Economic inequality cannot be explained by individual bad choices, study finds

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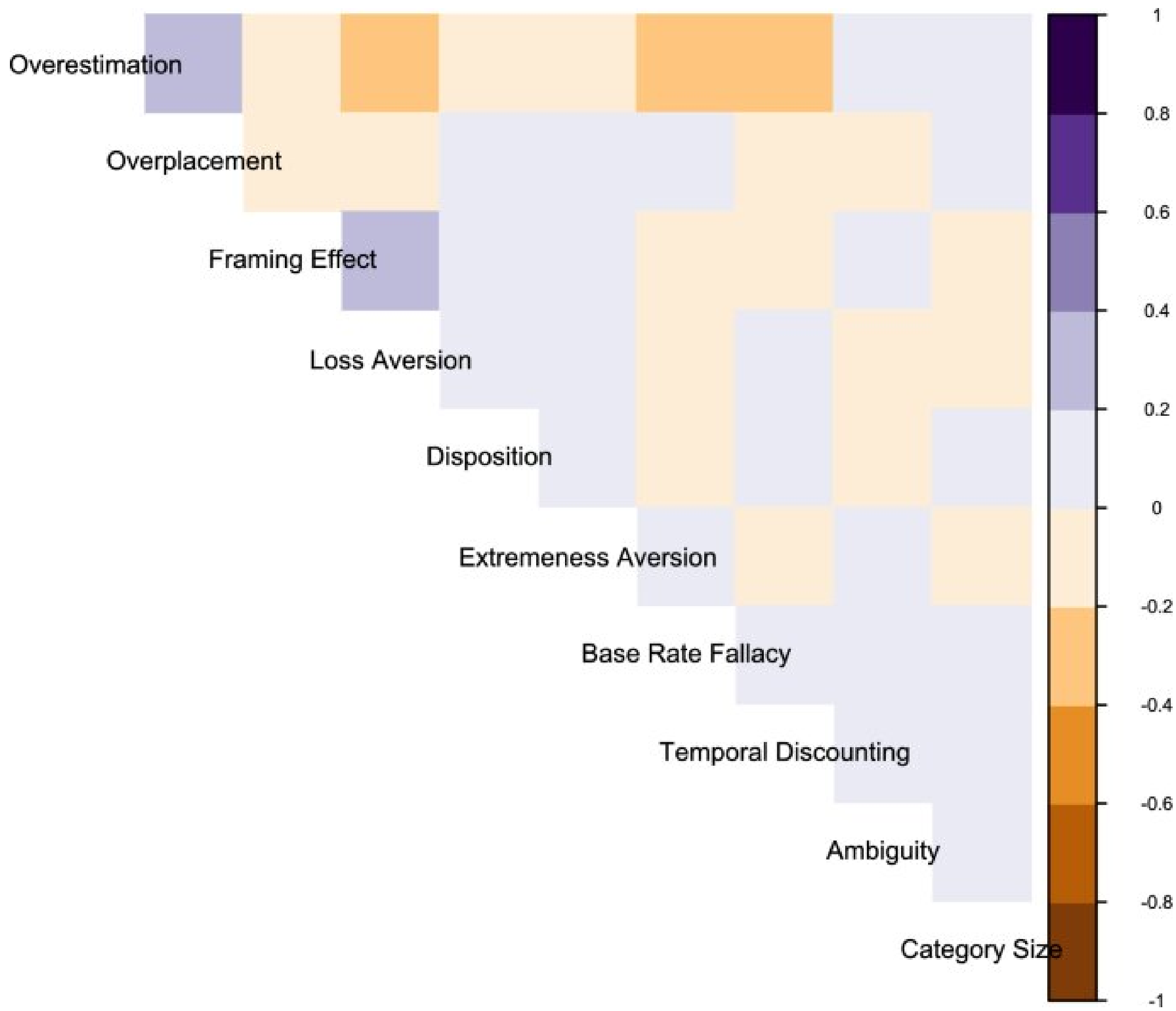

Correlation between ten biases within 3346 participants showed each bias was largely unique and not collinear with other biases assessed, with the exception of overplacement and overestimation (which rely on the presence of some biases).

Credit: *Scientific Reports* (2023). DOI: 10.1038/s41598-023-36339-2

A global study led by a researcher at Columbia University Mailman School of Public Health and published in the journal *Scientific Reports* finds that economic inequality on a social level cannot be explained by bad choices among the poor nor by good decisions among the rich. Poor decisions were the same across all income groups, including for people who have overcome poverty.

While economic inequality continues to rise within countries, efforts to address it have been largely ineffective, particularly those involving behavioral approaches. It has been often implied, but until now not tested, that choice patterns among low-income individuals may be a factor impeding behavioral interventions aimed at improving upward economic mobility.

The study is based on online surveys in 22 languages with close to 5,000 participants from 27 countries in Asia, Europe, North America, and South America. Decision-making ability was measured through 10 individual biases, including (1) temporal discounting, not preferring immediate funds over larger future gains; (2) overestimation, or thinking you are better than you are at making decisions; (3) over-placement, or thinking you are better than the average person at making decisions; and (4) extremeness aversion, or taking the "middle option" simply because it seems safer than the highest or lowest.

Taken along with related work showing that temporal discounting is tied more to the broader societal economic environment rather than individual financial circumstances, the new findings are a major validation of arguments stating that poorer individuals are not uniquely prone to cognitive biases that alone explain protracted poverty.

"Our research does not reject the notion that individual behavior and decision-making may directly relate to upward economic mobility. Instead, we narrowly conclude that biased decision-making does not alone explain a significant proportion of population-level economic inequality," says first author Kai Ruggeri, Ph.D., assistant professor in the Department of Health Policy and Management at Columbia Public Health.

"Low-income individuals are not uniquely prone to cognitive biases linked to bad financial decisions. Instead, scarcity is more likely a greater driver of these decisions," Ruggeri adds.

More information: Kai Ruggeri et al, The persistence of cognitive biases in financial decisions across economic groups, *Scientific Reports* (2023). DOI: 10.1038/s41598-023-36339-2

Provided by Columbia University's Mailman School of Public Health

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