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

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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 regulators 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-frills" 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 oversubtle 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 most 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., Coker 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 underestimate 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 standard factors that should be taken into account in the design and implementation of

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