."

Implication 4: Honesty Matters

A behavioral perspective has implications for what should count as honest and, perhaps, legal. According to the rational view, because actors are well informed and in control, various enticements that are better avoided are considered merely that—enticements, which will be avoided if they are harmful enough. Similarly, information that is difficult to find or to understand is viewed as merely a nuisance that will be deciphered if it is deemed to be important. Instead, a more insightful behavioral account suggests that such "nuisances" can be tremendous obstacles.

For example, consider the credit card market, which has benefited from deregulation and technology that enables the almost real-time tracking of personal financial information. A recent report by FRONTLINE and *The New York Times* documents some of the techniques the credit card industry uses to get consumers to take on more debt. The industry calls those who pay their full balances "deadbeats," and it uses creative marketing tactics to seek the "revolvers" (i.e., 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 (e.g., a payment that arrives even hours late; a charge that exceeds the credit line by a few dollars; a loan from a separate creditor, such as a car dealer, that 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" (Stein 2005). The average family in the United States now owes approximately $8,000 on its credit cards; the flurry of unexpected fees and rate hikes often comes just when consumers can least afford them.

Such tactics are not limited to the credit card industry. According to *Consumer Reports* (2004), many bank fees 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." As we discussed previously, various application and recertification forms can be unfriendly and complicated to the point of being surreal. As the Association of Community Organizations for Reform Now (2006) reports,

> 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.

The regulation of such markets is a nontrivial proposition, but when human frailty is recognized, such regulation is attainable, as can be witnessed, for example, in the Federal Trade Commission's (2000) Funeral Rule, which lists several procedures that all funeral homes must follow and services they 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." However, systematic human frailty is exhibited not only when loved ones die. Recognition of such frailty suggests that ways to attain a healthy balance between libertarianism and paternalism (Sunstein and Thaler 2003) or between free market competition and consumer protection (see, e.g., Gans 2005; Sylvan 2004) should be considered.

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. However, it does not 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 difficulty 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 toward marketing techniques. Whereas the private sector spends great amounts of money and attention on marketing, government and not-for-profit organizations typically do not.

It is important to repeat that the general issues we raised in this article are largely true not only about the poor but about the comfortable and the very rich as well. However, 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 it is unlikely to bring this person close to the brink, as might be the case for an impoverished counterpart. People's behavioral repertoire arises from an interaction between the mental apparatus they bring, which is confined to a remarkably impressive three-pound machine behind the eyes and between the ears, and the contextual influences that lead it to react in specific ways. It is commonly believed that people are responsible for most of their own behavior, but research demonstrates the indisputable and substantial influence of situational factors on human cognition. When it comes to helping the decision-making practices of the poor, this article suggests that greater attention should be paid to those purportedly minor situational factors because they can make or break good decision behavior.

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