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The Psychology of Money

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SOME DEFINITIONS

- **Psychologist:**
 - Man who goes to a strip show and looks at the audience.
- **Psychology:**
 - Study of the id by the odd.
- **Psychologists' greeting each other:**
 - “You’re fine; how am I?”
- **Business guru**
 - Word used by journalists because they can’t spell charlatan.
- **Business consultant:**
 - A simple organism designed to translate bullshit into air-miles.

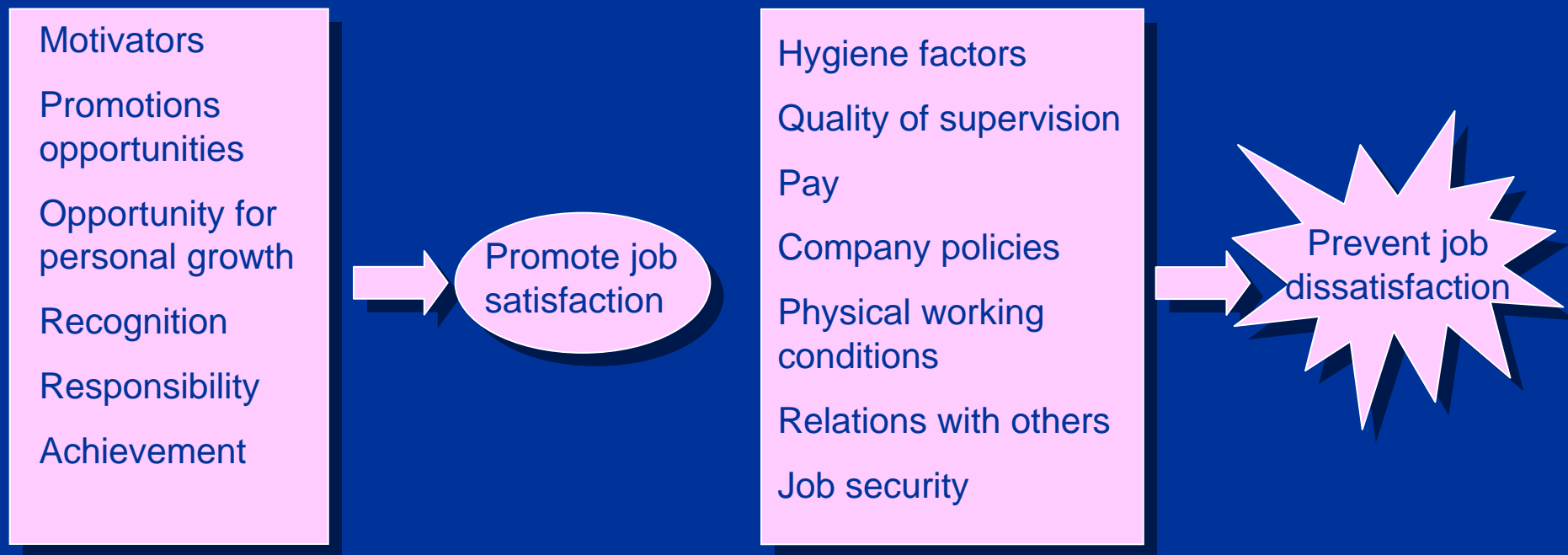
- **Psychologist:**
 - The next person you start talking to after you start talking to yourself.
- **Psychologist:**
 - A professional who asks you a lot of expensive questions your partner asks you for nothing.
- **Psychologist:**
 - A person who studies the problems of others in an attempt to understand their own problems.
- **Psychiatrist:**
 - A doctor who can't stand the sight of blood.
- **Psychotherapy:**
 - The art of teaching people how to stand on their own feet while reclining on couches.
- **Psychoanalysis**
 - The science that enables us to correct faults by confessing our parent's shortcomings.

Is Money a Taboo Topic?

- Rich people, who dictate etiquette, eschew discussing their money lest the poor figure out how to get it for themselves. Or because friends and relatives might want it or become envious of it.
- It is superstitious to talk of money: it means it could be taken away.
- Boasting about money could encourage envious others to inform tax authorities.
- On some levels we know our attitudes to money reveal a lot about us which we would rather keep private.

Five topics

1. Money at work
2. Emotional associations of money.
3. Learning about money.
4. Money pathology.
5. Money behaviour today.



Herzberg's Two-Factor Theory

Herzberg's *two-factor theory* suggests that job satisfaction and job dissatisfaction stem from different sets of factors. These are labelled *motivators* and *hygienes*, respectively.

MONEY AS A MOTIVATOR

- More a de-motivator if salary is not “market-place” competitive.

(Hygiene factor, not a motivator)

- Very short term effect because
 - Adaptation: effect disappears rapidly
 - Comparison: now against a different group
 - Alternatives: other things (security) worth more
 - Increased worry: taxation, burglary

Motivation

Intrinsic

Extrinsic

Kohn: Direct, specific, monetary rewards reduce motivation to do creative work.

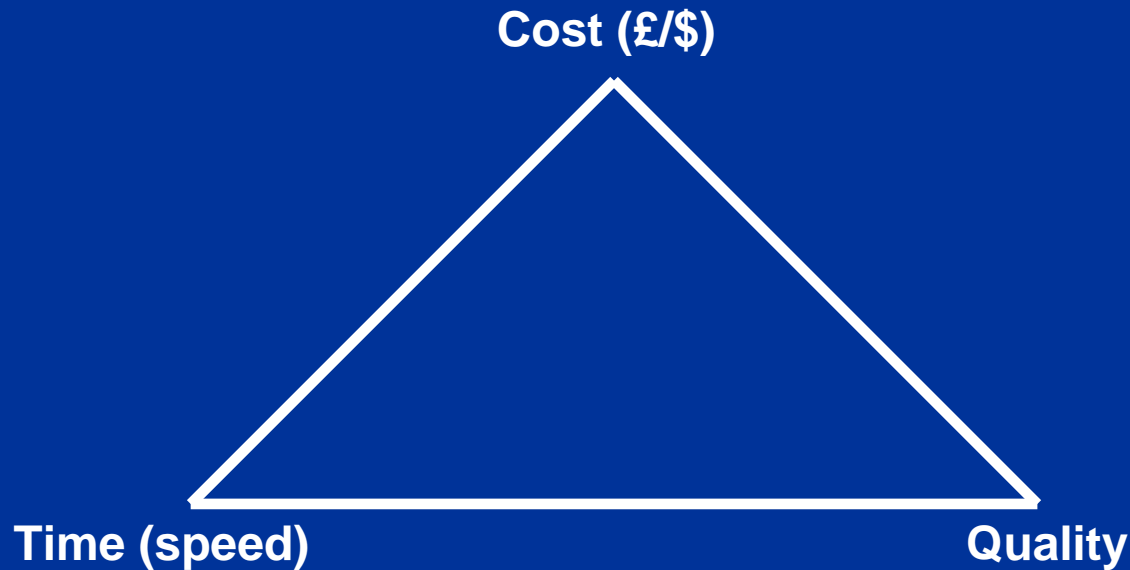
Eisenberger: All behaviour is positively shaped by (monetary) rewards.

Does intrinsic motivation decrease with extrinsic rewards?

But all jobs have a mix of intrinsically and extrinsically interesting features and levels of difficulty.

Intrinsic motivation is increased by a sense of mastery, competence, skill acquisition, control and self determination.

The Trade-Off Dilemma in all business



If it is Quick and Cheap ..it is probably of poor Quality

If it is Quick and Good Quality ..it is probably going to be very Expensive

If it is Cheap and Good Quality ..it will probably take a very long time to make

Latent Functions of Work

- **Work is a source of activity**

It keeps people occupied, interested and active

- **Work structures time**

It gives daily life reference points; regularities

- **Work gives an opportunity for social interaction**

It gives one a friendship and social support network

- **Work provides a source of identity**

It gives people a sense of your status in society and values

- **Work provides a source of creativity and mastery**

It provides the feeling that one has achieved something worthwhile and useful

- **Work gives a sense of purpose**

It makes people feel needed and stops alienation

Incentives

- Merit pay/pay for performance
- Bonus system
- Individual vs Group Equity + Equality

Emotional differences between men’s and women’s reactions to money					
In the past year, can you recall associating money with any of the following?					
	Women (%)	Men (%)		Women (%)	Men (%)
Anxiety	75	67	Distrust	23	25
Depression	57	46	Sadness	22	20
Anger	55	47	Respect	18	19
Helplessness	50	38	Indifference	16	16
Happiness	49	55	Shame	13	9
Excitement	44	49	Love	10	13
Envy	43	38	Hatred	8	7
Resentment	42	31	Spite	9	8
Fear	33	25	Reverence	2	5
Guilt	27	22	None	2	5
Panic	27	16			

- My mother said only poor people went to heaven.
- My father said only criminals were wealthy.
- My parents warned me not to let anyone know we had money or they would jinx us.
- My parents said I was a popular kid because they were rich enough to have a house with a tennis court. They told me quite plainly that if one was without money, one would be without friends.
- My parents told me I had to grow up to be a success, or, being financially unsuccessful themselves, they would end up 'charity cases'.

(Matthews, 1991, pp.70-1)

- My mother always said a smart woman doesn't ever let a man know she's capable of making money.
- My father always said there was a 'secret' to making money, but that no one in our family knew what it was. Making lots of money was something of which only 'other people' were capable.
- My parents, who were quite well off, never let me spend a dime without my begging and pleading. They said I must never forget that we could 'wake up poor in the morning'. Sometimes I would lie awake at bedtime, afraid to close my eyes for fear I would wake up hungry and cold.

(Matthews, 1991, pp.70-1)

Pocket Money/Allowance

- When to start a system
- Agreement about rules:
 - How much
 - When paid
 - What covered
- Related to chores
- Increase over time
- Advice + Help

Money Madness

- *Security*
 - Emotional life jacket, security blanket, method of starving off anxiety (compulsive saver, self denier).
- *Power*
 - Money can be used to acquire importance, domination and control (manipulate, godfather).
- *Love*
 - Money can buy affection, loyalty, self worth (love buyers, sellers and stealers).
- *Freedom*
 - Money buys time to pursue whims and interests free one from daily routine and restrictions.

Money as Security

A. The Compulsive Saver

- For them saving is its own reward. They tax themselves and no amount of money saved is sufficient to provide enough security.

B. The Self-denier

- Self-deniers tend to be savers but enjoy the self-sacrificial nature of self-imposed poverty. They may spend money on others, to emphasize their martyrdom. Psychoanalysts point out that their behaviour is often a disguise for envy, hostility and resentment towards those who are better off.

C. The Compulsive Bargain Hunter

- Money is fanatically retained until the situation is “ideal” and then joyfully given over. The thrill is in out-smarting others – both those selling and those paying the full price.

D. The Fanatical Collector

- Obsessed collectors accumulate all sorts of things, some without much intrinsic value. They turn to material possessions rather than humans as potential sources of affection and security.

Money as Power

A. *The Manipulator*

- These people use money to exploit others' vanity and greed. Manipulating others makes this type feel less helpless and frustrated. Their greatest long-time loss is integrity.

B. *The Empire builder*

- They have (or appear to have) an overriding sense of independence and self-reliance. Repressing or denying their own dependency needs, they may try to make others dependent on them. Many inevitably become isolated and alienated, particularly in their declining years.

C. *The Godfather*

- They have more money to bribe and control so as to feel dominant. They often hide an anger and a great over-sensitivity to being humiliated – hence the importance of public respect. But because they buy loyalty and devotion they tend to attract the weak and insecure. They destroy initiative and independence in others and are left surrounded by second-rate sycophants.

Money as Love

A. *The Love Buyer*

- Many attempt to buy love and respect: those who visit prostitutes; those who feel unloved not unlovable and avoid feelings of rejection and worthlessness by pleasing others with their generosity.

B. *The Love Seller*

- They promise affection, devotion and endearment for inflating others' ego. They can feign all sorts of responses and are quite naturally attracted to love buyers.

C. *The Love Stealer*

- The kleptomaniac is not an indiscriminate thief but one who seeks out objects of symbolic value to them. They are hungry for love but don't feel they deserve it.

Money as Freedom

A. *The Freedom Buyers*

- Money buys escape from orders, commands, even suggestions that appear to restrict autonomy and limit independence. They want independence not love : in fact, they repress and hence have a strong fear of dependency urges.

A. *The Freedom Fighters*

- They reject money and materialism as the cause of enslavement of many. Frequently political radicals, drop-outs or technocrats, they are often passive-aggressive and attempt to resolve internal conflicts and confused values. Camaraderie and companionship are the main rewards for joining the anti-money forces.

What Causes Money Pathology?

- **Early Learned Experience:**
 - Growing up in poverty, economic recession or clear economic comparative difficulty has been suggested as a motive for some individuals to be driven to secure, in both senses of the word, large sums of money.
- **Intergroup Rivalry:**
 - The concept of pity by the rich for the poor; and the envy and hatred of the poor for the rich provide plenty of opportunity for intergroup conflict. Threats to security, status, reputation and ego can act as powerful forces as well as a psychological threat to attempt to control money.
- **Ethics and Religion:**
 - Feeling guilty about money and being personally responsible for the poor is at the heart of many religions. The self-denial, self-deprecation and guilt associated with certain puritan sects has often been invoked for the strange behaviour of individuals taught that too much money acquired “too easily” or displayed too ostentatiously is sinful.

Money Problems are Caused By:

- ***Gambler's fallacy:*** throwing good money after bad
- ***Greed:*** the ally of manipulator and con artist
- ***Fear:*** inhibits reasonable risk taking
- ***Envy:*** it distracts one, may limit opportunity and wastes psychic energy
- ***Anger:*** can destroy business relationships and negotiations
- ***Self-concept:*** believing they do not have the ability to become rich
- ***Contentment:*** simply being happy with one's lot
- ***Honesty:*** not being prepared to sacrifice certain principles for gain
- ***Compassion:*** emotional softness, tenderness and caring that may lead to poor economic decisions
- ***Sentiment:*** attachment to traditions, possessions that make people not value being rich to sufficiently want to achieve it

Are people rational?

- Psycho-logical rather than logical.
- Prone to inconsistencies

The Rational Saver? - Keynes

- ***Precaution:*** To build up a reserve against unforeseen contingencies.
- ***Foresight:*** To provide for an anticipated future relation between the income and needs of the individual or his family different from that which exists in the present (old age, education).
- ***Calculation:*** To enjoy interest and appreciation – because larger real consumption in the future is preferable to a present smaller consumption.
- ***Improvement:*** To enjoy a gradually increasing expenditure, since most people look forward to a gradually improving standard of living.

The Rational Saver? - Keynes

- ***Independence:*** To enjoy a sense of independence and power to do things, though without a clear idea of definite intention of specific action.
- ***Enterprise:*** To secure a capital mass to carry out speculative or business enterprise.
- ***Pride:*** To bequeath a fortune to others.
- ***Avarice:*** To satisfy pure miserliness.

Eight Causes of Debt

1. Attitudes to/social support for debt:
 - as society has moved from abhorrence of debt to acceptance of credit, so modern consumer society accepts (even encourages) debt.
2. Economic socialisation:
 - Families that model acceptance of debt perpetuate it.
3. Social Comparison:
 - If people compare themselves with a richer inappropriate reference group, they may easily get into debt 'keeping up with the Joneses'.
4. Money Management:
 - Poor ability to manage money reflects both disorganised life-style and problematic finances.

Eight Causes of Debt

5. Consumer behaviour:

- inappropriate purchasing patterns (believing luxuries are necessities) soon causes debt.

6. Time horizons :

- the less realistic a person's time horizon, the easier it is for he or she to run into debt.

7. Attitudes to debt:

- clearly, if one is neither worried nor embarrassed by debt, it is easier to fall into it.

8. Fatalism:

- the more people have an external locus of control the more they are likely to fall into debt.

Generational differences

- Reflect attitudes to and behaviour regarding...
- Borrowing, Credit, Debt, Insurance, Spending
- Different groups
 - Traditionalists
 - Baby boomers
 - Generation X
 - Millennials
- Cohort and life cycle or real generational differences

Traditionalists

- Conservative savers?
- Victims of welfare and state promises
- Anti-credit, anti-debt.
- Mend and make do stoics.

Baby Boomers

- Risk-takers and hedonists.
- Investors + achievement-oriented
- Idealistic materialists
- Future oriented and optimistic

Generation X

- Alienated + disenchanted
- Now oriented + credit addicts?
- Self-absorbed but directionless

Millennials

- Materialistic & security conscious.
- Parent dependent for longer
- Used to long term debt
- Financially semi-savvy?

The Seven Deadly Sins of Investing

- **Confirmation Bias:**
 - Only looking for information and news which is in favour of your ideas
- **Optimism Bias:**
 - Believing that you are above average and that misfortunes are more likely to befall others
- **Illusion of Control:**
 - Overestimation of the control you have over economic affairs thinking that you can always influence the outcome
- **Overconfidence in Prediction:**
 - Believing that your prognostication of the future is the best one
- **Risk and Regret Aversion:**
 - Either being too cautious to invest or too risky to get out (risky shift; Shift to Caution)
- **Group Think:**
 - Responding to conformist pressure to think like others
- **Memory Distortion:**
 - Selective forgetting and memory for past experience in the financial world

What should banks know and do

- Acknowledge that many well-educated, sophisticated adults remain ignorant and embarrassed about money. It is a thin line between being patronizing, educative, and perplexing.
- Find out what each client thinks about money. What are the emotional associations and “hot buttons”.
- Remember each type needs a different sales strategy and possibly a different product.
- Explain the mythology, symbolism, imagery better – more psychology, and use it in marketing.
- Be confident. You will be somewhere between a psychiatrist, hairdresser, and gynaecologist because of your role as confidant.