The Psychology of Poverty: Current and Future Directions

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Abstract

An emerging literature on "the psychology of poverty" suggests that the experience of poverty itself has psychological consequences, some of which may make escaping poverty more difficult. We synthesize the evidence base from both psychology and economics using an organizing framework comprising four sets of mechanisms: cognitive function, mental health, beliefs, and preferences. We discuss the strength of the evidence supporting both how poverty affects these four mechanisms, and how these four mechanisms in turn affect poverty. As our review shows, the existing evidence has clearly established proof of concept that psychological factors exist in the experience of and response to poverty. However, there is still a lack of evidence on whether these effects are meaningful in magnitude and lead to the perpetuation of poverty. We conclude by summarizing promising future directions for research which could help close these evidence gaps, with important implications for the design of poverty reduction policies.

Keywords: psychology of poverty, cognitive function, mental health, beliefs, preferences

The Psychology of Poverty

The same farmer in India appears to have a higher IQ after receiving their harvest payment than beforehand (Mani et al., 2013). Low-income households in Kenya who receive a cash transfer subsequently have lower rates of depression (Ridley et al., 2020). In the U.S., during the times of the month when money is more abundant, the same parent engages in more conversation with their toddler — a key predictor of children's cognitive development and school performance (Ellwood-Lowe et al., 2022). After their payday, manufacturing workers make fewer mistakes, produce more output, and therefore earn higher pay (Kaur et al., 2024). A unifying pattern that emerges across these examples is that the same person appears to display higher abilities, improved psychological health, or "better" decision making when their financial hardship is reduced.

These examples are part of a growing literature on "the psychology of poverty," the idea that the experience of poverty has direct psychological consequences which could make escaping poverty more difficult. This review synthesizes recent evidence on the psychology of poverty, highlights open questions and challenges, and discusses future directions. As the review indicates, researchers are still in the early stages of understanding whether poverty has psychological impacts that can perpetuate poverty, particularly relative to more structural factors. Understanding these psychological mechanisms is important because they have the potential to expand the set of tools we have available to combat poverty.

A FRAMEWORK FOR THE PSYCHOLOGY OF POVERTY

To guide our synthesis, we introduce an organizing framework of four key mechanisms that comprise work in the psychology of poverty: cognitive function, mental health, beliefs, and preferences (Figure 1). These four sets of psychological mechanisms are not mutually exclusive and may interact and reinforce each other in important ways. Throughout our review, we consider studies of poverty in both low- and high-income countries, as one of the strengths of this literature is the potential applicability of its hypotheses across these contexts. While not all psychological responses to poverty

are negative — indeed, individuals may develop positive adaptations and strengths to function in adverse contexts (e.g., Ellis et al., 2017) — we focus our attention on psychological reactions that may play a role in perpetuating poverty. We begin by discussing some psychologically-relevant features of poverty, then examine evidence for each of the four kinds of psychological mechanisms, and conclude with a discussion of future directions and policy implications.

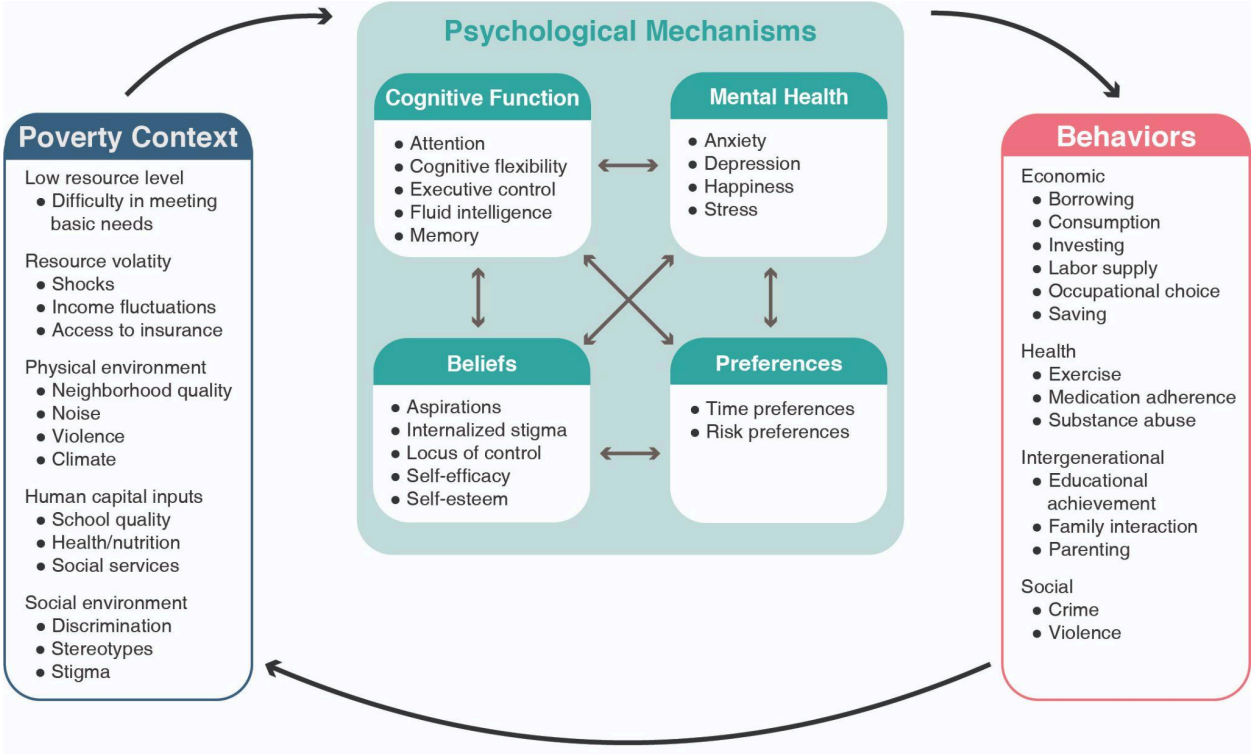

Figure 1: Framework for the Psychology of Poverty. This organizing framework hypothesizes causal links between the context of poverty, various psychological mechanisms, and behaviors that may perpetuate poverty.

The Poverty Context

Across countries, a person is formally considered poor if their average annual income or consumption falls below some minimum threshold required to meet basic needs. By definition, whether they live in high- or low-income countries, people in poverty struggle to buy food, pay rent, or afford opportunities for their children. These similarities raise the possibility that the experience of poverty

activates similar psychological mechanisms across contexts (Mani et al., 2013)[1]. Much of the existing research has focused on examining the behavioral impacts of changing total resource levels, such as through studies of cash transfers, which provide a windfall of money to a randomly selected group of people.

As we emphasize in Figure 1, the experience of poverty extends beyond simply having few resources. Poor individuals also face enormous volatility: their income fluctuates starkly from week to week, they frequently experience illness and other shocks, and they typically have inadequate access to insurance and financial tools to help cope with these risks (Collins et al., 2009). Poverty is also associated with high levels of environmental stressors, such as pollution, extreme temperatures, violence, and low neighborhood quality. Those living in poverty, especially in rural areas, typically also have limited access to quality schools, nutritious food, and health services, all of which can affect human development and wellbeing. The social experience of being poor brings additional challenges, including increased discrimination, stigma, and harmful stereotypes. A large literature in social psychology indicates that such social experiences can have adverse cognitive and affective impacts on individuals, regardless of income. Together, this implies that poverty likely has psychological effects that extend beyond those resulting from just having a low income level—an area that remains relatively unexplored in this literature.

Cognitive function

Experiencing poverty may influence cognitive function through several channels. According to *scarcity theory,* one such potential channel is attentional capture: the worries and concerns associated with poverty may involuntarily consume an individual's attention (Shah et al., 2018). Indeed, the average low-income American reports spending 6.4 hours each week distracted by thoughts of their finances while at work (Sergeyev et al., 2023). This governs what is top of mind. For example, when asked to

[1] While this literature often implicitly assumes that the psychological impact of not being able to meet basic financial needs is different from other sources of stress (e.g. a stressful job), research directly examining this premise remains limited.

reflect on a visit to the doctor, higher-income participants think about their diagnosis, while lower-income participants are more likely to think about costs (Shah et al., 2018).

This involuntary capture of attention is hypothesized to generate two opposing effects. On the one hand, increased focus on financial concerns consumes cognitive resources and may therefore improve performance on tasks related to those concerns—referred to as "tunneling." For example, when ordering food, participants randomly allocated a smaller budget pay more attention to prices and recall them more accurately than participants with a larger budget (Zhao & Tomm, 2017).

On the other hand, this involuntary draw of attention is hypothesized to lead to neglect of other information outside the tunnel, "attentional neglect," as well as to leave less cognitive resources available for other tasks, the "bandwidth tax." Work on scarcity has largely focused on testing for the bandwidth tax (for a recent review see de Bruijn & Antonides, 2021). For example, in a seminal study, Mani et al. (2013) exploit the fact that the harvest date for sugarcane farmers in India is essentially randomly assigned by the sugar mill. They document that the same sugarcane farmer exhibits higher cognitive function after harvest (when they are cash rich) than before harvest (when they are cash poor). More recent work has begun to use real variation in income to examine impacts on field behaviors. For example, in math tests with random question order, low-income students do worse on a question if it immediately follows a question related to money (which presumably triggers financial worries), while there is no such decline in performance for richer students (Duquennois, 2022). And manufacturing workers who are randomly paid a few days earlier, and hence can alleviate their immediate financial concerns, subsequently pay more attention at work and make fewer mistakes than their coworkers who have not yet received their payment (Kaur et al., 2024).

Whether the bandwidth tax is a robust, replicable phenomenon remains a topic of much debate (e.g., O'Donnell et al., 2021; Shah et al., 2023). This debate reflects some methodological challenges in both the early studies and in the replications. For ethical and practical reasons, many studies use light-touch

manipulations, such as imagining an unexpected expense of fixing a broken car, rather than manipulating real financial changes. Many studies also employ laboratory measures of cognitive function which have not been well validated in developing countries. More generally, scarcity theory fails to make clear *a priori* predictions about when scarcity should produce positive tunneling versus negative attentional neglect or bandwidth tax effects. Future research should develop and test more precise hypotheses about when each of these effects will occur.

Poverty may also affect cognitive function through structural channels. For example, low-income students typically attend lower quality schools with worse pedagogical practices, such as more disruptive environments and less time in independent classwork—features which could affect cognitive development (Brown et al., 2024). Consistent with this, when low-income primary school students are randomly assigned to spend more time doing independent, cognitively challenging work during the school day, they exhibit significant improvements in sustained attention, cognitive performance over time, and school grades (Brown et al., 2024).

Living in poverty often also entails increased exposure to environmental stressors such as noise pollution, which has been found to negatively affect cognitive performance across diverse contexts (Thompson et al., 2022). Indeed, a field experiment with low-income workers in Kenya finds that exposure to engine noise at work significantly impairs cognitive function and, consequently, productivity and earnings on the job (Dean, forthcoming). Finally, childhood malnutrition occurs far more frequently in low-income households compared to their wealthier counterparts (e.g., Rahman et al., 2021). Malnutrition and cognition are believed to be negatively correlated, and recent evidence suggests this relationship could be causal. For example, a randomized trial in India finds that a nutrition-focused intervention for malnourished preschool children significantly improved children's cognitive development (Ansuya et al., 2023). These examples illustrate how the structural disadvantages of poverty can generate adverse cognitive effects.

Mental Health

Poverty may negatively impact mental health, particularly stress, anxiety, and happiness, and can increase the likelihood of mood disorders such as depression. Across settings, lower income is correlated with worse mental health. There is mounting evidence that this relationship is causal. For example, a meta-analysis finds that cash transfers consistently reduce anxiety and depression in low-income individuals (Ridley et al. 2020). Similarly, when people living in poverty receive free health insurance, which reduces unexpected healthcare spending, they experience significantly less stress (Haushofer et al., 2020).

The mental health impacts of poverty in turn have consequential effects on a wide range of behaviors. A meta-analysis of 31 randomized trials in developing countries finds that treatments for mental health generally increase education and hours worked, particularly when psychosocial interventions are combined with either a pharmacological or economic component (Lund et al., 2024). For example, patients who were randomly assigned to receive a brief behavioral activation therapy to treat depression in India worked 2.3 more days per month on average (Patel et al., 2017). Among mothers in rural Pakistan, a randomly assigned psychotherapy intervention to treat postpartum depression significantly increased parental investments in children seven years after the intervention, including increasing the likelihood of parents sending their children to higher quality schools and helping with their studies at home (Baranov et al., 2020).

Taken together, the evidence linking the experience of poverty to poor mental health, and mental health to behavior, seems robust, and psychosocial and pharmacological interventions appear to be effective in promoting behaviors that may benefit individuals in the long-term. However, more research is needed to understand how to deliver these interventions cost-effectively and at scale.

Beliefs

Experiencing poverty may lead individuals to hold negative beliefs about themselves, particularly related to their abilities, potential, and future, which may in turn affect their motivation and actions. Experiencing persistent poverty may reduce a person's aspirations and hope for the future (Dalton et al., 2016), potentially because existing conditions serve as reference points and individuals have limited abilities to imagine alternative realities. As poverty is often characterized by increased volatility and vulnerability to shocks, poverty may also lead individuals to believe they have little control over their lives, or a low "locus of control" (Preuss & Hennecke, 2018). Exposure to negative stereotypes may also affect low-SES individuals' beliefs and motivation (Laurin et al., 2019), possibly through internalized stigma and negative self-esteem. While there is some evidence that these links are causal, as randomly allocated unconditional cash transfers significantly raise aspirations among those living in poverty (Orkin et al., 2023), more work is needed to assess the causality of the relationship between poverty and beliefs.

A recent explosion of field experiments have examined the effects of interventions designed to change beliefs and found positive effects across diverse settings. For example, randomized trials have found that interventions aimed at raising aspirations or visualizing alternative realizations of the future significantly increased investment and wealth among low-income villagers (Orkin et al., 2023) and the use of preventive health products (John & Orkin, 2022) in Kenya. Interventions aimed at increasing locus of control and self-efficacy significantly raised teacher effort in India (Kaur, 2024) and improved firm profits for small-scale entrepreneurs in Togo (Campos et al., 2017). Moreover, reducing the stigma associated with receiving aid increased the time aid recipients subsequently spent on learning new skills (Thomas et al., 2020).

Taken together, these results suggest that interventions aimed at changing beliefs can lead to positive changes in behaviors. However, it is not clear which specific belief constructs mediate the impacts of the interventions on behaviors, as beliefs are often amorphously defined and differ across studies; thus,

future research should examine the mechanisms at play. More work is also needed to understand whether belief-change interventions can have persistent effects in the long run.

Preferences

The economics literature assumes that time and risk preferences are important for predicting behaviors. Focusing more on the present relative to past or future time periods should make "tempting" behaviors (where benefits are experienced in the present and costs deferred to the future) more appealing, but "investment" behaviors (where costs are experienced in the present and benefits deferred to the future) less appealing. Indeed, an individual's time preferences are as powerful a predictor of their wealth as their level of education (Epper et al., 2020). Risk preferences are theorized to affect an individual's willingness to undertake activities and investments with high expected returns. Different aspects of poverty are hypothesized to affect time and risk preferences. Poverty is often characterized by the need to respond to immediate needs, which could encourage a focus on the present to the neglect of future consequences. The fact that poverty often entails an increased exposure to everyday risks is hypothesized to increase risk aversion, which could prevent low-income individuals from taking risks that are necessary to improve expected earnings.

While some correlational evidence supports these hypothesized links, causal evidence is scarce and mixed. Some studies suggest that economic stress increases impatience (e.g. Bartoš et al., 2021), but non-psychological factors such as changes in liquidity may explain this effect (Carvalho et al., 2016). Findings from cash transfer studies are also mixed, with some studies finding that cash transfers significantly increase risk taking (Bianchi & Bobba, 2013), while others find no effects (Prifti et al., 2019). One reason for the inconsistent findings is the inherent difficulty in measuring these constructs (e.g., Augenblick et al. (2015) on time preferences and Barseghyan et al. (2018) on risk preferences). Given the mixed evidence, it remains an open question whether and how poverty impacts time and risk preferences. It also remains unclear whether measured time and risk preferences lead to, rather than just correlate with, behaviors.

Interactions between Psychological Mechanisms

These four kinds of psychological mechanisms may also interact with and reinforce each other in important ways. For example, randomized trials have found that cognitive behavioral therapy (CBT) reduces crime and violence and improves educational attainment in low-income individuals in Chicago and Liberia (Heller et al., 2017; Blattman et al., 2017). CBT teaches people how to regulate their automatic responses to stressors, likely achieving the observed behavior change through multiple psychological channels, including cognitive function, mental health, and beliefs. As another example, living in poverty often entails worse sleep conditions, leading to more disrupted sleep (Bessone et al., 2021). Poor sleep in turn has been linked to myriad psychological consequences, negatively impacting attention, memory, and mood (Banks & Dinges, 2007). As these examples illustrate, changes in one psychological mechanism could have consequences on another, but to date, research on how these mechanisms interact to influence behavior is limited.

Concluding Remarks

There has been a recent surge of research testing interventions specifically aimed at psychological mechanisms to reduce poverty, often with promising results. These range from interventions common to clinical psychology, such as psychotherapy, pharmacology, and CBT, to other types of interventions that target aspirations, self-efficacy, and stigma. Cash transfer studies have found that changing material circumstances have significant effects on psychological outcomes. These studies have established proof of concept that psychological factors exist in the experience of and response to poverty.

However, there is still a lack of evidence on whether these psychological effects are large enough in magnitude to meaningfully impede an individual's ability to escape poverty. A key frontier of this literature is assessing the relative importance of psychological factors relative to more market-based or structural factors in the perpetuation of poverty. The existing theories also suggest that poverty can activate many potential psychological mechanisms. In order to design more effective interventions, more precise theory and evidence are needed to better predict when a given mechanism will be at play.

To do so, we will need to improve the precision with which we can measure psychological constructs in diverse, real-life settings. Furthermore, while an increasing number of studies examine the impact of changing resource levels, the psychological effects of other dimensions of poverty may be just as important but are less understood.

Making progress on these questions is important because it has the potential to reshape the design of poverty reduction policies. For example, this literature implies that cash disbursement timing and frequency should be carefully considered in the design of income support programs. Similarly, offering mental health services to low-income individuals could constitute an alternate strategy to boost employment levels or increase parental investments in children, complementing traditional approaches such as job training or early childhood programs. The existing evidence makes a strong case for considering psychological factors in policy design, and future studies should test psychological mechanisms directly to expand the toolkit for combating poverty.

Key Open Research Questions

- Are the psychological impacts of poverty economically meaningful in magnitude, especially when compared with more market-based or structural factors?
- Are the psychological effects of poverty large enough to impede an individual's ability to escape from poverty?
- What are the psychological consequences of the higher volatility faced by low-income individuals (holding constant average income levels)?
- How might the psychological consequences of poverty be passed down intergenerationally?
- How do the psychological effects of poverty compare across different cultural contexts and across high- versus low- and middle-income countries?
- How can we adapt measures of the psychological causes and consequences of poverty to diverse real-world settings and populations?

- Given that poverty can activate different psychological mechanisms, how can we predict when a given mechanism will be at play?

Recommended Reading

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Table 1. Glossary of Terms

Term	Definition
Aspiration	Hope or ambition of achieving something
Attentional capture	The involuntary direction of attention to a set of thoughts, which interrupts other cognitive processes
Cash transfer studies	A common type of study that typically randomizes whether a recipient receives a sudden windfall of money or not from among a pool of eligible recipients, with cash amounts varying across studies.
Liquidity	The ability to borrow or otherwise acquire cash to pay for current expenses
Locus of control	The extent to which people feel they have control over the situations and experiences that affect their lives
Psychology of poverty	The hypothesis that poverty has direct psychological consequences, some of which make escaping poverty more difficult
Risk aversion	An individual's propensity to prefer outcomes with low uncertainty over outcomes with higher uncertainty
Risk preference	The attitudes people hold towards situations, rewards, and outcomes involving uncertainty or risk
Self-efficacy	Beliefs in one's capabilities to organize and execute a course of action necessary to produce specific outcomes
Self-esteem	A subjective sense of personal worth or value
Shocks	Unexpected events that are meaningful in magnitude that can either be positive or negative
Stereotype	A generalization, usually exaggerated or oversimplified, that is used to describe or distinguish a group

Stigma	A negative belief or attitude associated with a particular characteristic of an individual or group, which can be a factor in social disapproval or discrimination
Time preference	How an individual trades off payoffs in the present for payoffs in the future

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