

**SCARCITY – SENDHIL MULLAINATHAN AND  
ELDAR SHAFIR**

Reviewed by

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Scarcity, a fundamental fact in this sublunary world, is the object of enquiry of this book. There is, of course, an established and venerable science of scarcity in economics, but the focus of the two academics who have authored this book is not physical scarcity, but scarcity as a mind-set. A subjective sense of having more needs than resources that changes our thinking and influences our choices and behaviour, whether as farmers, workers or managers.

A book with an understated salience into behavioural economics and management and supported by ample reference material, it offers diverting insights on how individuals and groups think and act when they feel that they have too little, whether it is money, time or calories. Some of these insights, alas, may be repackaged conventional wisdom or even exertions to show how practice works out in theory, but the book as a whole induces reflection.

Scarcity, say the authors, has its beneficial effects on human affairs. A time-bound meeting produces more tangible progress in the second half; we write better for a tight word limit; sales people work wonders in the last weeks or days of a sales season, and why, we would even savour and hoard the last chocolate. In all these instances, scarcity captures our mind to the exclusion of everything else and creates a ‘focus dividend’.

And the poor, for ever in the grip of scarcity, appear much closer to the economic ideal as they have their own internal metric by which to assess a dollar’s worth. Scarcity gives them a sense of the value of things that those who live with abundance will lack. It is not that the poor are always rational, but their expertise in stretching the dollar can make them appear more rational and less prone to inconsistencies in some contexts. Even in the world of nature, scarcity seems to hold its lessons: bees create precise

structures in beehives and wasps messy ones, because the former build with material that is scarce and the latter with material that is abundant.

But the gains of scarcity do not go far, say the authors, because scarcity also causes us to ‘tunnel’, resulting in our neglecting considerations that fall outside the tunnel. Now focus is positive, but tunnelling is not, because when we neglect other concerns, we become less effective or we find our bandwidth shortened. The bandwidth tax can vary in different contexts of tunnelling in accordance with the stakes involved. It is likely to be far larger for the poor [for example, the poor farmer failing to insure his crop or his health while struggling to make both ends meet] than for the busy executives with their commitments and deadlines or for the dieters who find that their observance of the calorie regime leaves them with fewer mental resources or an impaired bandwidth. Scarcity as a mind-set not only leads us to over borrow or to fail to invest, it also makes us dumber or more impulsive, with less fluid intelligence and diminished executive control. The contrasting situation, which is to be desired, is ‘slack’. It allows us to feel that we do not need to make the kind of costly trade-offs that is the story of India’s poor farmers at one end and the busy managers with persistent time concerns at the other. The challenge is to enable those whose bandwidth is used up in managing scarcity to acquire slack.

Exploring scarcity as a condition, a mind-set and as a trap and poverty as the paradigm of scarcity takes up a large part of the book. A consequence of tunnelling, borrowing corresponds to human behaviour in other contexts as well. Missed deadlines are a lot like overdue bills. Putting off an important but not urgent activity is like borrowing because you gain time today by not doing it. When working to finish things quickly, engineers tunnel; a quick fix is just the thing needed. Much like an expensive loan, a hastily patched solution looks attractive within the tunnel. Patching is a lot like borrowing; a failure to invest and to commit the resources now so that the job is done correctly. A similar focus on the urgent at the expense of the important is also observed by the authors in the workings of governments that, over decades of tight budgeting, have slashed spending on infrastructure.

The authors’ treatment of the scarcity trap – where “the poor stay poor, the lonely stay lonely, the busy stay busy and diets fail” – focusses on Indian farmers and vendors, both categories representing hapless millions whose behaviour itself contributes to their scarcity trap, besides the original want of physical resources. It all boils down to a misuse of assets by being constantly one step behind and constantly paying off last month’s expenses, thus compounding an initial scarcity by behaviours that

magnify it. Juggling of debts and obligations reinforces the scarcity trap, the village moneylender with the offer of easy access and flexible business hours completing the picture. The authors find similar behaviour patterns with those who juggle with the piles of to-dos, double-booked appointments or accumulated projects with narrowly-separated deadlines. The core of the scarcity trap is simply “not having enough slack to deal with the shocks the world brings”. Getting out of it requires planning which the scarcity mind-set does not easily accommodate, while implementation can prove difficult because it requires bandwidth and cognitive control. As to the solution, the authors variously advocate for India’s debt-ridden farmers and vendors insurance against some of the shocks, liquid savings accounts and low cost loans. Surely we know that.

Poverty as a paradigm of scarcity offers no option, unlike the other scarcity conditions confronting the overcommitted professional or the calorie-starved dieter. As well as precarious material conditions we ought to consider the psychological conditions or the overtaxed bandwidth of the poor, with all its dismal consequences. For the poor are poor at farming, inconsistent in consumption of medicine and as parents less likely to provide a good home environment to look after children. On the other hand, the bandwidth of the poor are not permanently compromised. When income rises, so also does the cognitive capacity of the poor.

Improving the lives of the poor, then, is the challenge that we must place before ourselves as we reflect on scarcity as a human condition that circumscribes bandwidth. I found this part of the book the most thoughtful. The authors have several instructive suggestions to make anti-poverty programmes more effective. Training programmes for the unemployed poor could do with more careful design so as to make them more fault-tolerant and the classes themselves less linear. Measures to limit welfare programmes could be made more effective by making them more attention-grabbing and by phasing the welfare programmes; conditional cash transfers could be so recast as to bring the incentives straight into the ‘tunnel’; in parenting skills and enterprise management training, programmes making the classes shorter and teachings much easier to grasp, and when it comes to loans, providing to the poor what the moneylender can easily offer but without his extortionate terms. Above all, create financial products that help the poor build savings slack; design a financial product that takes a farmer’s harvest payment and turn it into a monthly income arrangement. Rather than looking at education, health, finance and child care as separate problems, the authors would have them treated as part of a poor person’s bandwidth capacity. In this context, they briefly consider micro finance [as something unlikely to change the fundamental logic

of poverty, unless a better design is attempted] feeding programmes [as having some impact on children's learning] and education [as having a robust, but quite limited return].

In speaking of managing scarcity in organizations, the authors warn against the tendency to undervalue slack, pointing out the management consultant's penchant for making workers with "unused" time [but meant for dealing with emergencies] use it more efficiently. Building slack in an organization is actually to look beyond what must be done now to think sufficiently about all the things that can arise in future. When cutting, argue the authors, it can be hard to separate out true waste from useful slack. Many of the companies that had been leveraged in the 1980s so as to make them lean and mean found themselves on the brink of bankruptcy in the 2000s because of "managers, who would mortgage the future to make ends meet today". As an example of explicitly managing and ensuring the availability of slack, the book points up the institution of 'chief risk officers' in many banks in the wake of the financial crisis of 2008, their sole function being to monitor risk unlike the managers who 'tunnel' on making big profits. Another issue of scarcity in organizations that is highlighted in the book is bandwidth in relation to efficiency and productivity. Nearly a century ago, Henry Ford recognized the distinction between hours and bandwidth by showing how reduction of shift length meant more output. On the other hand, for those who are desperate for time and making the requisite trade-offs to squeeze it into a busy schedule, the authors would commend the Jewish Sabbath as one of the wisest interventions that we know of, "God's gift of time", in Joshua Heschel's words.

The MBA student lolling around when the deadline was far off, but struggling furiously in the few days before it and the farmer who failed to save when his cash was plentiful after harvest but strapped for funds while waiting for the next crop, both demonstrate that abundance seems to have in it the seeds of eventual scarcity. If one reflects sufficiently on this recurring human predicament, one would not find it hard to understand how the acute scarcity of the financial crisis of 2008 had its roots in the lax behaviour of the preceding few years of abundance. Yet human frailty – and life – go on.

An insightful exploration of a reality that is so much part of the human condition, this book covers a wide ground with clarity and finesse.

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