



## Poverty's Brain Drain

Financial stress means not just lower income, but also less mental bandwidth

Poverty drains brainpower, new research by Anandi Mani and colleagues, shows. The research is the first to establish that poverty directly causes lower intellectual capability. The findings were published in *Science* magazine, widely considered to be the world's leading journal of original research.

*"Our findings offer a new explanation for many of the behaviours of the poor. It is the first to establish that poverty is a direct cause of lower mental attention, and it clarifies that these behaviours need not be coming from innate attributes of poor people."*

"Poverty causes lower intellectual capabilities; it is not just a correlation," Mani said. "There is considerable evidence that the poor are less effective on various dimensions. They are less productive workers, less attentive parents, worse managers of their time and money,"

The findings suggest that being poor saps the very mental energy needed to take on the tasks that might lead them out of poverty – such as education, job training and time management.

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The research revealed the effect of pressing financial concerns upon low-income individuals' performance on common cognitive tests. In the experiments, financial worries reduced the results on IQ tests by an average of 13 points, equivalent to the drop from the loss of a full night's sleep, or from chronic alcoholism.

Two experiments – one with shoppers in a New Jersey shopping mall and the other with sugarcane farmers in Tamil Nadu, India – underlie the research.

In the experiment in the mall, researchers found that considering a hypothetical financial decision, such as how to pay for a car repair, affects people's performance on unrelated spatial and reasoning tasks. Both rich and poor individuals did equally well if the repairs were inexpensive, but only the performance of the poor dropped significantly when the repairs were expensive.

In Tamil Nadu, sugarcane farmers are very short on money right before the harvest, because of the long crop cycle and more flushed with money a few weeks after harvest. The research found that the same farmers do much better on similar IQ tasks after harvest than before, when they report lower ability to cope with ordinary bills. Their performance is not explained by lack of nutrition, greater physical effort due to harvest, or biological stress factors.

*“One insight is to appreciate that people who are materially poor are also short on mental attention resources, directly because of poverty.”*

The findings provide new insights about the effects of financial concerns

and for the creation of policies aimed at the poor.

*“When a person is poor or becomes poor, it’s not only money that he or she is lacking, it’s also mental bandwidth,” Mani said. “Policy design should be mindful of that.”*

“Policies such as automatic defaults for enrolment in savings programmes, simpler forms for programme eligibility, and text reminders for important tasks may be helpful for the poor,” Mani said.

“In the harvest context, a financial product that releases a steady stream of income throughout the year may be better for farmers than receiving one

lump sum return and facing a lot of financial anxiety before harvest.”

No doubt, people of all income levels face stress, for instance if they are short of time. Deadlines can capture our attention, and we may have less mental bandwidth for other important, but non-urgent tasks, such as parenting.

But people with more financial resources may be able to “buy more time” with money, or cut back on their commitments - which is a luxury that the poor do not have.

**Anandi Mani is Associate Professor of Economics at the University of Warwick and a researcher and Capacity Building Fellow at CAGE. The paper, ‘Poverty Impedes Cognitive Function’ (with Sendhil Mullainathan, Eldar Shafir, and Jiaying Zhao), was published in Science on August 29 2013.**

## Welcome to...



**Dr Nigel Keohane**, Deputy Director at the Social Market Foundation, visited CAGE in September. Previously Nigel was Head of Research at the New Local Government Network where he was responsible for NLGN’s research programme and policy development. His research has focused on public service reform, commissioning, public management and transport. Prior to that Nigel served as a political advisor at Wokingham Borough Council, taught history at Queen Mary College, University of London, and worked for the Learning and Skills Council. He has a BA and MA in history from Exeter University, and a PhD in political history from Queen Mary.



**Nida Broughton**, Senior Economist at the SMF, also visited CAGE in September. In her time at the SMF Nida has led research on skills policy, entrepreneurship and analysis of public spending, as well as undertaking research on a range of public policy areas including healthcare, education and housing. Nida previously worked at the House of Commons, where she advised MPs and committees on a broad range of economic issues, and in particular, on financial services. Nida also has in-depth expertise in regulation, competition policy and behavioural economics, gained whilst working at Ofcom, the UK regulator and competition authority for communications markets. She has an MA (Cantab) in Economics from Cambridge University and an MSc in Economics from Birkbeck College, University of London.



**Teresa Sanchis Llopis**, Professor of Economics at the University of Valencia, will be visiting CAGE for the autumn term 2013/14.

# The Future of Manufacturing in the UK

A new report, 'The Future of UK Manufacturing: A New Era of Opportunity and Challenge for the UK', has just been published by the Government Office for Science.



The report looks at how manufacturing is set to enter a dynamic new phase, driven by rapid changes in technology, new ways of doing business, global competition and potential volatility in resource prices and availability. In addition to examining important changes facing the sector, the report puts forward a framework for Government and industry action to ensure that the UK manufacturing sector is able to compete and thrive in this new world.

Professor Nick Crafts, Director of CAGE, was one of the Lead Experts invited by the Government Office for Science to help them answer the question 'What

is the Future of Manufacturing in the UK?' The lead experts were responsible for overseeing the writing of the report, commissioning research and providing advice to enable the Government Chief Scientific Advisor, Sir Mark Walport, to deliver the final report.

The scope of the report was primarily evidence-based looking at the main trends in manufacturing and considering the framework in which industrial policy should be conducted.

All project reports and supporting evidence papers are available for download.

Visit: [www.bis.gov.uk/foresight/manufacturing](http://www.bis.gov.uk/foresight/manufacturing)

There were 37 evidence papers produced as part of this project. Professor Crafts' and Professor Alan Hughes' paper 'Industrial Policy for the Medium and Long-term' is available as part of the CAGE working paper series. To see a copy of the paper please visit our website.

## CAGE Brussels Podium Insights into Enterprise in Developing Countries

**On Monday 2nd December CAGE will be hosting a debate at the British Embassy in Belgium on 'Enterprise Insights into Developing Countries'. A majority of the world's population makes their living from small businesses in developing countries.**

At the same time, stable jobs in larger firms seem to be associated with better outcomes. Economic growth

and poverty elimination cannot take place without developing enterprise capabilities in poor countries.

Dr Rocco Macchiavello and Professor Chris Woodruff, are among the world's leading specialists in this field.

Dr Macchiavello will talk about the role that large buyers in developed countries can play in fostering enterprise capabilities in low-income

countries, and the key challenges that exporters face in forming and managing relationships with large foreign buyers.

Professor Woodruff will talk about how training for management can lift productivity in enterprises in emerging economies.

The key note speeches will be followed by a lively debate moderated by journalist Geoff Meade and will include senior figures from DG Development, DG Trade, the European Parliament and the European Investment Bank.

## Are women lobbyists worth more?

Women lobbyists in Washington are outperforming men at bringing in high-value contracts. In an article in the **National Journal**, **Mirko Draca** explains that men may be spreading themselves more thinly with a greater number of lower value contracts.

The article looks at a recent analysis conducted by LegiStorm, which found that, despite men outnumbering women in the lobbying industry, their contracts are worth more on average than those held by men.

Mirko Draca explains two possible reasons for the difference in contract value between the genders. One is that because women hold fewer contracts there is a smaller pool from which to calculate an average. Another is the 'rainmaker effect', whereby men have greater leverage and spread their work across more contracts than female lobbyists. In this scenario, men could be pulling in more money overall through a greater number of low-value contracts.

Dr Mirko Draca is a researcher at CAGE and Assistant Professor of Economics at Warwick specialising in the political labour market.



## ESRC grant to improve taxation

Professors **Wiji Arulampalam** and **Ben Lockwood** have been awarded an Economic & Social Research Council (ESRC) grant worth £1.75 million to investigate the effect of business taxation on economic and social welfare. The pair are co-investigators on the three-year research project headed by Professor Michael Devereux at the University of Oxford, which will generate new insights from tax return data, improving the design of business taxation in the UK and overseas.

Wiji Arulampalam is a professor of economics and research director at the Centre for Business Taxation (CBT). Wiji's research interests are in Applied Econometrics. Ben Lockwood is a professor of economics, research director at the Centre for Business Taxation (CBT) and a Fellow of the Centre for Economic Policy Research (CEPR). His research interests are in the fields of political economy, taxation and fiscal federalism. Both Wiji and Ben are Research Fellows at CAGE.

## CAGE Seminar Series

CAGE holds a weekly Tuesday seminar in the Department of Economics at the University of Warwick.

External speakers are invited to give a seminar focusing on an applied microeconomics topic.

Seminar speakers for the Autumn Term are:

**29 October 2013**

Kaivan Munshi, Professor of Economics, Brown University. *'Networks and Misallocation: Insurance, Migration, and the Rural-Urban Wage Gap'*.

**5 November 2013**

Arthur Blouin, University of Warwick. *'Culture and Contracts: The Historical Legacy of Forced Labour'*.

**12 November 2013**

Michael Kumhof, Deputy Division Chief of the Modeling Division, IMF Research Department. *'The Chicago Plan'*.

**19 November 2013**

James Fenske, University of Oxford, *'Early-Life Shocks and Mental Health in Ghana'*.



# ESRC FESTIVAL OF SOCIAL SCIENCE

2 - 9 November



The Festival of Social Science is a nationwide event organised by the ESRC (Economic and Social Research Council). Its aim is to offer insight into some of the UK's leading Social Science research and how it influences our social, economic and political lives.

CAGE supported this year's ESRC Festival of Social Science by organising two events at the University of Warwick.

## Economics in the Real World 6th November 2013 Warwick Arts Centre

This special event, designed specifically for A Level students with an interest in studying Economics at University, showcased research being carried out by economists here at the University of Warwick and demonstrated how research can address real world issues.

The event chaired by Professor Mark Harrison, CAGE Director for Impact, included the presentations on 'Poverty's Brain Drain' by Dr Anandi Mani; 'Migration and the Labour Market' by Dr Jennifer Smith; 'Washington's Revolving Door' by Dr Mirko Draca and 'How Hitler Damaged World Class Universities' by Dr Fabian Waldinger.

The event was attended by over 130 students from schools in Warwickshire and the West Midlands.

## What do secret policemen really do?

Mark Harrison Public Lecture,  
7th November 2013 • Warwick Arts Centre

**Domestic spying and surveillance are rarely out of today's headlines. How does a real-life totalitarian secret police go about watching citizens, shutting down dissent, and ensuring mass obedience?**

Professor Mark Harrison gave a lecture which brought modern social science together with historical evidence to show how the KGB, the Soviet Union's secret police, worked to uphold the communist monopoly of power during the Cold War.

This event was very well attended and enthusiastically received. The audience included staff and students from the University and members of the general public.



To see podcast of both of these events please visit our website.

# New CAGE - Chatham House Policy Briefings

We have recently added new papers to our policy briefing paper series which is published in partnership with Chatham House. The series aims to advance key policy debate issues of global significance. To see more in the series please visit our website.



## Saving the Euro: A Pyrrhic Victory?

Nicholas Crafts, November 2013

**In this paper Professor Crafts argues that the survival of the euro has entailed a lengthy recession and has left an ominous legacy of public debt, but the fundamental flaws in its original design have not been corrected.**

Fiscal consolidation alone seems inadequate to address the fiscal sustainability problems of highly-indebted economies in the euro area. In addition, he stresses that the crisis has inflicted significant damage to future growth prospects in the eurozone, both through the debt legacy it has created and in terms of the impetus it has given to detrimental supply-side policies.



## The Danger of High Home Ownership: Greater Unemployment

David G. Blanchflower and Andrew J. Oswald, October 2013

*'The evidence is that high home ownership weakens the vitality of the labour market and slowly grinds out greater rates of joblessness'*

**Although encouraging home ownership has been a major policy objective for Western governments in recent decades, Professors Blanchflower and Oswald argue that evidence from the United States strongly suggests that high home ownership is a major reason for the high unemployment rates of the industrialized nations in the post-war era.**



The Briefing Paper is the tenth publication in the Chatham House-CAGE series, published in partnership with the Centre for Competitive Advantage in the Global Economy (CAGE) at the University of Warwick.



# Fiscal Federalism in the UK: How Free is Local Government?

Ben Lockwood, September 2013

Looking at the effects of party control and performance management schemes on local government and its behaviour, Professor Lockwood's work shows that in spite of the many constraints on local government in England and Wales, party control does appear to matter for expenditure, taxes, and local public employment.

Focusing on performance management schemes, such as the Comprehensive Performance Assessment (CPA), the author also argues that such schemes have increased local government spending and taxation but generally have failed to improve efficiency in the use of resources.



# The Design of Pro-Poor Policies: How to Make Them More Effective

Sayantan Ghosal, July 2013

**A key policy concern in emerging-market economies is the appropriate design of policy interventions to alleviate chronic poverty. Largely missing from conventional analyses of poverty traps are the psychological mechanisms through which the experience of poverty forms the beliefs, values and aspirations of the poor.**

Pro-poor policies tend to focus on relaxing external constraints that may perpetuate poverty traps, such as lack of credit or insecure property rights, but internal constraints such as learned helplessness, pessimistic beliefs and an external locus of control are also important.

These internal constraints are endogenous because they adapt to the experience of chronic poverty. Over time, however, they become an independent source of disadvantage for poor persons in their own right.

Pro-poor policies aimed at raising aspirations will alleviate poverty more effectively than those that address external constraints alone. The 'Dream Building' sessions pioneered by the Durbar Foundation to empower a marginalised, stigmatised community of sex workers in Kolkata provides suggestive evidence of the potential impact of interventions in raising aspirations.



## Working Papers

CAGE publishes a series of working papers which are available online at: [go.warwick.ac.uk/cage](http://go.warwick.ac.uk/cage)

Recent papers include:

### War and Inquisition: Repression in Early Modern Spain

*Author: Jordi Vidal-Robert No. 119/2013*

The Spanish Inquisition (1478-1834) lasted for more than three centuries and conducted more than 100,000 trials. Why would the Spanish Crown adopt this type of repressive institution? What were the actual motives of its activity? This paper explores the role of the Spanish Inquisition as a repressive tool of the Spanish Crown. When the Crown had to move military resources abroad to fight a war, the likelihood of an internal revolt against the Crown increased. To minimize the threat of rebellion, the Crown would use the Inquisition to increase repression (trials) in Spain. In a theoretical framework, the author shows that while the Inquisition would conduct more trials the higher the intensity of the wars fought abroad, it would however decrease its level of repression (trials) if the likelihood of an internal revolt were large enough. This behaviour indicates an inverse-U relationship between inquisitorial and war intensity. To test this prediction, Vidal Robert assesses time series data for seven Spanish inquisitorial districts on annual trials of the Inquisition and wars conducted by the Spanish Crown between 1478 and 1808 and shows that there is an inverse-U relationship between wars and inquisitorial activity. In addition, using a new database of 35,000 trials of the Inquisition, he shows that religious persecution was especially significant during early stages of the Inquisition, while repressive motives better explain its behaviour in later periods.

### Cooperation and Personality

*Authors: Eugenio Proto and Aldo Rustichini No.143/2013*

Cooperating and trusting behaviour may be explained by preferences over social outcomes (people care about others, are unselfish and helpful), or attitudes to work and social responsibilities (plans have to be carried out, norms have to be followed). If the first hypothesis is true, Agreeableness, reporting stated empathy for others, should matter most; if the second, higher score in traits expressing attitude to work, intrinsic motivation (Conscientiousness) should be correlated with cooperating behavior and trust. The authors find experimental support for the second hypothesis when subjects provide real mental effort in two treatments with identical task, differing by whether others' payment is affected.

### Institution Building and Political Accountability

*Authors: Sumon Majumdar and Sharun W. Mukand No.131/2013*

The paper examines the role of policy intervention in engendering institutional change. The authors show that first order changes in the political structure (e.g. introduction of democracy) may be undermined by local political interests and result in persistence in institutions and the (poor) quality of governance. The paper identifies two effects of development policy as a tool for institutional change. One, by increasing political accountability, it may encourage nascent democratic governments to invest in good institutions – the incentive effect. However, we show that it also increases the incentive of the rentier elite to tighten their grip on political institutions – the

political control effect. Which of these dominate determine the overall impact on institutional quality. Under some conditions, by getting the elite to align their economic interests with that of the majority, development policy can lead to democratic consolidation and economic improvement. However if elite entrenchment is pervasive, then comprehensive change may require more coercive means.

### Capital Controls and Recovery from the Financial Crisis of the 1930s

*Authors: Kris James Mitchener and Kirsten Wandschneider No.132/2013*

The authors examine the first widespread use of capital controls in response to a global or regional financial crisis. In particular, they analyse whether capital controls mitigated capital flight in the 1930s and assess their causal effects on macroeconomic recovery from the Great Depression. Mitchener and Wandschneider find evidence that they stemmed gold outflows in the year following their imposition; however, time-shifted, difference in differences (DD) estimates of industrial production, prices, and exports suggest that exchange controls did not accelerate macroeconomic recovery relative to countries that went off gold and floated. Countries imposing capital controls also appear to perform similar to the gold bloc countries once the latter group of countries finally abandoned gold. Time series regressions further demonstrate that countries imposing capital controls refrained from fully utilising their newly acquired monetary policy autonomy. Even so, capital controls remained in place as instruments for manipulating trade flows and for preserving foreign exchange for the repayment of external debt.

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