



## The psychology and behavioural economics of poverty

Paul Anand<sup>a,\*</sup>, Stephen Lea<sup>b</sup>

<sup>a</sup> Open University, Economics Department, Milton Keynes MK76AA, United Kingdom

<sup>b</sup> School of Psychology, Washington Singer Laboratories, Exeter University, Exeter EX4 4QG, United Kingdom

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### ABSTRACT

The paper provides an overview and assessment of an emerging literature on the psychology and behavioural economics of poverty. We particularly highlight poverty experiences, role of neighbourhoods, poverty dynamics and transmission, child poverty and disability and personal finance. In addition we consider psychology and policy responses by looking and autonomy and empowerment, and poverty reduction programs. Our central thesis is that the detailed knowledge of individual experiences, cognitions and social factors in psychology and related social science complements the traditional economic emphasis on structural factors and policy instruments in a way that is exemplified by emerging work in behavioural economics. We conclude it is increasingly recognised that poverty reduction policies which are informed by behavioural insights may, as a result, be more effective.

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### 1. Introduction – the rise of behavioural insights in poverty analysis

An initial motivation for this paper was an interest in trying to identify areas in which psychology can contribute to the development of theories and evidence that help understand poverty and aid the design of policy. For many decades, macro-, trade and regional economics provided key frameworks for the formulation of poverty reduction policies – and indeed they still do. Typically researchers using this analysis have assumed the poor to be rational and have focussed on employment and education as the key escape routes.

By contrast the emerging, behavioural approach to poverty has started to look in-depth at the cognitive, motivational and even sociological limits on action. It is more micro in focus, i.e. has a richer description of the individual, and to some extent has a different approach to rational choice. It seems to share with traditional economics, an instrumental approach to rationality – so it assumes that even the poor are means-ends oriented but weakens the assumption that they are all knowing and perfect calculators.

\* Corresponding author.

E-mail address: [P.anand@open.ac.uk](mailto:P.anand@open.ac.uk) (P. Anand).

At the same time, the evolution of international policy around poverty reduction and welfare assessment has, in recent years, been particularly influenced by the construction of the capabilities approach to welfare economics (Sen, 1985; Sen & Nussbaum, 1993). Basically, this approach expands on the traditional, essentially utilitarian framework of 20th century welfare economics by emphasising the fact that welfare is *multi-dimensional*, that *opportunities* to do things one has reason to value are of particular importance, that people are *heterogenous* in their conversion resources into welfare outcomes at very different rates, and that monetary assessments provide only *indicators* of wellbeing and may not identify as being poor those who would be so identified by other criteria.

These two developments in economic analysis, behavioural economics and the capabilities approach in economics have different intellectual origins but can be highly complementary when it comes to thinking about the best ways to life people out of deprivation. Crudely put, the capabilities approach has been good at helping us broadly about what deprivation is whilst the behavioural approach is beginning to show us how effective policies can be designed, given what we know about human nature, behaviour and decision-making. This complementarity informs the design of this overview, though having said that we shall be focussing on the psychological and cognate social sciences as they relate to poverty and its analysis.

Against that background, our overview and assessment of psychologically informed literature relating to deprivation is structured in two parts. Sections 2–5 seek to understand various aspects of poverty whilst Sections 6 and 7 focus more on the design and evaluation of policy interventions. Specifically, Section 2 provides an overview of psychological work on the experience of poverty and highlights the importance of neighbourhood whilst Section 3 looks at some work on poverty dynamics and transmission. Section 4 moves onto consider research on poverty and children, including families with disabled children and concludes with a discussion of some policy responses. Section 5 illustrates the growing interest in financial services with discussions of work on problem debt and the scope for compulsive behaviour to be associated with financial problems. The final two main Sections 6 and 7, deal respectively with empowerment and poverty reduction programmes, both areas in which psychology and economics have focussed on questions of policy response. Section 8 highlights briefly some key points and directions for future work.

## 2. The experience of poverty in high and low income countries

Descriptions of poverty in the literature have a long and all too familiar history but it is nonetheless useful to be reminded that not only is poverty usually an unwanted and unwarranted state to which large proportions of the world's population are consigned, but also that aspects of deprivation can be experienced as a psychological state that is unpleasant, potentially extremely so, and related to a variety of mental and physical health issues that can significantly shorten life-expectancy.

A relatively recent approach to the description of poverty experiences can be found in qualitative work by the Norwegian psychologist Kjell Underlid (2007) who sets out to study the 'subjective meaning of relative poverty in affluent welfare states as experienced by the poor themselves'. In particular he uses in-depth interviews to explore cognitive and affective aspects of poverty, especially feelings of insecurity, to examine people's experience of unsatisfied needs, including unsatisfied psychological needs which he sees as 'deep-seated, general, continuous and widespread urges, desires or wants that may be more or less conscious/unconscious'. The outcome of this project is what might be called a thick description of poverty experiences, one that highlights *sense of dread* about the future and *disrupted family relations* across generations. The metaphors used by those experiencing poverty, and their references to frustration and death, is particularly revealing – poverty for one person is like drowning and for another like climbing a steep mountain, believing that you are nearly reaching the top and then feeling the ground slipping from under your feet.

Underlid emphasises in poverty experiences what he calls insecurity and notes the extent to which poverty interpenetrates various domains of life illustrating his points with a number of case-studies. Mette, for example, lives mainly on social security, though she dislikes going to the social security office; she was abused by her father as a child and has had similar experiences with two husbands; she has little capital or debt and her social network is limited to a small number of friends. Her means outweigh her expenses by a substantial margin, she has been arrested for shoplifting which was financially motivated and 'traumatisation, crises, unhappiness, conflicts and oppression' are central themes in her life. Underlid also discusses coping strategies and finds that some respondents are quite confident about their abilities to cope citing factors related to previous coping, experience of life in general or personality. Overall, he concludes that his respondents have a subjective need for security which poverty frustrates, that emotional reactions vary from 'moderate unease to panic', and that these feelings seem to be related to a person's objective impoverishment. However, he allows that other feelings, social devaluation, loss of autonomy, devalued self-images, anger, shame guilt and sadness may also be core facets of the experience of poverty – his claim about insecurity is not a relative one – just that is one central aspect of what people in poverty experience. He also argues that whilst a qualitative approach makes generalisation difficult, the case-studies help to reinforce the point that for any individual, poverty is the result of a constellation of factors unique to that individual, a point that is consistent with more quantitative approaches which are also now coming to emphasise both individual heterogeneity and multi-dimensionality.

In work that complements the individual case-study approach, Carolyn Cutrona and colleagues have sought to determine the extent to which mental ill-health is a function of neighbourhood or community characteristics. Bronfenbrenner (1979) and Jessor (1992) both hypothesised that context is important for human development and welfare though most of the research focuses on delinquency, crime, physical health and parenting practices and so the question Cutrona, Wallace, and

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