The Scarcity Mindset

When people feel that they don’t have enough resources to cover their needs, they use a significant amount of mental energy making trade-offs. However, people only have so much mental energy to use.

When resources are scarce, there are more trade-offs to make, leaving less energy for avoiding mistakes or making good long-term decisions. Harvard economist Sendhil Mullainathan and Princeton behavioural scientist Eldar Shafir call this the Scarcity Mindset.

Experiencing a scarcity of resources (e.g. time or money) can ‘tax’ people’s limited cognitive bandwidth - think of this as mental energy or effort. When cognitive bandwidth is taxed, people are more likely to:

- make errors, often falling back on intuitive, automatic or biased thinking
- borrow resources from the future (e.g. taking a high-interest loan or procrastinating)
- perform comparatively worse on cognitive tasks
- ‘tunnel’, i.e. focus on present issues and neglect long-term issues or opportunities.

What’s an example? Research conducted in a New Jersey shopping centre found that prompting low-income individuals to think about financial problems had an immediate impact on their performance on standard cognitive and logic tests. When the problem involved a small financial cost, there was no difference between low and high-income individuals’ performance on the test. But when faced with a large financial cost, the low-income individuals performed worse: a drop in cognitive function similar to a 13-point dip in IQ, or the loss of an entire night’s sleep.

What does this mean? People with fewer resources are not worse at making decisions, but having fewer resources can reduce the amount of cognitive bandwidth available to make those decisions well.

Why is this important for Government?

Insight 1: Scarcity taxes our already limited cognitive bandwidth. A lack of resources (e.g. time or money) reduces our cognitive bandwidth for long-term decisions, like planning for the future.

Insight 2: We can design better Government programs by accounting for this, e.g. making sure we don’t additionally ‘tax’ people’s bandwidth with services that are hard to access or difficult to navigate.

Does this apply to your work?

- Are the people you are trying to help short on time, money, health, social networks or other resources that could be distracting them?
- Is your policy or service adding a cognitive tax? Remember that even small requirements can tax bandwidth (e.g. completing a form or making a financial decision).
- Is your cohort focusing more on the present and neglecting future opportunities or issues?

Answer yes to any of these? See the guide on the next page.

Want to learn more?

- Scarcity: Why Having So Little Means So Much, Sendhil Mullainathan and Eldar Shafir
- Poverty Interrupted - Ideas42 report on applying simplification and salience to scarcity
- Poverty and decision-making - Behavioural Insights Team report on improving opportunity in the UK

Government policies and services can be hard to navigate for people who are already under pressure. By understanding the effects of scarcity, we can make these easier to access for the people who need them.
How to reduce the effects of scarcity

**Simplification**

Streamlining and simplifying steps will reduce the mental effort required for people to engage with your policy or service. Try to:

- **reduce and simplify paperwork** and pre-populate forms to aid decisions. Assistance and a streamlined process to complete Free Application for Federal Student Aid (FAFSA®) forms in the US increased submissions and college attendance.
- **default people into a choice** to simplify the process and increase uptake rates, e.g. Australians are defaulted into superannuation plans, but auto-enrolment to 401k retirement plans significantly increased savings in the USA. Note: defaults can be controversial when they are perceived to take away options or presume what’s best.
- **organise information** into simple-to-use checklists or groups to help people navigate choices.

**Timing**

People are more likely to change their behaviour at certain times, e.g. when they are already making a change or have time to focus. Try to:

- **link services and use time wisely** to maximise what support people can access in one location, e.g. Service NSW’s Cost of Living program.¹
- **tailor to individual circumstances** to ensure that people get what they need – time, money, support – both when they need it and when they have the capacity to engage.²
- **make mistakes less permanent** and make it easier for people to re-engage with support when they need it.³ The consequences of mistakes can multiply under conditions of scarcity.

**Salience**

People’s attention is selective and some features of their environment are more memorable than others. Try to:

- **highlight the key pieces of information** to make the desired behaviour stand out, e.g. use colour and visual cues on the most important information.
- **personalise the service** to encourage people to pay attention by including information that is relevant to them, e.g. their own name or profession. A trial of personalised letters to Australian doctors significantly decreased rates of antibiotic over-prescribing.
- **frame the information in an attractive way** and in terms that people can easily understand, e.g. people understand monetary value (such as dollars) better than percentages.

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³ Mullainathan and Shaffir (2012)
⁴ Mullainathan and Shaffir (2012)
⁵ NSW Government, Service NSW

Examples from the Behavioral Insights Unit

- The BIU simplified the language of Apprehended Domestic Violence Orders by using plain English examples of behaviour to improve defendants’ engagement with the court process.
  
  Read more on the BIU website

- The BIU used personalisation, bold fonts, colours and graphic design to highlight a call to action on speeding fines, including a “Pay Now” stamp and highlighted payment instructions. This led to an increase in people paying their fines on time.

  Read more on the BIU website

- The BIU used timely text message reminders to encourage patients to attend their follow up appointments at hospitals. This led to an increase in patients attending their appointments, and significant cost savings for the hospital.

  Read more on the BIU website

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Need more info? bi.dpc.nsw.gov.au