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Psychology and Cash Transfers

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18.1 Introduction

This chapter reviews the evidence on the psychological effects of cash transfers. First, we consider the evidence that cash transfers affect individuals' well-being: life satisfaction, emotions, or mental health. Improved "psychological well-being" may be an end in itself for individuals and policymakers and something not captured in full by revealed-preference welfare analysis. This deals with different ways (beyond consumption) of measuring cash program impacts, while ultimately still measuring utility improvements.

Second, we review evidence suggesting cash or asset transfers may have positive "psychological productivity" (Banerjee et al. 2020a) or "behavioral" (Orkin et al. 2023) effects, alongside conventional wealth effects. Work in behavioral development economics explores whether psychological factors or "internal constraints" hinder impoverished individuals from pursuing work or investment opportunities, despite potentially high returns, reducing wealth accumulation.[1] These constraints may result from the daily stress and long-term lack of opportunities faced by impoverished individuals. Cash transfer programs enable the study of psychological effects of exogenous income changes. Rather than drawing on psychology literature to measure utility improvements, the work covered in this part of the chapter deals with psychological effects of receiving cash that may impact economic behaviors with economic consequences. Such effects could help resolve apparent puzzles less easily explained in standard economic models, such as why cash transfers tend not to reduce labor supply. In the third section, we discuss potential open questions.

We exclude effects of cash transfers on psychological characteristics that relate to people's behavior toward others, such as redistributive preferences, or effects on social or household norms.

18.2 Effects of Cash Transfers on Well-Being and Mental Health

How much "better off" do cash transfers make people? One economic answer is that utility increases to the extent transfer recipients choose bundles of consumption and leisure they

could not previously afford. But increasingly, researchers and policymakers prioritize how economic policies impact direct survey measures of "psychological well-being," capturing aspects not revealed by choices alone (Dolan and Fujiwara 2016; Benjamin et al. 2020).

Specific concepts measured in this literature with validated survey questionnaires include a person's life satisfaction, feelings of happiness, and symptoms of mental illness. Mental illnesses are defined in terms of groups of symptoms and represent more than just low life satisfaction or happiness (e.g., depression symptoms include problems with sleep, appetite, and concentration). These measures correlate negatively with income: Average life satisfaction in low- and middle-income countries (LMICs) is low, and conditions such as depression are most common among the poorest within these countries (Stevenson and Wolfers 2013; Ridley et al. 2020).

18.2.1 Life Satisfaction, Happiness, and Mental Health

There is robust evidence that cash transfer programs causally increase individuals' "well-being": life satisfaction, happiness, and mental health. Figure 18.1 displays findings from recent meta-analyses on effects of cash transfers on well-being in LMICs, with slight differences in their inclusion criteria or methods. Cash transfers significantly increase measures of happiness or life satisfaction by 0.13–0.18 standard deviations (SD), depending on whether non-randomized controlled trial evidence and conditional cash transfers (CCTs) are included (Romero et al. 2021; McGuire et al. 2022).[2]

Cash transfers also improve mental health, by around 0.1SD,[3] or a 3–5 percentage point reduction in the proportion reaching the cutoff for likely depression diagnosis.[4] Such meta-analytic effect sizes compare programs in which many features vary at once, an issue we discuss later. The best evidence on any single program probably comes from large-sample randomized control trials (RCTs) of substantial lump sum transfers by the NGO GiveDirectly in East Africa, which find positive significant effects on mental health between 0.03–0.15SD and subjective well-being between 0.07–0.24SD (Haushofer and Shapiro 2016; Egger et al. 2022; Orkin et al. 2023).

Effects of cash transfers on well-being fade slowly and are often still positive years after transfer receipt: A linear fit to existing study results suggests effects of a typical cash transfer would take ten years to vanish (McGuire et al. 2022). Few studies measure effects beyond five years, although by 2030, an ongoing study will offer evidence on well-being effects of receiving a monthly transfer for twelve years (Banerjee et al. 2020b).

This evidence cannot easily separate effects of the cash itself from other effects of participating in a transfer program (e.g., due to conditionalities, or recipients feeling "lucky" or encouraged). We are aware of little evidence that compares the psychological effects of income from transfer programs to income from other sources, such as earnings, within identical populations. We return later to how features of cash transfer program design may impact psychological effectiveness.

		Study inclusion criteria:			Number of:	
Meta–analysis	**Outcomes included**	**Research drsign**	**Transfer type**	**Other**	**TEs**	**Studies**
	Mental health					
McGuire et al 2022	Depression, anxiety, or stress	RCT or quasi–experimental	UCT or CCT		39	31
Thomson et al 2022	Depression, anxiety, or stress	RCT or quasi–experimental	UCT, cash plus or CCT	Working–age adults only	18	14
Wollburg et al 2023	Depression or anxiety	RCT	UCT or CCT	Validated symptom checklists	16	11
Wollburg et al 2023	Perceived stress	RCT	UCT or CCT	Validated symptom checklists	9	7
Romero et al 2021	Depression	RCT	UCT		39	17
Romero et al 2021	Anxiety or stress	RCT	UCT		18	10
Romero et al 2021	Depression	RCT	CCT		7	3
Romero et al 2021	Anxiety or stress	RCT	CCT		6	2
	Subjective well–being					
McGuire et al 2022	Happiness or life satisfaction	RCT or quasi–experimental	UCT or CCT		33	26
Romero et al 2021	Happiness or life satisfaction	RCT	UCT		25	13
Romero et al 2021	Happiness or life satisfaction	RCT	CCT		1	1
	Pooling mental health and SWB					
McGuire et al 2022	Depression, anxiety, stress, happiness, or life satisfaction	RCT or quasi–experimental	UCT or CCT		72	45
Ridley et al 2020	Compsite indices of PWB, or depression, anxiety, or stress	RCT	UCT		18	17
Romero et al 2021	Depression, anxiety, stress, happiness, or life satisfaction	RCT	UCT		82	27
Romero et al 2021	Depression, anxiety, stress, happiness, or life satisfaction	RCT	CCT		14	5

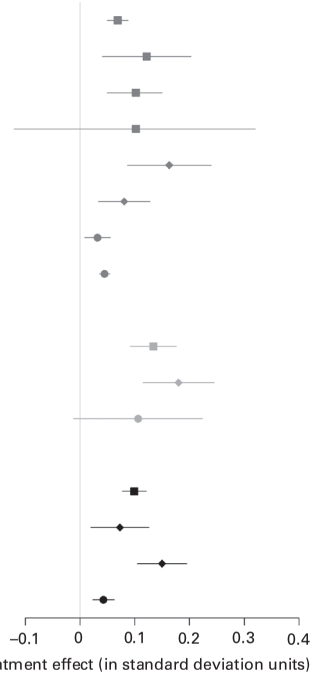

Figure 18.1
Meta-analytic estimates of the effects of cash transfers on well-being and mental health. Each row shows an estimated meta-analytic effect of cash transfers in LMICs, with key study and outcome inclusion criteria. All meta-analyses estimated an average effect size in standard deviation units using a random-effects model. Squares denote estimates that pooled UCTs (unconditional cash transfers) and CCTs (conditional cash transfers), diamonds effects from UCTs only, and circles effects from CCTs only.

Interpreting effect sizes Cash transfer programs in LMICs appear to increase measures of well-being by more, in SD units, than winning the lottery does in high-income countries (HICs; Romero et al. 2021). Their effect on life satisfaction is comparable to the increase in life satisfaction around the year of marriage in HICs (Clark and Georgiellis 2013). However, the effect of cash transfers is substantially smaller in magnitude, in SD units, than the immediate fall in mental health or life satisfaction after negative life events such as job loss or bereavement.[5] These comparisons are imperfect as target populations differ.

Potential biases from self-reporting There is little empirical evidence of experimenter demand effects or social desirability effects (e.g., if participants connect surveyors with organizations providing cash and over-report well-being from gratitude or to protect their transfers). First, explicitly telling some respondents a lower versus higher self-report of depression was expected from them did not affect responses (Haushofer et al. 2020b). Second, self-reported economic outcomes are consistent with objective surveyor observations for the same outcomes (Orkin et al. 2023). Finally, in a meta-analysis of effects of mental health treatments on economic outcomes, clinician-reported diagnoses and self-reported measures of mental health conditions yield nearly identical results, suggesting limited experimenter demand (Lund et al. 2022).

Researchers have measured levels of the hormone cortisol, a non-self-reported biomarker for past stress exposure, but this is an imperfect proxy for mental health or well-being. Two RCTs found no significant effects of cash transfers on cortisol (Haushofer and Shapiro 2016; Haushofer et al. 2020a), while self-reported life satisfaction and mental health improved. For mental health, a preferable approach may be to capture clinician assessments alongside self-reported scales, but this does not address experimenter demand for happiness or life satisfaction.

18.2.2 Suicides

Suicide is a severe consequence of mental ill health. Studies use district-level variation in transfer programs to examine suicide incidence in the general population. The rollout of a CCT in Indonesia decreased suicides by 18 percent (C. Christian et al. 2019). Municipalities with higher coverage of the Brazilian *Bolsa Família* Program (BFP) have 3–8 percent fewer suicides (Alves et al. 2019). Effects persist (C. Christian et al. 2019) or become even stronger (Alves et al. 2019) over time. However, studies only track program rollout at district level, not how long individual beneficiaries receive programs.

18.2.3 Psychological Effects of Cash Transfer Design

Accounting for effects of cash transfer design on mental health and suicide may alter how transfers are designed. One promising research area is to include psychological outcomes in RCTs comparing cash transfer program designs. We discuss suggestive findings from meta-analyses here, but caution against using meta-analyses to compare different transfer designs,

as intervention type and study population may be endogenous. For example, studies of larger transfers may disproportionately be in poorer populations with worse mental health, complicating comparisons of small and large transfers in meta-analyses.

Transfer size and conditionality Psychological effects of transfers rise with transfer value, controlling for other design or setting features (McGuire et al. 2022). Pooling effects on mental health and well-being, meta-regressions indicate that doubling (household) income through cash transfers would increase mental health or well-being by 0.2 SD in the first year, diminishing by about 0.02 SD each year (McGuire et al. 2022).

Intriguingly, meta-regressions of study effect size on transfer value and other design or setting features have a significant intercept term (McGuire et al. 2022). This may reflect a nonlinear relationship between income and psychological outcomes, a psychological boost from receiving a transfer irrespective of value (e.g., if recipients believe they were selected for a reason), or unobserved heterogeneity across studies. If such psychological boosts apply at scale, it may suggest distributing the same money over more households.

Studies of CCTs mostly find smaller effects on well-being and mental health than UCTs (Romero et al. 2021; Wollburg et al. 2023), as figure 18.1 shows. However, this effect becomes insignificant conditional on transfer size relative to income (UCTs tend to be larger; McGuire et al. 2022). One RCT found that conditioning transfers on school attendance reduced mental health benefits after one year (Baird et al. 2013). Future research could explore if transfer conditions negatively affect well-being.

Predictability Some programs are not transparent about transfer amount, timing, or program duration. This may hinder financial planning, increase stress, and negate well-being benefits. We are not aware of direct evidence on this issue. Unpredictability or late transfer delivery possibly reduced the economic benefits of some cash transfer programs (Pellerano et al. 2014; Davis et al. 2014; Bazzi et al. 2012).

Targeting Studies on suicides highlight that effects of cash programs on well-being may partly stem from their targeting the very poor. These studies uniquely consider this question because suicides are the only mental health measure commonly collected for whole populations. For example, C. Christian et al. (2019) find that a rainfall shock (affecting the general population) reduces suicide rates by twelve times less than the CCT (targeted at the poorest households). Alves et al. (2019) find larger effects for settlements with less than ten thousand inhabitants, which are poorer.

Intrahousehold targeting Cash transfers to caregivers often improve the mental health of children, though meta-analyses draw mixed conclusions (Zimmerman et al. 2021, Zaneva et al. 2022). Whether transfers go to wives versus husbands could also have different psychological effects if this affects spending patterns or intrahousehold dynamics. Haushofer

and Shapiro (2016) find suggestive evidence that giving transfers to wives rather than husbands increases psychological (but not most economic) benefits to the household.

18.2.4 Comparing Effects on Well-Being and Mental Health of Cash Versus Psychological Interventions

Proponents of using psychological well-being to guide policy suggest this would favor increasing investment in psychological interventions, like therapy or life-skills training, over economic ones like cash transfers (Frijters et al. 2020). For instance, psychotherapy trials report larger effect sizes than cash transfer trials for similar or lower costs (McGuire and Plant 2021).

In our view, existing evidence does not allow evaluation of cost-effectiveness of cash transfers relative to other policies at improving well-being. Psychotherapy trials commonly screen participants for mental health conditions and target specific groups such as pregnant mothers, people with HIV, or torture survivors, delivering concentrated mental health benefits for these groups. In contrast, cash programs typically target a broader low-income population, delivering smaller improvements in average mental health. To more rigorously compare the two, future research could try to identify individuals in cash transfer trials who would have received psychotherapy in a psychotherapy trial. Many transfer recipients in fact screen positive for depression—80 percent of the sample in Haushofer and Shapiro (2016) and 46 percent in Orkin et al. (2023)—so existing data could be used for these comparisons. But this still faces the difficulty that populations or study settings may differ systematically between cash and psychotherapy trials.

A preferable approach is comparing the psychological cost-effectiveness of cash and psychotherapy in the same sample. Evidence from studies of this design is scarce and mixed. Haushofer et al. (2020b) compare a cognitive behavioral therapy (CBT) program with a cash transfer in the same general low-income sample in an RCT in Kenya. Psychotherapy failed to improve mental health or economic outcomes after one year, even among the subsample of depressed individuals, unusually for an intervention which typically leads to strong reductions in depression (Cuijpers et al. 2018). The (cheaper) cash transfers improved depression or anxiety symptoms by 0.16 SD. Blattman et al. (2017) find that neither CBT nor cash alone reduced depression in an RCT among criminally involved at-risk urban youth in Liberia.

There is limited evidence on whether some *economic* policies increase well-being more than cash does, even without being more effective economically. Haushofer et al. (2020a) find that neither a health insurance program nor an equal-value cash transfer improve psychological or economic outcomes in rural Kenya, though the former reduces stress and cortisol levels in some specifications. Among refugees in Bangladesh with limited work opportunities, doing a paid job improves mental health four times more than receiving the same payment unconditionally (Hussam et al., 2022a).

18.3 Effects of Cash on Psychological Factors That May Contribute to Effort or Productivity

Here, we discuss studies that test for so-called psychological productivity (Banerjee et al. 2020a) or behavioral (Orkin et al. 2023) effects of cash transfers or graduation programs. We first outline empirical puzzles in the literature, whereby transfers' effects deviate from the predictions of standard models, possibly due to psychological productivity effects. We then summarize suggestive evidence that cash improves effort, concentration, or cognitive performance by reducing immediate worry or stress about money. Finally, we explore how cash transfers may impact effort, investment, or productivity through mechanisms such as risk preferences, beliefs in capabilities (like self-esteem or self-efficacy), and aspirations.

18.3.1 Motivating Empirical Puzzles

Cash and asset transfers often do not affect, and sometimes increase, effort and labor supply that is, the income elasticity of labor supply is non-negative. This is somewhat surprising: Some economic models suggest that income increases from cash transfers will reduce labor supply because the demand for leisure increases, provided consumption and work are not strong complements. The evidence does not support this prediction. Banerjee et al. (2017b) reanalyze seven evaluations of cash programs in six countries with 46,000 adults. Transfers range from 4–20 percent of household expenditure—insufficient to serve as a sole income source. Cash transfer eligibility does not affect employment rates or hours of work. This is not because the grants have conditions attached to them requiring work. Similarly, in seven countries, the graduation program, which combines an asset transfer, mentorship, training, savings encouragements, and other elements for poor households, increased incomes and labor supply one year after the intervention ended (Banerjee et al. 2015a; Bandiera et al. 2017). One explanation may be that cash transfers have "psychological productivity effects," which increase labor supply and dominate the standard income effect.

Second, the share of expenditure on investment, rather than consumption, among cash transfer recipients can be extremely high, higher than the share of pretransfer income (Orkin et al. 2023). In a standard model, a cash transfer is a windfall that raises consumption both in the present and future (if consumption is a normal good in each period), due to income effects. One might therefore expect a larger share of this new lifetime resource to be spent on consumption. We discuss this issue further in section 18.3.5.

18.3.2 Cash Transfers and Productivity, Effort Quality, and Cognition

"Productivity" can refer to the quality of effort in a task, often measured via quantity produced and mistakes in researcher-designed piece-rate "effort tasks." It can also refer to "cognitive bandwidth" (Mullainathan and Shafir 2013) across broad sets of tasks, measured using cognitive tasks.

Effort tasks Two innovative studies provide evidence that relieving financial constraints generates a psychological productivity effect in effort tasks. Kaur et al. (2021) employ Indian workers in a piece-rate task where both quantity and quality of output are observable and incentivized. They stagger wage payments corresponding to two to three weeks' earnings. On days when workers are cash rich and less worried about finances, hourly output increases 0.12 SD. Mistakes also decrease, suggesting improvement in attention, focus, and ability to plan. Effects are concentrated among workers who are poorer at baseline. The authors rule out effects through gift exchange or nutrition channels and hold constant the capital involved in the work. They argue the results reflect a psychological mechanism, being less worried about money, which may also occur in cash programs. Unlike cash programs, the source of income variation holds lifetime income constant as control group workers know they are being paid just a few days later, isolating short-term psychological effects of financial worries.

Banerjee et al. (2020a) conduct a similar effort task, making bags, in an evaluation of a Ghanaian graduation program. Program receipt increases total bag production, quality of bags, and earnings from bags relative to the control group. Work in the piece-rate task does not reduce other work: Households supply similar labor to other activities, produce more in agriculture, and earn (insignificantly) more in nonfarm enterprises. The authors rule out a nutrition or health channel or that households are hired in more productive labor.

Together, these papers suggest a psychological effect of receiving extra income on productivity in both the immediate and long term, which cost-benefit analyses of cash transfer programs should account for. However, neither paper provides an income shock entirely analogous to a cash transfer. Kaur et al. (2021) study earned income, which may differ from unearned income, and a short-, not long-term, income stream. Banerjee et al. (2020a) study a bundled program with training and mentorship, which may boost psychological productivity effects.[6] Most importantly, the psychological mechanism is not entirely clear: Kaur et al. (2021) find suggestive evidence that the short-term income shock reduces financial worries but does not measure other psychological mechanisms. Banerjee et al. (2020a) hypothesize the program may alter time and risk preferences, aspirations, or self-efficacy but do not measure these channels. A potential area for future work is including similar measures of productivity alongside measures of psychological mechanisms in cash transfer studies.

Cognitive function An alternative hypothesis is that income shocks alter measures of underlying ability. Income may improve cognitive functioning if distracting financial matters absorb finite cognitive bandwidth (Mullainathan and Shafir 2013; Mani et al. 2013). Alternatively, poverty may focus attention and improve decision quality because stakes of decisions are higher (Shah et al. 2015). Common bandwidth measures are measures of raw or fluid intelligence, such as Raven's matrices (Raven 1990), or executive function (the ability to focus and allocate effort appropriately between tasks) such as digit span (Wechsler

1958) or numerical Stroop (Stroop 1992). In LMICs, these measures are correlated with both agricultural productivity (Laajaj and Macours 2021; Orkin et al. 2023) and urban employment and earnings (Carranza et al. 2022).

The current evidence suggests cash transfers do not affect these measures. Transfers had no significant effect on an index of working memory, including digit span and two arithmetic questions, among Rohingya refugees (Hussam et al. 2022a). GiveDirectly transfers did not affect digit span, Raven's matrices, or numerical Stroop measures in Kenya (Sedlmayr 2019). Transfers did not alter executive functioning among poor criminally engaged men in Liberia (Szaszi et al. 2022). Pension receipt did improve an unspecified measure of memory among senior citizens in Paraguay (Bando et al. 2022). Additional evidence from more and broader populations would be valuable.

Other relevant work studying the effect of income on cognitive bandwidth uses naturally occurring variation in income around harvests or payday. The evidence is mixed, although largely consistent with the RCT evidence. Mani et al. (2013) find farmers' fluid intelligence and working memory is significantly worse right before compared to right after harvest. However, this is a pre-post comparison: Learning or time trends may account for effects. Carvalho et al. (2016) find no differences in cognitive function and decision-making around paydays in the United States, although the income variation is smaller than in Mani et al. (2013). Fehr et al. (2022) find no effect on Raven's or Stroop tests of variation in income either from comparing individuals before and after harvest or exploiting availability of small consumption loans.

18.3.3 Cash and Preferences

Work has also studied potential psychological mechanisms through which cash transfers may affect effort, investment or productivity. One mechanism is preferences over risky or future outcomes. Both correlations and some natural experiments suggest that higher income increases patience and reduces risk aversion (Dohmen et al. 2011; Haushofer and Fehr 2014). However, RCTs of cash transfers that report effects have not found significant impacts on incentivized measures of risk and time preferences (Blattman et al. 2017; Hussam et al. 2022a; Orkin et al. 2023).[7]

These studies elicit time preferences over monetary rewards, whereas recent behavioral economics work elicits time preferences over effort to avoid confounds from heterogeneous constraints or background income outside the lab (Augenblick et al. 2015). Future research could study effects of transfers on time preferences measured over effort (for a task suitable for developing country settings see John and Orkin 2022).

18.3.4 Cash and Self-Efficacy, Self-Esteem, and Related Psychological Constructs

Most studies find null effects of cash transfers on perceived locus of control, self-esteem, or self-efficacy, consistent with the idea that these measures reflect fundamental, stable aspects of personality (Banerjee et al. 2020b; Haushofer and Shapiro 2016; Haushofer et al. 2020a;

Hussam et al. 2022a; McIntosh and Zeitlin 2022; Blattman et al. 2017; Heath et al. 2020; Orkin et al. 2023).[8] There are some exceptions: Pension receipt in Paraguay and Peru improves individuals' self-worth (Bando et al. 2022). In Nicaragua, earlier receipt of a CCT increased measures of both positive and negative self-evaluation (Barham et al. 2024).

18.3.5 Cash and Aspirations

Aspirations are the set of future outcomes that people prefer and aim for.[9] Interventions that raise aspirations have in some cases increased forward-looking investments and improved outcomes like education investment and attainment, labor supply, investment in agriculture, and asset ownership (Beaman et al. 2012; Bernard et al. 2023; Orkin et al. 2023; Riley 2024b).

CCTs increase aspirations for children's education among parents in Mexico (Chiapa et al. 2012) and both parents and children in Colombia (García et al. 2019). However, neither study examines the impact on economic outcomes such as time use or educational attainment. Furthermore, the mechanism through which programs raise aspirations is unclear. The CCTs increase both wealth and exposure to teachers and health care workers, whom recipients must meet to meet conditionalities. Indeed, more intensive exposure to role models through these conditionalities increases aspirations (Chiapa et al. 2012; Macours and Vakis 2014).

Orkin et al. (2023) overcome this issue by evaluating an unconditional GiveDirectly cash transfer and measuring economic outcomes. Receiving cash increases this aspirations measure by 0.13 SD after seventeen months, driven by increased aspirations for assets and income. This is not just because cash raises recipients' perceived current position: They find similar effects on aspirations minus respondents' beliefs about their current economic position. Receiving cash also increases spending on inputs, revenue, labor supply, consumption, and asset ownership, as in other GiveDirectly trials (Haushofer and Shapiro 2016; Egger et al. 2022).

The authors argue this increase in aspirations may account for a high propensity to invest the cash transfer, such that the transfer has behavioral or psychological as well as income or wealth effects. They examine the share of total expenditure allocated to investment between the control and cash groups. A standard life cycle model predicts this share will be lower in the cash group, as unanticipated wealth raises lifetime income and, hence, present consumption by more than a change in anticipated wealth would (Deaton 1992). Instead, the transfer significantly *increases* the share of expenditure devoted to investment. This finding is not due to differences in total expenditure between the groups.[10]

The authors interpret their findings through models of reference-dependent utility (Genicot and Ray 2017; Dalton et al. 2016; Lybbert and Wydick 2018). Aspirations proxy for reference points and exceeding (missing) one's reference point for future consumption increases (decreases) utility. People with higher reference points due to transfer receipt might invest more, exert more effort, and consume less to achieve higher future consumption. This increases the share of expenditure allocated to investment more than standard

life cycle consumption models would predict. However, the study design does not enable which portion of effects are due to wealth effects and which to "behavioral" effects.

Other GiveDirectly trials also see large treatment effects on assets relative to consumption: In Haushofer and Shapiro (2016) the lump sum transfer has a ten times larger effect on assets than nondurables expenditure; in Egger et al. (2022), the effect is 29 percent larger. Examining the share of transfers devoted to investment in a broader range of cash trials may be productive.

18.4 Cash Transfers and Psychological Poverty Traps

Some theoretical work suggests that psychological constraints may mean people invest less, accumulate less wealth, and fail to take advantage of economic opportunities, perpetuating poverty. If so, alleviating psychological and economic constraints simultaneously may achieve effects that relieving any one constraint does not achieve. De Quidt and Haushofer (2018) model such "psychological poverty traps" in relation to depression, while Dalton et al. (2016) and Genicot and Ray (2017) model them in relation to aspirations.

Evidence on this question is mixed. Empirical studies use cross-cut designs to study how psychological constraints affect investment responses to cash transfers or livelihoods interventions, with one arm providing an intervention targeting a psychological constraint, another providing an economic intervention, and a third providing both.

One group of studies examines psychological constraints related to mental health. As earlier, Haushofer et al. (2020b) find little effect of CBT on mental health or economic outcomes in a general population and, hence, find cash and CBT has similar effects to cash. Blattman et al. (2017, 2020) focus on ex-combatants with substance abuse disorders exhibiting antisocial behavior. They benefit little from cash transfers alone, but cash plus CBT yields strong complementarities, persisting over multiple years. Angelucci and Bennett (2021) find a livelihoods program and depression treatment alleviate depression among people diagnosed with it, although neither intervention does so on its own. The combined intervention does not have significant economic effects.

Orkin et al. (2023) study a similar idea in relation to aspirations. They find that UCTs and an aspirations workshop individually raise aspirations and increase labor supply, investment, revenue, asset ownership, and consumption. Combining the workshop with cash does not raise most types of aspirations or economic outcomes relative to cash alone (the one exception is education aspirations and spending). The cash transfer appears to address any psychological constraints due to low aspirations. This is in line with a model by Dalton et al. (2016), which views aspirations as malleable, both shaped by and shaping economic conditions. It provides some evidence against poverty trap models of aspirations, which view aspirations as difficult to shift and shaped by early life experiences or long-run factors like culture or social hierarchies (Genicot and Ray 2017).

More work studying the interaction of different psychological and economic constraints may be highly productive. Current findings tentatively suggest that the need for combined psychological-economic interventions differs depending on the psychological constraint being considered. Among people facing mental ill health, a "big push" combining psychological and economic interventions may improve both mental health and economic outcomes. In contrast, combined interventions seem less necessary for increasing aspirations and, hence, economic outcomes. The psychological effects of economic interventions could also differ depending on the intervention: Smaller cash transfers may not have as large effects on aspirations, for example, making combination interventions more effective. This work could link with efforts evaluating the effectiveness of different combinations of interventions making up the ultrapoor program (Banerjee et al. 2022; Bossuroy et al. 2022).

18.5 Open Questions

18.5.1 Well-Being Measures for Cash Transfer Program Evaluation

It is an open question whether, or how, policymakers should use well-being measures to evaluate cash transfers or compare them against other policies. Concerns that life satisfaction and happiness measures exhibit long-run "habituation"—adjustment back down to a baseline—and other issues with subjective self-reports are significant (Benjamin et al. 2020). For example, given evidence that cash transfers raise aspirations, they may alter how individuals interpret "10" when rating their life satisfaction out of 10. However, well-being measures may be the best available way to capture aspects of utility not revealed by choices, such as utility from nonmarket goods or internal mental states. A measure that captures these aspects of utility could highlight instances when policymakers face a trade-off between psychological and economic welfare. These could be policies that invest in goods not easily valued by revealed preference (e.g., environmental or public health policies), directly target well-being (e.g., therapies), or provide "peace of mind" (e.g., insurance).

18.5.2 Mechanisms for Effects of Cash on Utility/Well-Being

The mechanisms through which cash transfers improve well-being are unclear from existing evidence. One underexplored mechanism is improvement in recipients' relative status. Existing cash transfer programs understandably target lower-income people in a community, improving both absolute and relative status. More evidence would be valuable as it has important implications for scale-ups of transfer programs to cover more people.

We know little about the "production function" of how various cash uses increase well-being. For instance, how much does happiness from consuming more goods contribute (and which goods)? How much do people gain peace of mind from having a buffer against shocks? Improving understanding of this production function could aid in identifying cost-effective technologies which enhance psychological effects of cash, such as improved savings technologies, or suggest ways to better design cash transfers (see next).

18.5.3 Designing Cash Transfers to Optimize Psychological Effects

A further open question is how cash transfers should be designed to maximize well-being or behavioral/"psychological productivity" effects. More research should aim to separate the psychological effects of features of transfer programs such as conditionality, timing, predictability, frequency, or who in the household receives transfers. This can be explored through RCTs comparing various designs (cross-study comparisons in meta-analysis have limitations, as discussed earlier). Research could, for instance, test whether people experience a psychological boost from receiving transfers regardless of value, or whether larger lump sums enhance aspirations by enabling recipients to think "big." Another promising direction may be integrating cash transfers with behavioral tools for planning consumption, such as the "expense boards" in Augenblick et al. (2023).

18.5.4 Disentangling Effects of Income from Behavioral or Psychological Effects on Productivity

The literature on the psychological productivity effects of cash transfers struggles to separate behavioral or psychological effects from other effects of income. For example, Kaur et al. (2021) and Banerjee et al. (2020a) study effort tasks with capital held constant, so productivity effects in these tasks cannot be due to investment. However, this approach cannot examine psychological benefits of transfers that may operate through investment. Cash gives people autonomy for pursuing new projects, investments, and goals. These psychological effects may occur alongside, or interact with, the productivity boosts from increased access to capital.

Cash can also affect productivity via a physiological channel by enabling households to invest in better nutrition (Dasgupta and Ray 1986) or health (Strauss 1987), potentially boosting strength or cognition. Interactions between improvements in physical and mental health have not been studied.

Disentangling psychological from other productivity effects is difficult methodologically. One option is repeated measures of psychological outcomes: Many psychological benefits of cash may appear immediately, in contrast to slower effects on productivity, for instance, from purchasing new assets.[11] Existing evidence is only after one or two years. A second is measuring the psychological impacts of cash transfer announcement prior to their actual delivery. Anticipating the transfer may have psychological benefits without the income effects. However, this cannot capture longer-term psychological benefits, such as from embarking on new initiatives. A third option involves comparing cash to consumption-boosting interventions that may lack other potentially psychologically beneficial aspects of cash programs (e.g., receiving small transfers to support consumption). For example, Banerjee et al. (2020a) find a savings-support-only arm increases consumption but not bag productivity.

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Notes

1 Psychological factors hypothesized to encourage effort and investment include patience and self-regulation (Blattman et al. 2017); aspirations (Bernard et al. 2023; McKenzie et al. 2022; Orkin et al. 2023); agency, self-image, or self-efficacy (Ghosal et al. 2022; John and Orkin 2022; McKelway 2021); cognitive bandwidth (Fehr et al., 2022; Mani et al. 2013); or innovative mindsets (Campos et al. 2017).

2 We do not estimate a "meta-meta-analytic" effect size as there is overlap in the studies included in each meta-analysis.

3 We are not aware of causal evidence on whether cash transfers reduce incidence of severe mental health conditions (e.g., schizophrenia). Social disadvantage may play a role in triggering these conditions, alongside biological causes (Jester et al. 2023).

4 Scores on the CES-D scale commonly used to measure depression in these studies range from 0–60, typically with a standard deviation around 10. Based on the distribution of raw scores in the data of Haushofer and Shapiro (2016) and Egger et al. (2022), a 0.1 SD (roughly 1 point) shift in the mean moves about 3–5 percent of people below the diagnosis cutoff of 16. In Kilburn et al. (2016) and Orkin et al. (2023), the proportion exceeding the CES-D depression threshold decreases by 3–5 percentage points.

5 Mental health measures are lower by 0.38 SD after job loss (McKee-Ryan et al. 2005) and well-being measures lower by 0.48 SD right after bereavement (Luhmann et al. 2012).

6 Randomizing an unconditional weekly cash transfer on top of the other program elements produces qualitatively consistent results to the graduation versus control comparison we discuss previously, but they are not significant at normal levels.

7 Bartos et al. (2018) find experimentally induced thoughts about poverty increased Ugandan farmers' impatience in an effort task.

8 Locus of control is a person's beliefs about whether their actions or fate determine outcomes (Rotter 1966). Self-efficacy is belief in one's own ability to achieve goals (Bandura 1977).

9 A common measure is the levels of assets, income, and children's education respondents would like their household to reach a decade or more in the future (Bernard et al. 2023; Orkin et al. 2023). Aspirations are typically higher than but highly correlated with standard economic measures of expectations for their future. Orkin et al. (2023) find they are largely uncorrelated with other psychological characteristics such as self-efficacy, locus of control, and time and risk preferences.

10 The authors note that the share of consumption relative to investment depends on the rate of return to investment, the intertemporal utility function, and any frictions in the economy, and some of these might be altered by the cash program.

11 However, some psychological effects, like a boost to self-efficacy from mastering new challenges, may be long lasting and grow (or only appear) over time.

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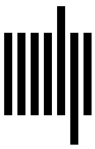

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