Re-evaluating Assumptions about Behavior and Choice in Response to Public Assistance: A Behavioral Decision Analysis

Crystal C. Hall
Assistant Professor of Public Affairs
University of Washington
Evans School of Public Affairs

4.11.13 | Institute for Research on Poverty | Visiting Scholars Seminar Series
Acknowledgements

Martha Galvez
(Washington State DSHS)

Rachel Kleit
Jennifer Romich
Mindy Hernandez
Jiaying Zhao
Eldar Shafir
Nicole Keenan
Jody Miesel

Devan Berkley
Jacqui Stork
Angela Malorni
Overview

What is behavioral decision research?

Examples

• Asset building
• Housing Choice Voucher (HCV) program
• Other social policy research

General principles
BDR: Key principles

- Typical assumptions of traditional economics not accurate
  - Rational
  - Self-interested
  - Consistent

- Difference between “normative” and “descriptive” theories of behavior
Understanding human behavior

- **Rational agent model** (normative)
  - Well-informed
  - Stable preferences
  - Controlled and calculating

- **Behavioral model** (descriptive)
  - Mediocre judgment
  - Malleable preferences
  - Impulsive
  
  *but, behavior is often predictable!!*
A key observation:

Individuals are “irrational” but often extremely *predictable*!
Two views of behavior of the poor
- Rational agent view
- ‘Culture of poverty’ view

Behavioral perspective (as an alternative)
- Better predictor of behavior
  (Bertrand, Mullainathan & Shafir, 2006)
- Policy implications
  (Hall, 2012)
Implementing BDR

- Fully understand the context and process
- Program goals (behaviors!)
- Mapping the process
- Design intervention/evaluation
Applying Behavioral Research to Asset-Building Initiatives

LESSONS FROM A YEAR OF EXPERIMENTATION

By Mindy Hernandez

innovation@cfed
The problem?
Understanding *assumptions* about behavior and preferences
Understanding human behavior

- **Rational agent model** (normative)
  - Well-informed
  - Stable preferences
  - Controlled and calculating

- **Behavioral model** (descriptive)
  - Mediocre judgment
  - Malleable preferences
  - Impulsive
Problematic Assumptions
Why is there often low take-up of public assistance programs?
Part II:

- Assets and Financial Decision Making
- Housing Choice
- Other Examples
Self affirmation  (Hall, Zhao & Shafir, under review)

Mental accounting  (Hall & Shafir, under review)

Anticipating tax refunds  (Romich, Miesel, Keenan & Hall, 2013; Hall & Romich, in prep)
Money Talks! Have You Heard?
As Much As $4,716 — or more — Could Be Waiting for You!

You could qualify!
Did you work in 2007? You may be eligible for the Earned Income Credit — even if you don’t owe income tax.

If you worked in 2007:
• Did you have one child living with you? Did you earn less than $33,241*? You can get an EIC up to $2,853.
• Did you have more than one child living with you? Did you earn less than $37,783*? You can get an EIC up to $4,716.
• If you had no children living with you, did you earn less than $12,590* in 2007? Were you between the ages 25 and 64? You can get an EIC up to $428.

*Income limits for married workers are $2,000 higher.

You could get a CTC refund too!
Many families that earned more than $11,750 may qualify for the Child Tax Credit (CTC) refund — up to $1,000 for each qualifying child under age 17.

File a Federal Tax Return to get the EIC and CTC: Get Free Help!!!
• VITA — Volunteer Income Tax Assistance — helps people fill out returns for free.
• For a site near you, call 1-800-829-1040.

Boost your take-home pay! Eligible workers with children can get some of the EIC in their paychecks. To get the Advance EIC, get Form W-5 from your employer, or call 1-800-TAX-FORM.
Taking Information about EITC

\[ \chi^2 (1, N=25) = 4.57, p=.03 \]
Results

![Bar chart showing accuracy for Affirmed and Non-affirmed groups in Raven's and Cognitive Control tasks.](chart.png)

Note: *p < .05  **p < .01
Assets and Financial Decision Making

- **Self affirmation** (Hall, Zhao & Shafir et al., under review)

- **Mental accounting** (Hall & Shafir, under review)

- **Anticipating tax refunds**
  (Romich, Miesel, Keenan & Hall, 2013; Hall & Romich, in prep)
Percent ‘Yes’

Save $5 on $10
Save $5 on $60
Self affirmation (Hall, Zhao & Shafir et al., under review)

Mental accounting (Hall & Shafir, under review)

Anticipating tax refunds (Romich, Miesel, Keenan & Hall, 2013; Hall & Romich, in prep)
Predicted versus actual refunds

- Interviewees predicted refunds averaging $2844
- Tax returns showed average anticipated refund of $3906
- 78% of interviewees under-estimated their refunds, 44% were under by at least $1000
Average Refund Amount & Preparedness at FC 2010

(Hernandez, 2010)
Psychological threat a real issue

Individuals not necessarily “bad” at making short term decisions

- Incorrect assumptions produce the wrong flavor of intervention, in these cases!
- Not about wrong goals or intentions
  *so must identify other barriers!
Rent subsidies should allow access to “good” neighborhoods but don’t

Assumptions:
- Preference are for “good” neighborhoods
- Low-income people are dissatisfied with their neighborhoods
- Resource constraints undermine preferences
Research suggests different perceptions of neighborhoods and opportunity

- Positive view of “low opportunity” areas (Galvez, 2011)
- Low expectations for schools & neighborhoods (DeLuca & Rosenblatt, 2010)
- “Mobility” not a priority (Galvez, Hall & Kleit, in preparation)
Getting in the Door: Stories of Voucher Recipients

- Half want to stay in familiar neighborhoods
- Not always seeking out “better” neighborhoods
- Small obstacles in the way – move costs
  - Not a mobility issue, a financial stability issue
Implications for program design

- Focus on individual barriers over assumed preferences for neighborhood/school characteristics
- Different form of communication
- Different interactions with service providers
Other Examples

- Impact of Food Subsidies
- Marriage Preferences
- Childcare Decision Making
Targeted subsidy on fresh produce
(Herman et al., 2008)

Comparison of food vs. non-food subsidy

Greater consumption after subsidy ends
Other Examples

- Impact of Food Subsidies
- Marriage Preferences
- Childcare Decision Making
Marriage

- Exploring effectiveness of interventions
  (Trail & Karney, 2012)
  - Skills and values based
  - Less traditional values?

- Economic realities more of an issue
  - More traditional values than HI peers
  - Similar romantic standards
  - Similar skills-based problems
Other Examples

- Impact of Food Subsidies
- Marriage Preferences
- Childcare Decision Making
Conceptual frameworks (Chaudry, Henly, Meyers, 2010)
- Consumer choice (rational) => outcomes
- Heuristics and biases/social network => processes
- Accommodation model combines these (Meyers & Jordan 2006)

Go beyond rational choice
- Descriptive models of behavior (not normative)
- Multiple lenses can research on decision making
Lessons learned
Tools provided by BDR

- Understanding behavioral puzzles
  - Low take up rates of programs and services
  - Low take up rate of formal banking and savings vehicles

- Better description of the context
- Improved policy design and intervention
- Reduction of financial and social costs
Aiming for “wrong” preferences

• Providing wrong incentives

• Need more understanding of social context and decision processes (not just outcomes)
The costs...

- Program design misguided
  - Administrative costs
  - Program costs

- Poor perceptions by clients
  - General frustration
  - Lack of trust
    Longer term impacts down the road...
Inaction may not be due to disinterest
  • Not true of other groups either!
  • Simple “nudges” often very effective
    (defaults matter)

Start with assumptions
  *Not always trying to change preferences!
Thought experiment

- Incentive program for voucher recipients
  - Financial match for savings pre-move
  - Similar to IDA programs

- Assumption: individuals value this large windfall, motivated to relinquish voucher

- Real preference(?): view losing voucher as a substantial loss, motivated to keep safety net
Thought experiment

- Loss aversion as a driver of behavior?
  (Kahneman & Tversky, 1979)

- Experiments to test could explore:
  - Savings intention w/ different messaging
  - Reframing of this benefit

- Cost of incorrect assumption
  - Poor marketing
  - Inappropriate counseling/support mechanisms
  - More financial instability?
General Implications

- Understanding behavioral puzzles
- Designing policies and interventions
- Communicating in an effective manner
  - Education/advocacy for poor
  - Education of policy makers
Thank you!

hallcc@uw.edu