

# Literature Review of the Causes of the Vulnerability of Poverty in Traditional Economics and Behavioral Economics

Zhanbing Huang, Fangyuan Gao

International Business School of Shaanxi Normal University, China

**Abstract.** Our country is at a critical period of poverty alleviation. Anti-poverty efforts in many areas have achieved remarkable results, but there are still phenomena of returning to poverty after poverty alleviation in some places. This article sorts out the economic research on returning to poverty by scholars at home and abroad. From the perspective of poverty vulnerability, it first sorts out traditional economics research, then sorts out emerging behavioral economics research, and finally summarizes traditional economics and behavioral economics. Considering the understanding of preventing poverty return, this thesis can be used as a reference for a comprehensive understanding of the formation and prevention mechanism of rural poverty return in China.

**Keywords:** Return to poverty, Traditional economics, Behavioral economics, Phishing for phools.

## 1. Introduction

Returning to poverty will have a serious adverse impact on social development. Based on the existing research, this article first summarizes the reasons that affect the vulnerability of the poor from two aspects: the completely rational economic person hypothesis and the limited rational hypothesis. Compare with the effect, compare and summarize the prevention methods, and analyze the existing research.

## 2. Causes of the Vulnerability of the Poor in the Perspective of Traditional Economics

Standard economics believes that, as the main body of economic decision-making, they are full of rationality, that is, the goal they pursue is to maximize their own interests. Therefore, the common reasons for returning to poverty are as follows:

### 2.1 Back to Poverty Due to Illness

To overcome poverty in rural areas in China has always faced two major challenges. One is poverty due to illness (return), and the other is poverty due to disaster. As of the end of 2017, the population due to illness and disability made up the total number of poor 42.3% and 14.4% have become the two main causes of poverty in rural families in China (Poverty Alleviation Office of the State Council, 2018). National health can help improve education and human capital. (World Bank, 2017).

### 2.2 Back to Poverty Due to Disaster

As a country prone to natural disasters, the agricultural ecological conditions in many areas of our country continue to deteriorate. The harsh natural environment and frequent natural disasters are an important reason for the poor to return to poverty after being lifted out of poverty in some areas, and also a continuous test of the effectiveness of poverty alleviation in some poor areas (Pang Berlin, 2019).

### 2.3 Back to Poverty Due to School

The traditional view is that education can greatly promote economic growth and help reduce poverty. However, in a large developing country like ours, the current seriousness of the problem of poverty caused by education and return to poverty needs our attention. Yu Shihua (2005), Chen Pai (2005), Peng Xingting (2005), Zhang Guoqiang (2007), etc. believe that the high and arbitrary fees

for education, the unreasonable educational cost sharing mechanism and the failure of human capital are caused by poverty caused by education Important reasons.

## **2.4 Policy Factor**

As the core subject of national governance, the government plays an important role in poverty alleviation and development (Zhang Xin, Chi Zhongjun, 2015). In the short term, material assistance has brought benefits to poor villages and poor households, but it has little help for their long-term development. In terms of promotion methods, the excessive use of administrative measures has squeezed and replaced the function and role of market mechanisms, resulting in a double superposition of production risks and market risks in current poor areas (Zhang Yaowen, Guo Xiaoming 2019).

## **3. Research on the Causes of Back to Poverty from the Perspective of Behavioral Economics**

Behavioral economics believes that in the practice of economic activities, rational people are not simply economic people, but social, organizational, and ethical social people and organizational people. People's socialized behavior will be restricted by complex social relationships.. Therefore, from the perspective of limited rationality of behavioral economics, the reasons for the vulnerability of the poor are mainly the following:

### **3.1 Scarcity Induces Behavioral Bias**

Based on existing behavioral economics theories, Congdon et al. (2011) classifies human behavioral biases into three categories: imperfect optimization, bounded self-control, and non-standard preferences ( non-standard preferences), these three types of behavioral prejudice limit one's cognitive ability and willpower. The poor are stuck in poverty for a long time because they are more prone to behavioral bias than the rich, making poor choices (Bertrand et al, 2004)..Mullainathan & Shafir, (2013) believes that the imperfect optimization and limited self-control bias of poor people in behavioral choices that lead them to poverty traps is due to the bandwidth tax caused by scarcity.

### **3.2 Failure of self-control Leads to Decision Bias**

Poor self-control is also an important reason for the poor to often fall into the trap of fooling. Even when people realize that self-control will fail and are determined to take action in the future, the results are still less optimistic (NorCross & Vangarelli, 1988-1989). When fighting various comfort zones in daily life, most people will incorrectly predict that they will defeat this battle (Augenblick & Rabin, 2018). Although people know that others have been exercising self-control, they still miscalculate themselves. Make good decisions yourself (Fedyk, 2017; Pronin, Lin, & Ross, 2002).That is to say, the poor will divide the money earned from their labor and the unexpectedly obtained money into different psychological accounts, will treat the income obtained from hard work with caution, and will more easily squander the unexpectedly obtained money, so they will be more likely to fall into the business. .

### **3.3 Decision System Error**

Nobel psychology and economist Kaphneman (2011) believes that human judgment and decision-making generally involve two major cognitive systems: heuristic systems based on intuition 1 and analytical systems based on rationality 2. Therefore, when faced with complex and important decision-making problems, people usually encounter many difficulties and cannot make decisions that meet their wishes and maximize benefits. Economists Thaler and Sunstein (2008) believe that some for-profit companies are taking advantage of consumers' inherent error-prone features such as inertia and negligence, and profiting from these weaknesses and prejudices. This is referred to as "fishing fool" by Akerlof & Shiller (2015). Therefore, they often use intuitionistic

systems that are prone to errors to make decisions, which makes them more easily used by unscrupulous merchants.

#### **4. Intervention and Response to the Issue of Returning to Poverty under the Comprehensive Understanding of Traditional and Behavioral Economics.**

Loewenstein (2017) argues that there are nine ways to deal with problems in the economy, including traditional economic methods and behavioral economic methods. In response to the current phenomenon of returning to poverty, we can organically combine the two methods to deal with it. The poverty alleviation policy should not only provide material support, but also focus on psychological intervention to the poor, and use "nudge" and regulations to conduct behavioral restraint and guidance.

##### **4.1 Traditional Approach: Insurance Policy and Changing Mindset**

(Return) Poverty should become an important tool for China's targeted poverty alleviation, and it has an irreplaceable role in preventing and mitigating the risks of poverty alleviation (Zheng Wei, Jia Ruo, 2018). In terms of medical insurance, Qi Liangshu (2011), Yang Wen et al. (2012), Song Yang, and Zhao Jun (2015) believe that insurable public services such as NCMS can reduce the probability of out-of-pocket medical expenses and catastrophic medical expenses. At the stage of higher education, on the one hand, investment in poverty alleviation education has increased. In terms of guidance, poor people, especially college students, should make reasonable and effective investment according to the actual economic capacity of the family (Huang Luyang, Wang Zhaodi, Tong Hong, 2017).

However, Coate (1995) research pointed out that the poor face Samaritan dilemma when they face risk loss, that is, they are unwilling to buy private insurance and rely mainly on assistance from other groups. Through the guidance of liberal parental style, experimentation, psychological training, cultural education training, and ideological assistance are required to change their concepts and expand channels for poverty alleviation.

##### **4.2 Behavioral Economics:Nudge**

Poverty reduction effects brought about by government aid, direct subsidies and other transfer payment methods are limited, and it is difficult to effectively address the risk of poverty caused by diseases and disasters. Thaler and Sunstein (2008) proposed the theory of nudge, which believed that the liberal parental style and choice structure were the core principles of the realization. Government can use nudging strategies to influence people to reduce poverty and increase employment. Economists Benartzi, S., Beshears, J., Milkman, KL et al. (2017) believe that due to the limited use of high-level cognitive abilities of individuals, traditional interventions affect people's decision-making by changing cost-benefit, which is expensive and time-consuming. Chinese government and some charitable organizations should apply the aid of liberal paternalism to the spending decisions of the poverty-stricken population, increase behavioral knowledge training, and set up professional anti-fishing consulting agencies to make the consumption decisions of the poor more rational and wise, thereby reducing Poverty Alleviation Costs.

Compared with traditional methods, the principle of liberal parental style can be triggered or applied through simple clues and small changes in the selection environment. It has low cost, strong sustainability, and can effectively prevent vulnerability. Therefore, the "nudge" method is widely used in China's precision poverty alleviation practice. There is a distance.

##### **4.3 Combination of Traditional Regulation and Behavior Regulation**

Scholars such as Adam Olier (2017) also studied "budge", that is, the study of human decision-making by behavioral economics and how it sometimes systematically deviates from the assumptions of standard economic theory, which can be easily extended to other social welfare

undertakings. Fields, and even make smarter public policies. Crawford Hollingworth and Liz Barker (2017) studied how behavioral science can be used to prevent brands from using consumers. They believe that regulators and other organizations are recognizing the need for regulatory assistance and the introduction of some behavioral policies that make consumers vulnerable. Protect from the flood of "behavioral gold rushes." Introducing behavioral methods into it can help us better identify some complex market deceptive behaviors.

#### **4.4 Methods to Cope with Failure of self-control**

Regarding the phenomenon of self-control failure, we can avoid it by the following methods. Cognitive strategies and situational strategies are considered as effective methods to solve self-control problems. Cognitive strategy believes that after experiencing the bad experience of self-control failure, self-cognition will lead people to pay attention to themselves and begin to solve this problem (Hagger, Wood, Stiff, & Chatzisarantis, 2010; Inzlicht, Bartholow, & Hirsh, 2015; Inzlicht, Schmeichel, & Macrae, 2014; Kurzban, Duckworth, Kable, & Myers, 2013). Situational strategies, on the other hand, suggest that situational strategies can be particularly effective because they can be executed before people's impulses become strong enough to be noticed, thereby preventing blind impulses (Duckworth, Gendler, & Gross, 2016).

### **5. Conclusion**

Back to poverty is a historical, complex, and dynamic issue, and intervention policies for back to poverty should be adapted to this complex dynamic change. Standard economics based on the assumption of a completely rational person concludes that the reasons for the vulnerability of the poor are from external risk shocks, and there is no subjective decision bias. But in fact, any small impact and change will have a huge impact on the success of the policy, so we can improve individual decision-making by introducing simple hints and small choices in behavioral economics methods to adapt to this dynamic process of returning to poverty.

Taken as a whole, there are more studies in the domestic literature on external risk factors that lead to return to poverty, and less attention is paid to the behavioral characteristics of the poor, that is, how to make decisions on production, investment, and consumption activities, while foreign literature focuses more on A Study on the Internal Psychological Factors of Poor People's Return to Poverty. Thaler believes that the results of behavioral science should be applied to public policy to address individual failures. From the perspective of bounded rationality, behavioral economists have introduced behavioral economic intervention tools, such as reducing the burden on the poor through a series of simplified policies, setting default options, and improving service attitudes. For those small situations that can affect decision-making behaviors, Factors to give more attention to help intervene in the spending decisions of the poor, use regulations to intervene in the fishing of the poor, and encourage more businesses operating in China's rural markets to switch from a one-way fishing model to a win-win situation for both parties. The model is of great significance to enrich the government's tools to prevent return to poverty and reduce the vulnerability of returnees.

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