

MOVING PEOPLE OUT OF POVERTY:

THE PSYCHOLOGICAL CHALLENGE FOR ECONOMIC POLICY

Like any of us, people living below the poverty line are likely to adapt psychologically to their circumstances. According to new research by Professor **Robert Oxoby**, such adaptation can not only make it more difficult for them to move out of poverty but, perhaps more importantly, it can manifest itself in 'underclass' behaviours, such as non-participation in the labour force, welfare dependency, drug abuse and crime. This has important implications for economic policies aimed at reducing poverty.

Oxoby's economic argument emphasises the psychological theory of 'cognitive dissonance'. Dissonance – generally described as psychological discomfort – arises when people's cognitions (such as their attitudes) conflict with their behaviour. To reduce dissonance, individuals may opt to change their behaviours or change their cognitions about the source of the psychological conflict.

The inability of those living in poverty to attain social status in terms of income and consumption creates dissonance between their actions – 'I'm working hard to earn a living' – and their circumstances – 'I am living in poverty'. While exerting greater effort in the labour force to raise one's income is one way to reduce dissonance, changing the metric by which one measures status is another way to soften dissonance.

Thus, by abandoning mainstream norms and opting instead to view status as accruing to those, say, who exert little effort, individuals living in poverty engage in cognitive change and reduce their dissonance. This cognitive change is accompanied by behavioural reorientations of status seeking in which those living in poverty participate less in the labour force and display other underclass behaviours.

Accepting and participating in underclass behaviours demonstrates an abandonment of the mainstream norms with which people are typically inculcated. These behaviours also exacerbate the income and consumption situations of these individuals and, to the extent that these behaviours affect others (for example, through crime), impose costs on the economy and society.

By acknowledging the process of psychological adaptation accompanying poverty, this research develops new avenues for policy considerations.

For example, if individuals experience a discrepancy between their perceived circumstances and their social esteem, policies emphasising mainstream norms of behaviour – such as 'pull yourself up by your bootstraps' or 'say no to drugs' – may only exacerbate their dissonance and yield greater cognitive change. This abandonment yields growth of the underclass and an increase in underclass behaviours.

Counterbalancing this, redistributive policies, even if only small, may reduce people's dissonance sufficiently to encourage behavioural (rather than cognitive) strategies for reducing poverty-driven dissonance.

Alternatively, policies that increase the costs of abandoning mainstream norms will also reduce the growth and prevalence of underclass behaviour. For example, 'stakeholder society' policies

in which individuals have a financial stake in exhibiting good social behaviour (such as Tony Blair's 'baby bond') reduce the incentives to employ cognitive means of dissonance reduction. In the end, this results in less abandonment of mainstream norms, facilitating transitions out of poverty.

Moreover, greater adherence to status and work ethic norms may facilitate social and economic co-ordination and ease many social problems.

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Note for Editors: 'Status, Cognitive Dissonance, and Growth of the Underclass' by Robert Oxoby is published in the October 2004 issue of the *Economic Journal*.

Oxoby is in the Department of Economics at the University of Calgary, 2500 University Drive, Calgary Alberta Canada T2N 1N4.

For Further Information: contact Robert Oxoby on +1-403-516-2383 (email: oxoby@ucalgary.ca); or RES Media Consultant Romesh Vaitilingam on 0117-983-9770 or 07768-661095 (email: romesh@compuserve.com).