Developing financial consciousness reader
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Estimated reading time: 30 minutes

Introduction: money psychology

The main purpose of the course is to raise awareness of the psychological factors that contribute to how individuals make money-related decisions either in their everyday life or during their economic activities; therefore, a wide insight is provided about psychological and economic psychological research on money. This reader provides a short overview on different aspects of money.

You will read about...

- the role of money in different disciplines
- the differences between psychologists' and economists' views on money
- how money is symbolic

The text is edited from excerpts from:

- Furnham, A. (2014): The New Psychology of Money. Routledge.
- Burgoyne, C. B., Lea, S. E. G. (2006): Money is Material. Science. Vol. 314: 1091-1092.
- Guéguen, N., Jacob, C. (2013): Behavioral consequences of money: When the automated teller machine reduces helping behavior. The Journal of Socio-Economics 47: 103-104.
- Vohs, K. D., Mead, N. L., Goode, M. R. (2006): The Psychological Consequences of Money. Science. Vol. 314.

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What do we mean under the psychology of money?

As Adrian Furnham, author of the book 'The new psychology of money' sets out, money is, in and of itself, inert. But everywhere it **becomes empowered with special meanings, inbued with unusual powers**. A number of books have appeared entitled 'The Psychology of Money'. Most of them supposedly reveal the 'secrets' of making money. However, often those most obsessed with finding the secret formulae, the magic bullet or the 'seven steps' that lead to a fortune are least likely to acquire it.

The dream to become rich is widespread. Many cultures have **fairy tales, folklore and well-known stories of wealth**. This dream of money has several themes. However, it is also true that there are probably two rather different fairy tales associated with money. The one is that money and richness are just desserts for a good life. Further, this money should be enjoyed and spent wisely for the betterment of all. The other story is of the ruthless destroyer of others who sacrifices love and happiness for money, and eventually gets it but finds it is no use to him/her. Hence all they can do is give it away with the same fanaticism that they first amassed it.

Psychologists have been interested in a wide range of human behaviours and endeavours. However, **one of the most neglected topics in the whole discipline of psychology has been the psychology of money**. Open any psychology textbook and it is very unlikely that the word money will appear in the appendix. We would expect a psychology textbook dealing with organizational behaviour to refer to the power of money as a work motivator or discuss the symbol of salaries; but few do. Why? There is a rich anthropological literature on the nature, meaning and function of gifts. There is also a sociological literature on the behaviour of rich and poor people and the social consequences of a large gap between the two. Despite the importance of money in everyday life, the psychology of money had received relatively little attention for long.

It is true, though, that not all psychologists have ignored the topic of money. Freud directed attention to many unconscious symbols money has which may explain unusually irrational monetary behaviours. Behaviourists have attempted to show how monetary behaviours arise and are maintained, cognitive psychologists showed how attention, memory and information processing leads to systematic errors in dealing with money. Some clinical psychologists have been interested in some of the more pathological behaviours associated with money, such as compulsive savers, spenders and gamblers. Developmental psychologists have been interested in when and how children become integrated into the economic world and how they acquire an understanding of money. More recently, economic psychologists have taken a serious interest in various aspects of the way people use money, and psychologists are interested in attitudes towards money, why and how people behave as they do toward and with money, as well as what effect money has on human relations.

However, it still seems that the psychology of money overall has been neglected. There may be several reasons and explanations for this.

The supposedly fantastic power of money means that the quest for it is a very powerful driving force. Gold-diggers, fortune hunters, financial wizards, robber barons, pools winners, and movie stars are often held up as examples of what money can do. Like the alchemists of old, or the forgers of today, money can actually be made.

The acceptability of openly and proudly seeking money and ruthlessly pursuing it at all costs seems to vary at particular historical terms.

From the 1980s to around 2005 it seemed quite socially acceptable, even desirable, in some circles to talk about wanting money. After the various crashes during the century, brash pro-money talk is considered vulgar, inappropriate and the manifestation of a lack of social conscience. The particular state of the national economy, however, does not stop individuals seeking out their personal formula for economic success, though it inevitably influences it. Things have changed since the great crash of 2008. Money effectiveness in society now depends on people's expectations of it rather than upon its intrinsic or material characteristics. Money is a social convention and hence people's attitudes to it are partly determined by what they collectively think everyone else's response will be.

In many cultures, money remains a taboo topic; it appears to be impolite to discuss and debate.

According to an explanation by Burgoyne and Lea, those few researchers who have studied this topic have mostly drawn on the methodological and conceptual tools of sociology and anthropology rather than those of experimental psychology or neuroscience. This is partly because on an evolutionary time scale, money is a recent phenomenon with a history going back no more than a few thousand years and the forms it takes across history and cultures vary widely. It seems unlikely that any brain mechanism could have evolved in this time specifically to handle money, so there has been a tendency to treat money as a purely cultural phenomenon for which no scientific account can be given.

Many famous writers on the other hand thought and written about money-related matters. Marx talked about the fetishism of commodities in capitalistic societies because people produces things that they did not need and endowed them with particular meanings. Veblen believed that certain goods are sought after as status symbols because they are expensive. Galbraith, the celebrated economist, agreed that powerful forces in society have the power to shape the creation of wants, and thus how people spend their money.

Psychologists and economists – similarities and differences

Economists have had a great deal to say about money but very little about the behaviour of individuals for long. Both economists and psychologists have noticed, but shied away from the obvious irrationality of everyday monetary behaviour for decades in the past.

Avoiding this topic may be due to that psychologists assumed that everything involving money lies within the domain of economics. Yet economists have also avoided the subject and had in fact not been interested in money as such, but rather in the way it affects prices, the demand for credit, interest rates and the like.

Economists, like sociologists, study large aggregate data at the macro level in their attempt to determine how nations, communities and designated categories of people use, spend and save their money. **Economists also differ from psychologists in two major ways, although they share the similar goal of trying to understand and predict the way in which money will be used.**

Economists are interested in aggregated data at a macro level. They are interested in modelling the behaviour of prices, wages etc., not of people. Psychologists are interested in individual and small group differences.

Whereas economists might have the goal of modelling or understanding the money supply, demand and movements, psychologists would be more interested in understanding how and why different groups of individuals with different beliefs or different backgrounds use money differently. Whereas individual differences are 'error variance' for the economists, they are the 'stuff' of social psychology.

There are no grand psychological "theories" of money, although **various psychological paradigms or traditions have been applied to the psychology of money**. These include psychoanalytic theories, Piagetian development theories, behaviourist learning theory and, more recently, interesting ideas emerging out of economic psychology and behavioural economics. Some researchers believe psychologists need to move on from arguing and demonstrating that people are clearly irrational or arational with regard to money and look at the many institutions and rituals that accept, sanction, even encourage less than rational economic behaviour.

As Finn noted, economists are not so much interested in the meaning of money per se but rather wealth and material prosperity. Wealth can be held in various forms, money being one, and that is what we all want and chase. **Economics is the science of the motive to maximise wealth.** This is argued to be a primary, pre-eminent and powerful motive for all behaviour.

People accumulate wealth to consume goods and services that increase utility (satisfaction and happiness). Thus the cost of utility can be calculated. The more wealth you have, the more opportunities you have to increase utility. Utility theory supposed it provided a comprehensive view of human decision making. Homo economicus: the utility maximiser. This was replaced by rational preference theory.

One of the most fundamental differences between the major social sciences interested in money (anthropology, economy, psychology and sociology) concerns the **assumption that people behave rationally and logically with respect to their own money**. While econometricians and theorists develop highly sophisticated mathematical models of economic behaviour (always aggregated across groups), these nearly always accept the basic axiom of individual rationality. Psychologists on the other hand have delighted in showing the manifest number of faulty logical mistakes that ordinary people make in economic reasoning. Sociologists and anthropologists have also demonstrated how social forces (norms, rituals, customs and laws) exist that constantly render the behaviour of both groups and individuals a - rather than ir-rational.

The opposite of rational is impulsive, whimsical, and unpredictable. Economists accept that there are people of limited knowledge, intelligence and insight. And they know that businesspeople with non-rational motives and who make use of non-rational procedures will fail rather than survive.

Psychological theories of money neither assume monetary rationality nor rejoice in the countless examples of the ir- and arationality of ordinary people with respect to their money. They have set themselves the task, however, of trying to understand how ordinary people acquire and demonstrate their everyday monetary attitudes, beliefs and behaviours.

The psychological consequences of money

The **scientific study of money** is not just possible, but important for two main reasons. First, **money is a very large fact in the lives of everyone who lives in a modern economy**. Second, **the way we respond to that fact makes a difference in our lives**.

During the last decades, several researches have shown how the appearance of money may alter people's behaviour.

Specifically, Vohs et al. have shown **how money makes people feel self-sufficient and behave accordingly**. In their research, they activated the concept of money through the use of mental priming techniques, which heighten the accessibility of the idea of money but at a level below the participants' conscious awareness. Nine experiments provided support for the hypothesis that money brings about a state of self-sufficiency. Relative to people not reminded of money, people reminded of money reliably performed independent but socially insensitive actions. The magnitude of these effects according to the results is notable and somewhat surprising, given that participants were highly familiar with money and that the researchers' manipulations were minor environmental changes or small tasks for participants to complete. According to the authors, the self-sufficient pattern helps explain why people view money as both the greatest good and evil. **As countries and cultures developed, money may have allowed people to acquire goods and services that enabled the pursuit of cherished goals, which in turn diminished reliance on friends and family.** In this way, money enhanced individualism but diminished communal motivations, an effect that is still apparent in people's responses to money today.

Similarly, Guéguen and Jacob demonstrated in an experiment conducted in a field setting that people who handled money after using an ATM were less likely to help someone several seconds later. These results are in accordance with studies that reported that participants primed with money were less likely to offer help to a peer or to donate money to a University Student Fund, moreover, it shows that manipulating real money in a natural context elicited the same patterns of behavioural responses, suggesting that money probably activated feelings of self-sufficiency in turn decreasing the participants' motivation for social contacts.

Money is symbolic

Lea, Tarpy and Webley's theory is that money is deeply symbolic. Behaviour toward and with money can only be understood through an historical and developmental perspective. Principally money represents an exchange evaluation, but there are **many subsidiary meanings, which affect how it is used and can even limit its general applicability** – for example, the acceptance of giving money as a gift varies through cultures or individuals.

They argue that money represents not only the goods that it can purchase but also the source of the goods and how they were obtained. Its meaning is also derived from its form.

What money symbolises **differs between individuals and groups** but these symbols are relatively limited in number and stable over time. Hence they can be described and categorised. But rather than ask what psychological characteristics money possesses, it is more fruitful to ask how these characteristics affect behaviour with and toward money. Thus certain coins or notes, either because of their newness, weight or cleanliness, may also be spent before others. Similarly substituting coins for notes may have the effect of stimulating small transactions. Although it may be possible to draw up an exhaustive list of the major symbolic associates of various types of money, and even document which groups are more likely to favour one symbol over another, a psychological theory of money will only be useful when the symbol is related to behaviour.

Money is not psychologically interchangeable. It is of value and is a measure of value. It is a **complicated symbol imbued by individuals and communities with**

particular meanings, which in part dictates how it is used by economic forces. It should be acknowledged that individuals display constant and important monetary behaviours. Individuals act on the economy; the collective behaviour of individuals (sometime few in number) shapes economic affairs. On the other hand, a person's economic status and situation in society determines not only how much money they have but how they see that money. We shape our economy and it shapes us.

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