Findings

Poverty and decision-making: How behavioural science can improve opportunity in the UK

Behavioural research provides new insights into how those in or near poverty make decisions and the role that policy can play in improving opportunity.

Key points

- Behavioural science illustrates that people rarely make decisions in a perfectly 'rational' manner. Instead, our decisions are heavily influenced by context: small and often subtle details like how options are presented can be consequential. These 'behavioural biases' affect everyone, but their negative effects may be greater for those close to or in poverty who have fewer resources to cushion a mistake. In addition, emerging research points to poverty itself affecting mental processing capacity needed for attention and problem-solving.

- This report highlights that people with similar levels of financial resources in the present can face very different poverty outcomes in the future because of variation in other, less tangible, resources which derive from psychological, social and cultural processes. These resources – 'capital' – can negatively impact decision-making in ways that reduce a person's financial resources, creating a vicious cycle.

- With this understanding, policymakers can make it easier for people on low incomes to make good decisions for themselves, such as saving for a rainy day or applying to post-secondary education. It also opens up a new set of tools to address poverty.

- Policymakers should aim to minimise the time and mental costs of engaging in government services. For example, by bundling application processes and eligibility requirements across programmes. Defaults, reminder messages, and transparent, behaviourally-informed presentation of costs and benefits are other examples of small design tweaks that can disproportionately improve decision-making.

- Anti-poverty interventions that account for positive and negative feedback loops between the different forms of capital, over different time horizons, will be more effective and efficient. For example, supportive social networks

improve the quality of parent-infant interactions, which underpins child brain development with *long term* effects on learning. Whereas financial worries can affect cognitive performance in the *immediate term*. This dynamic view of decision-making presents exciting opportunities to tackle poverty more comprehensively but it requires strong policy coordination when designing and evaluating interventions.

- This report contains 18 recommendations for supporting decision-making in the areas of minimising costs (credit; savings), maximising resources (work; entitlements), and preventing intergenerational poverty (parenting; post-secondary education). It also proposes areas for further research.

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About the project

The team identified key policy areas that impact on poverty in the UK and reviewed relevant literature from the field of behavioural science (including social psychology and behavioural economics). The literature review paired studies that were evaluated using randomised controlled trials or other rigorous evaluation methods, with qualitative studies on the lives of those living on low incomes. The review prioritised UK-based studies, and sought input from leading academics as well as policymakers within government.

Background

People make hundreds of decisions on a daily basis – from the trivial, like what to have for breakfast, to the more consequential, like whether to pay for day-to-day expenses with a high interest credit card. What drives these decisions? And what can policymakers do to help people make better decisions to reduce and prevent poverty?
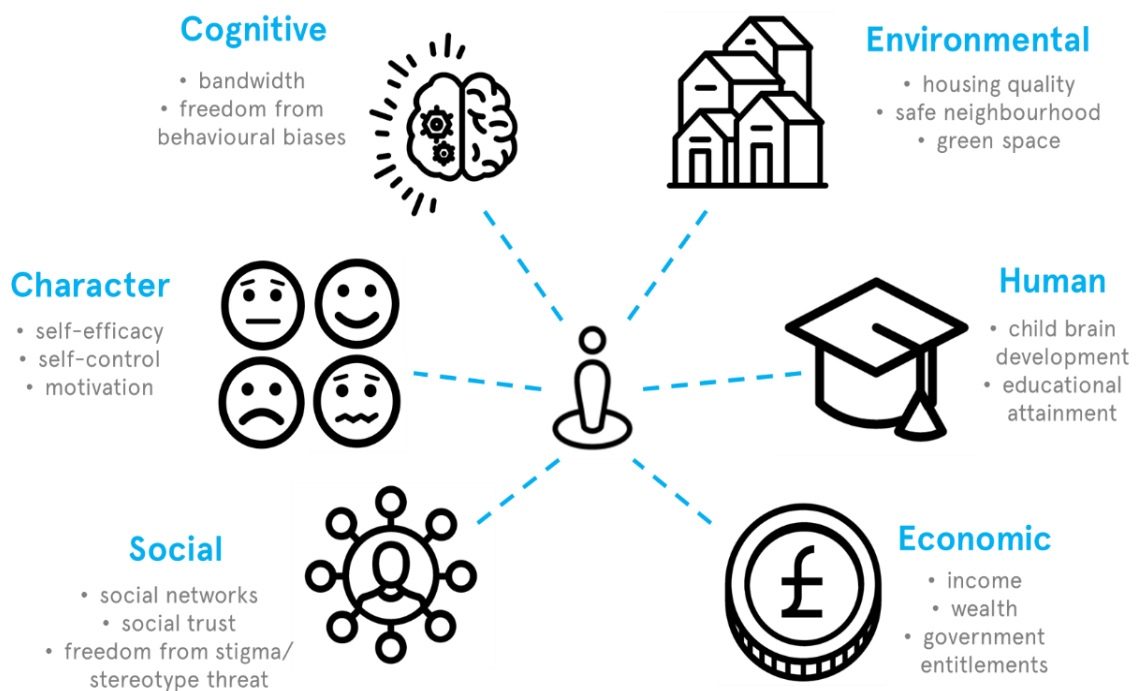
This report explores whether a more nuanced understanding of behaviour and decision-making can advance our thinking about the causes and consequences of poverty in the UK, and point to more effective solutions. It is not intended to act as a comprehensive review of the behavioural science literature. Rather, it provides an overview of some of the psychological, social and cultural processes that affect decision-making in key policy areas that impact on poverty in the UK. It also offers practical recommendations for policy design.

The capital model and its application to decision-making

The report puts forward a model of decision-making and applies it to three strategies for improving the lives of those living in or near poverty: minimising costs (choosing low cost credit; accumulating savings), maximising resources (moving into work from unemployment; accessing entitlements), and preventing intergenerational poverty (responsive parenting; applying to post-secondary education).

The model proposes that there is a set of resources – or 'capitals' – which contribute to an individual's chances of experiencing and escaping poverty. Economic capital and human capital have historically been seen as direct causes of poverty but the report proposes they also affect the decisions people make. For example, there is emerging research that shows that financial worries absorb mental capacity – or 'bandwidth' – needed for attention and problem solving. In addition, the report brings together a wide range of studies from behavioural science to highlight that there are other types of capital that impact on poverty both directly and indirectly (via decision-making).

Figure 1. Types of capital resources (including examples)

Cognitive
- bandwidth
- freedom from behavioural biases

Environmental
- housing quality
- safe neighbourhood
- green space

Character
- self-efficacy
- self-control
- motivation

Human
- child brain development
- educational attainment

Social
- social networks
- social trust
- freedom from stigma/ stereotype threat

Economic
- income
- wealth
- government entitlements

Understanding how these less tangible forms of capital influence decision-making is useful in two respects: first, it can help to explain why some well-intentioned interventions may fail; and second, it can open up a new set of tools to address poverty.

Key take-aways
In addition to presenting 18 specific policy recommendations (see below), the report concludes that there are two key take-aways for those working to reduce and prevent poverty in the UK:

1. **Policymakers should aim to minimise the time and mental costs of engaging in government services to make it easy for people on low incomes to make good decisions for themselves.** Behavioural best practice points to bundling application processes and eligibility requirements across programmes. Defaults, reminder messages, and transparent, behaviourally-informed presentation of costs and benefits are other examples of small design tweaks that can sometimes yield disproportionate gains.

2. **Anti-poverty interventions that account for positive and negative feedback loops between the different forms of capital, over different time horizons, will be more effective and efficient.** For example, supportive social networks improve the quality of parent-infant interactions, which underpins child brain development with long term effects on learning. Whereas financial worries can affect cognitive performance in the immediate

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term. This dynamic view of decision-making presents exciting opportunities to tackle poverty more comprehensively but it puts greater demands on policy coordination when designing and evaluating interventions. This could be done through expanded support to the relevant Cabinet Committee, through a dedicated resource in the Cabinet Office, or through assigning a clear lead to one Minister.

Future research

In many respects, the field of behavioural science is still relatively new. As such, we have identified three areas for further research:

1. Very little behavioural research analyses how interventions to improve short term decisions, in areas such as consumer credit and work, influence long term poverty outcomes. Few studies even assess whether interventions impact people across the income spectrum differently. For example, are people in poverty more or less likely to succumb to behavioural biases in the first place? More research along these lines can help us design and target interventions most effectively.

2. Early childhood is a formative period: it is when neurological foundations are set down that influence decision-making throughout life. However, more research is needed to understand if interventions in adulthood can compensate for missed opportunities at younger ages.

3. A significant portion of behavioural science research focuses on improving the decisions of end-users – in this case people in poverty. But what about the decisions of service providers and policymakers? How can we improve the quality of their decisions to support people escape poverty? And how can we build their empathy with those whose opportunities are at stake?

By assembling evidence and presenting a new model of decision-making, this report gives those seeking to reduce and prevent poverty in the UK a different perspective of social mobility, which should lead to different policy conclusions – and hopefully better outcomes.

Summary of recommendations

MINIMISING COSTS	**Consumer credit**	1	Make it easier to access low cost credit through extending access to interest-free Budgeting Advances; assisting credit unions to expand online services; and providing tax relief to individuals taking out payroll loans.
		2	Further restrict practices by high-cost credit providers that play on consumer biases, and test remedies that will improve consumer credit decision-making.
		3	Continue to evaluate financial capability programmes through the Money Advice Service What Works Fund.
	Savings	1	Test ways of automating rainy day savings through employer enrolment, default accounts with banks, and Universal Credit payments.
		2	Evaluate the effectiveness of financial apps for helping people save.
		3	Optimise the Help to Save matching scheme, through testing auto-enrolment and prizes for regular saving, to encourage low income groups to save.
MAXIMISING RESOURCES	**Work**	1	Use identity-building activities in Jobcentres to cultivate intrinsic motivation for work in order to improve the quality and sustainability of jobs that people find.
		2	Collect longer-term and more holistic outcome measures of labour market interventions to understand their full impact on poverty.
		3	Develop a simple tool for Jobcentres to identify capital deficits in order to match interventions to individual job seeker needs.
	Entitlements	1	Develop a common 'cognitive load stress test' that measures how easy it is for eligible groups to access government entitlements.
		2	Use annual entitlement summaries to prompt existing welfare recipients to apply for other assistance they may be eligible for, and to help them budget.
		3	Experiment with the design of welfare conditionality to boost claimants' cognitive capacity and self-efficacy, such as having claimants set their own payment conditions.
PREVENTING INTERGENERATIONAL POVERTY	**Parenting**	1	Provide families in or near poverty with free access to evidence-based online parenting programmes.
		2	Develop community-based platforms for parents' mutual learning and peer support to strengthen social ties between parents from different backgrounds.
		3	Conduct research into whether small and inexpensive adjustments to housing conditions can reduce cognitive load and improve parental decision-making.
	Post-secondary education	1	Make the application process for post-secondary education as simple as possible, for example, by pre-populating application forms.
		2	Use personalised assistance and prompts to encourage students and parents to apply to post-secondary education.
		3	Link formal information about returns to post-secondary education with informal information (from peers) about what post-secondary education will be like.