

**Tim Phillips [00:00:00]:**

Welcome to VoxTalks Economics from the PSE CEPR Policy Forum at the Paris School of Economics. My name's Tim Phillips. In this episode, can treating someone's mental health help that person to escape from poverty? Well, the good reason we usually think that the route out of poverty is to change external conditions, provide assets, jobs, healthcare. But can we also improve a person's state of mind, treat depression or low self esteem or low aspirations? And in what situations can that help to achieve the goals of poverty reduction? Dean Karlan of Northwestern gave a conference presentation in which he reviewed the evidence on this. I didn't get a chance to catch up with him during the conference, but I'm catching up with him now. So welcome, Dean.

**Dean Karlan [00:01:03]:**

Hi, it's great to be here with you. Nice to see you briefly in Paris, but good to be back in touch.

**Tim Phillips [00:01:07]:**

First of all, I threw in some very loose interpretations of what an economist like yourself would call psychosocial constraints, which is what your talk was actually about. Can you give me a more rigorous definition of what we're talking about here?

**Dean Karlan [00:01:21]:**

I'm not sure this would count as more rigorous, but I can expand a little. The reason it's not going to be more rigorous is because it's not very well precisely defined. That means a myriad of challenges that people face. It could be something that is close to what we would call medical and mental health that is about depression. And what does it mean to be depressed? In many cases, it has an immediate manifestation of lacking the energy and the desire to invest in the future and to get up and seize opportunities in front of you because you're depressed.

**Tim Phillips [00:01:51]:**

Yeah.

**Dean Karlan [00:01:52]:**

It also might manifest itself in terms of setting lower aspirations. There might be influence from society on that and from your peers. And that's what we mean by the social aspect. It's a matter of who are your role models? What are the examples in your life that you've experienced, people you've interacted with who have started off really poor and built their way out of poverty in a way that that becomes a tangible role model for somebody to see that that's the path that they can take too. That's part of what we mean by the social constraints. It's not the only kind of

aspect there. But the broadest way of explaining all of this is to say that part of what makes people do better over time and get out of poverty, sure is about money. And you need money to invest, you need money to make money. You need access to markets. But as we all know, even if you look at any sort of enterprise and job performance or any sort of income generating activity, and some people do better in those jobs than others. And traditionally, economics refers to that as human capital. And we attribute that to skills. We attribute that to knowledge. You know how to do this accounting, you know how to do marketing strategy, whatever the case is. But the recognition is that some of that element that makes it so that some people use resources better in terms of generating more income isn't about the traditional knowledge based, skill based things that fit under what we call human capital. That it actually is more about your state of mind and about your aspirations, the goals you set for yourself, your discipline, your ability to stay on task, to have attention, to focus, et cetera. And these are some of the factors that some of it is inward in terms of where that comes from. Some of it is about your environment and the people around you and those influences and those things matter too. And those things do influence how well you do with the resources at hand, with the money and the assets and the knowledge that you have and how well you can take those inputs, so to speak, those economic and let's call them skilled inputs and turn them into prosperous outcomes.

**Tim Phillips [00:03:53]:**

And the thinking behind this strand of research is that even in situations where people are desperately poor that this might still be a limitation on what we can possibly achieve.

**Dean Karlan [00:04:06]:**

Yes, but also I don't want to oversell it and make it seem like this is a panacea. And I think we're what I would think of as the early stage of understanding the nexus between these types of issues and specifically the nexus when it comes to then forming policy, because how you help deal with mental health and psychosocial constraints, that's not going to be very formulaic. That's not going to be one simple program that is created, tested, founded, worked, scaled, does it for everybody. That's not the way the world works. And we've seen some evidence come forward already that is very exciting and promising but we've also seen it sometimes not work and understanding how and when and how to make that work is key. But I also just want to stress that there's definitely an element where even if we find that a program that is trying to help people deal with mental health challenges or other social constraints, I'd be hard pressed to believe that we're ever going to find that that alone is a way forward, that it's going to be that in combination with understanding access to markets, access to financial services, savings, access to information about markets, these are all factors that obviously influence these outcomes as well.

**Tim Phillips [00:05:20]:**

And this plugs into the area of economics that we know as behavioral economics that some

economists have been skeptical about; they've criticized it for a reliance on lab experiments, for example, or worried about how applicable it is in the wider world. Are these criticisms of behavioral economics still valid?

**Dean Karlan [00:05:42]:**

I don't think they were ever valid. You just asked canonical yada yada bad behavior. Well, the premise there I disagree with. You might want to think of this as behavioral economics 3.0. So behavioral econ 1.0 was often done with laboratory experiments, carefully controlled processes to test very specific hypothesis about very specific cognitive biases. And that was eye opening pathbreaking research years ago that expanded the toolkit of economics. There's a certain element where you have to realize that the term behavioral economics is a little bit weird in that most of economics is studying behavior. So what does it mean to stick the word behavior instead of economics? Starting many years ago, maybe 20s there, we definitely saw a huge shift to what I would think of as behavioral economics 2.0, which was taking some of these very specific cognitive biases, inattention, time inconsistent preferences as two examples, and devising either products or changes to products in the real world to see. Can insights from this earlier work in behavioral economics and cognitive psychology can it lead to prescriptions for improved products and policies? This is very much the nudge style work that was behind the Nobel Prize to Richard Thaler in 2017, among other things for him. And that was an exciting set of work. And things like commitment, savings commitments for farmers to invest in fertilizer, insights about bundling chlorine into water delivery. These are all insights that came from understanding something about behavioral economics and thinking how can we tweak an existing program? But they're still very scalpel like in the sense that a lot of those efforts are designed very much around teasing out a very specific cognitive bias. We're going to really focus in on attention and then see how we can design reminders, for instance, to try to address attention issues. So now when I say 3.0, when we see a program that is trying to deal with a broad stroke of problems through what it calls a psychosocial intervention, we're not talking about a very scalpel like intervention. This is not an intervention which is grounded in a very precise theory about time inconsistent preferences and saying, based on that, we're going to now roll out this exact program. This is now a much broader program that is more like applied therapy, if anything. You don't know what necessarily the issue is. You're trying to devise a path to help people help themselves, identify the kinds of challenges that they face and figure out how they can form strategies to overcome those challenges. That challenge might be inattention. It might be one of these precise cognitive biases, but it also like time inconsistent preferences and temptation. It also might just be helping people think through how to solve problems, how to identify what in life they control and what in life they don't control. And how do you learn to accept the things you don't control and live with them and focus on the things you do control and figure out how to improve those. Just that alone, that's a good life lessons that's not driven from some behaviorally cognitive bias, but that is part of those types of lessons and helping people identify strategies for using the resources that are at their disposal to improve their lives and the lives of their families. That's very much taking to heart the broad set of lessons that come out of behavioral economics 1.0 and 2.0 and saying now how do we try to set

social service programs and social protection programs around understanding these ideas and incorporating them into the design of what we're doing?

**Tim Phillips [00:09:19]:**

Now your presentation looked in detail at the role of easing these psychosocial constraints in what we know as graduation programs. Can you just quickly bring us up to date on what those programs are, how successful they've been?

**Dean Karlan [00:09:36]:**

So the graduation model is a model of social protection. Social protection basically is a term of policy for typically government programs. Although nonprofits can engage in things that are under the umbrella of social protection. Social protection programs are trying to accomplish one of two goals. Sometimes they are just pure humanitarian, addressing an immediate need recognizing that there's been a shock, there's been floods, there's been a drought and it is literally doing humanitarian work right at that point of the need. But under social protection also falls a longer run development goal of saying how do we set government policies that are helping low income households, very low income households build sustainable income for themselves for years to come? Some of that comes through just pure redistribution policies things like cash transfer programs or things through taxation policy. But the graduation model basically recognizes that what's driving the market failures that lead to the persistence of poverty for many households isn't any one thing. There's this basic idea that said you need money to make money. It's a cliché. It's a cliché, that's true but it doesn't mean it's the only thing you need. And in many cases if you transfer cash to a household you do see some very positive impacts. It's been shown over and over again to have positive impacts and not have some of the negative impacts that many feared might happen. But if the problem is also psychosocial, if the problem is also about information about access to markets then providing cash might only satisfy the immediate humanitarian need and not help the household develop a longer term strategy for helping to build a sustainable source of income for themselves. So the graduation model says look, let's do a few things. Let's not just do one. Let's recognize that the problem is multifaceted. Now we don't want to do too many things. If we do too many things then we kind of fall off the other side of the cliff and we're probably going to be ineffective because we're just doing too much hodgepodge things. So the typical graduation program has at its core a two to \$400 productive asset transfer usually cash but intended to immediately go and help that household buy some animals, livestock or something of that nature provides training in that livelihood, particularly for livelihoods that are perhaps new to that area. It ideally is usually doing a fair amount of work to choose livelihoods. First of all, people do get to choose their livelihood. You're not forcing a livelihood on people, but you're doing some due diligence ahead of time to understand here's four or five livelihoods that do have an on ramp up to markets where there's an exporter, whether it's a local export to this urban city or whether it's international, either way there's a path to market to monetize the income. So that it's not just monetizing the activity, so it's not just a subsistence activity. Usually there's also access to savings, sometimes done

through a group process, sometimes through a bank account or mobile money. So you do these things altogether. And the evidence has been quite consistently positive, although not uniform, there's a lot of variation. Sometimes it works better, sometimes not as well. But the overall performance has been really remarkable, particularly for what was the most important outcome, which is, does it last? Kind of knew if you do it in the short run, sure you do enough things in the short run, you can see a positive bump. What we really wanted to know is, does it last? And so the initial research we put out on this was in 2015, and this was a collection of six sites where we saw impacts persist all the way to three years after the assets were transferred. We've now seen follow on work that tracks to seven and ten years with some different results. In one site, the impacts got even bigger and bigger. In another site, they did dissipate some. Not to zero, but they did dissipate some. So we are seeing persistent long term effects. So now we're entering into a new phase of these projects where people are asking some of the very sensible questions about what's really necessary within this program. You've told the story up front about market failures being complicated and multifaceted. So we're doing a few components, but do you really need all of them? And then with that, there's been a new focus on the psychosocial aspects. So we've seen a few different instances, some of which I've done, some of which others have done, that have ramped up a lot of the intervention side that is focused on psychosocial aspects. And one of the things that's most striking in Niger, for instance, we did a test where there was a fairly involved psychosocial component that included a movie that people watched and talked about, that was about helping to build aspirations and role models of people from their community and how they can take these steps. And with these steps, A leads to B to C to D, and on ramp to better success. That alone, without the asset transfer, did actually have really positive impacts that by the end of 18 months actually kind of outpaced the program without that with just lump sum cash transfers, by 18 months. Let me be clear, the treatment effect was actually bigger when you give the lump sum cash and it was faster to get there. But from a cost effectiveness perspective, if you have a certain budget, then from that perspective, the psychosocial aspect was actually better and stronger because with the same budget you could help more people because it was so much cheaper to roll out. So from a cost effectiveness perspective, it won. They were all very close and performing fairly close to each other, which I think in its own right is actually the most important lesson, is that the belief path going in was always that the asset transfers were an absolutely necessary component of this. That you have to do that kind of kickstart, going and training someone, telling them about some income generating activity without giving them the capital to kickstart it is just like a tease. And this suggested that no, actually that through this other process it might be took a little bit more time because they had to save up, but there was the savings group aspect to it as well. And so that savings group did actually facilitate, combined with the psychosocial, the investments and income generating activity that the program aspired to generate.

**[Voiceover] [00:15:47]:**

Our first podcast from this year's Policy Forum was an interview with Esther Duflo, who talked about the challenges and achievements of graduation programs. Listen to the episode Development in the 21st Century, published on the 7th of July.

**Tim Phillips [00:16:08]:**

Some of these interventions use cognitive behavioral therapy. CBT, can you explain what it is and why it's suitable in these situations?

**Dean Karlan [00:16:20]:**

First of all, as with many things, there's not a super precise formulaic answer. But I think the best way of describing cognitive behavioral therapy in this context, and this was a program that we've tested, others have tested as well other versions of it. So the version that we were testing in Ghana was already under development and was being adapted and modified and was inspired by some work done many years ago, ten or so years ago by Professor Patel in India, who had repeatedly tested it and found really positive impacts from cognitive behavioral therapy in a poor context. Now, obviously, India to Ghana, a lot changes, but there's a lot that also stays the same in terms of what it's like to live in a rural poor area like that. We started working with a psychologist in University of Ghana who was championing this modification and working with the Ministry of Health. And when we started talking with her about it, we got excited about incorporating that into the graduation program that we were in the middle of thinking about design of another wave of effort to further learn how to make that graduation program work. So we partnered up with her and took the program that she had already been working on and modifying and tested it in Ghana. It was targeting depression. And depression rates were really high. We already had data that showed us how high they were. They were actually surprisingly high to us in rural Ghana. So the program was targeting depression, but it wasn't making it so that you had to be depressed to be in the program. The program was targeting just poor households that were going to be eligible for the graduation program. But the curriculum of the therapy program was designed around depression. What it tried to do is help people set aspirations, understand what they control to achieve those aspirations, how do you make a plan? And a lot of is very much grounded in understanding. It goes back to something I said earlier, what are the things that you control in life and what are you not? And how do you deal with those differently, emotionally? How do you let those change you and change your mood when you do control or don't control something in your actions? And that's a big part of cognitive behavioral therapy. Another very big part of cognitive behavioral therapy is understanding how your environment changes your behavior. So if you know that hanging out with certain people leads you to do certain things which you then later regret, maybe you shouldn't hang out with those people. If going running and getting exercise in the morning is something which you kind of want to do it, but you're depressed and maybe you don't feel like doing it at the moment, but you realize that once you do do it, when you reflect back on the days you've done it, you always feel better the rest of the day. Cognitive behavioral therapy is about really identifying those patterns in your life in terms of what makes you happy and what makes you sad, and figuring out how to put yourself in the situations and the environment that makes you happy and not sad. These are life lessons, right? This is not necessarily about enterprise and investing in goats, but it also does apply to investing in goats and thinking through what are the patterns that you find

yourself in, where you then more prosperous, more focused on your enterprise and generating income and the benefits that come from that. So those are some of the lessons that are a part of cognitive behavioral therapy, at least the version that we tested in Ghana. There was two striking results. One is it was very effective in reducing depression, but not just for those who were depressed. It also was very effective at helping the people who were not depressed prior to the intervention to stay not depressed. When we look at our kind of treatment effect, so to speak, it was actually the same regardless of whether you're depressed or not in the beginning. And so it actually has a really important lesson from a social protection policy perspective, because it says even though this thing was designed around depression, you don't really need to diagnose people ahead of time, at least in this context, and say, this is only for you if you're depressed, that it was actually just a good thing to do, period. For anybody who was living in these rural poor areas of Ghana. The second lesson that was actually striking was that it also improved cognition. It wasn't just improving mental health, but it actually led to increases in cognitive ability, it led to shifts in the number of days they worked and seeing those kind of second stage effects that are the byproduct of the improved mental health, that's exciting.

**Tim Phillips [00:20:31]:**

Can you deliver this at scale, though, Dean? Does it have to be delivered one to one or could it be done in groups? Do you need to be an expert?

**Dean Karlan [00:20:40]:**

I'm hoping we can get to that phase where we start seeing tons of research that's on the delivery vehicles and we are kind of seeing it already. But I think right now we have so few studies that are being done, we're simultaneously testing the mechanism as well as the curriculum and what it is. But the short answer is that I think most iterations that I've seen of it are being initially tested in a way that does have a path to scale. Take what we tested in Ghana. It was done in groups. It is no more difficult to scale than a zillion other training programs that are done at scale. The people who did the cognitive behavioral therapy, they were recent graduates from college that had a degree in psychology. That was it. And then we trained them in the process with a bit of a training program to teach them how to do this and off they went. There's also some exciting efforts underway using Chat Bots. So obviously that has real potential for scale, but obviously also has the challenge of is it going to work if people know they're doing it with a Chat Bot? First of all, will they take it as seriously? Even if that's not an issue, then the obvious question is how good will it be? My instinct is that there's hopefully some sort of hybrid model that really can work at scale, where the Chat Bot can walk people through a lot of the exercises and the thinking and then there can be follow up. So there's a leverage story in terms of the human interaction can still be there, but you kind of complement it with the technology. So there's all sorts of models like that that we're going to hear more and more and more about over the next few years for sure.

**Tim Phillips [00:22:10]:**

And is your primary measure of success for this that it makes the poverty reduction more effective? Or do you look at social outcomes as well, people feeling better about themselves?

**Dean Karlan [00:22:21]:**

So that's a great question. There's a part of me which always that really admires just happiness and mental health as the true final outcome. The problem though is it's not easy to measure and we do know that the way people answer questions about happiness is often very relative to where they recently were. And so we might end up getting some distorted understanding of how we're doing if we're using survey based methods. So I think it's very informative and helpful but there is obviously a very strong element where there are some clear needs. It's about food security, it's about leading a healthy life, it's about having choices in life, having the freedom that comes with not being poor. And so when I think of freedom as the path and freedom is something that manifests itself, I mean, it is a byproduct of a myriad of things, including money. That to me is the goal. There will always be a focus on things like consumption and food security because that is such a clear metric of just economic well being. And whether someone is happy or sad is obviously important, but it's not to say that if someone is food insecure and just a glasses half full kind of person and happy, does that mean we don't want to help and figure out how to deal with the fact that they're food insecure? No, of course not. So I would never want to just look at happiness because it's messy to measure as a true outcome from a development perspective and because ultimately there are some very clear physical outcomes like food security that we care deeply about in terms of fairness and justice in the world. I would never say that we should only focus on happiness but there is definitely a philosophical answer to that which says, of course, that's what we're, the utilitarian in me wants to say. Well, when we think about models in economics, we're talking about utility maximization, which means consumption feeds into a formula that translates to utility and utility is best defined as happiness. And there you go. And that's what we're trying to maximize. So why not call it that?

**Tim Phillips [00:24:19]:**

So Dean it does sound though, that there are many things that we don't know about this. How it works precisely in different situations, how it could be best delivered, what it's best partnered with. There is a great deal to find out, isn't there?

**Dean Karlan [00:24:36]:**

There is, absolutely. I think this interaction between the psychosocial and public policy is really just beginning and it's an exciting space and there's a lot of exciting people, a lot of exciting organizations that are involved and toying with various ideas. We're going to see a lot of innovation in delivery, a lot of innovations in content. All these are great questions and hoping in ten years we'll be much further along than we are now in being able to actually be a bit more prescriptive.



**Tim Phillips [00:25:03]:**

We'll speak again in ten years. Well, hopefully before then, but it's really interesting to learn about it today, Dean. Thank you very much for talking about it.

**Dean Karlan [00:25:10]:**

Thank you too. Nice talking with you.

**Tim Phillips [00:25:21]:**

There is one study that Dean's been involved with, though there are many, and there are papers coming out about this all the time. His work in Niger, Tackling Psychosocial and Capital Constraints to Alleviate Poverty. You can read about that in Nature number 605 that was published in 2022. Many authors for that, so I won't read them all out.

**[Voiceover] [00:25:47]:**

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