

The Poverty Trap

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Poor people are the subject of many negative stereotypes, including the assumption that they are inherently incapable of making sound financial decisions. But APS Fellow Eldar Shafir has demonstrated that the cognitive load and bandwidth limitations imposed by living with scarcity can lead to bad financial choices that often trap people in a cycle of poverty. Shafir studies decision making, judgment, and behavioral economics. His recent research has focused on decision making in contexts of poverty and on the application of behavioral research to policy. In various experiments, Shafir and his colleagues have shown that, when faced with financial stress (but not otherwise), poor people fare worse on cognitive tasks than well-off people. His work shows that juggling a life of poverty consumes mental resources, which can distort decision making in ways that exacerbate poor behaviors under financial hardship.