The Pursuit of Happiness and Quest For Wealth: Do Materialists Really Save Less and Borrow More, and If So Why?

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Two large studies revealed bi-directional associations between consumer materialism and financial saving and debt. These associations are driven by one specific motivation for materialism, namely, acquisition as the pursuit of happiness. The studies provide strong support that it leads to being impatient and to a preference for liquid assets.

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EXTENDED ABSTRACT

This research examines consumer saving and debt and how these are related to materialism, over time. The amounts of money that people save and borrow have important consequences at both the individual and the macro-economic level. Fifty-five percent of U.S. households can replace less than one month of their income through liquid savings (Pew Charitable Trusts 2015), and the average U.S. household spends 9% of their income on debt interests alone (El Issa 2015). A number of psychological factors contribute to consumer debt, such as consumers’ tendency to make incorrect predictions about future spending, and the categorization of saving and debt in separate mental accounts (Hershfield et al. 2015). Financial literacy (Soll, Keeney, and Larrick 2013) and consumers’ propensity to plan (Fernandes, Lynch Jr., and Netemeyer 2014; Lynch Jr. et al. 2010) have also been found to be related to financial behavior. Other frequently mentioned causes of debt are poor management of finances, unrealistically high standards of living, and individuals’ desire to “keep up with the Joneses” (Barba and Pivetti 2009; Christen and Morgan 2005; Schor 1998). In fact, excessive consumer debt has been blamed on materialistic values that are considered inherent in Western society (Richins 2011), but empirical research in this domain is surprisingly rare. This research aims to contribute to closing this important knowledge gap.

We propose that the three motivations for materialism (“possession-defined success,” “acquisition centrality,” and “acquisition as the pursuit of happiness”) might have different effects on saving and debt. In particular, those who pursue happiness through acquisition rather than through other means (acquisition as the pursuit of happiness) may save less and be more inclined to get into financial debt than those who believe that possessions are a measure of success (possession-defined success). If the former view money predominantly as a means to gratify their immediate acquisitive desires, they might be more likely to overspend and consequently, get into debt. We also examine a potential explanation for why materialism may be a cause of debt, namely that materialistic consumers are impatient. Consumers have a general preference to consume now rather than later (Angeletos et al. 2001; Frederick, Loewenstein, and O’Donoghue 2002; Laibson 1998; Loewenstein and Thaler 1989), and we test the idea that consumers high in materialism are more impatient than consumers low in materialism. If this is the case, materialistic people should also prefer liquid assets over illiquid assets as these enable immediate spending, and thus instant gratification of acquisitive desires.

Two studies tested our theory. Study 1 used data from four waves of the annual household survey run by the Dutch National bank (DHS household survey) among a representative sample of 2,155 consumers in the Netherlands. The survey provides complete and precise measures of both saving and debt and the longitudinal nature of the data allow us to identify possible bi-directional associations between materialism and saving and debt over time, and to establish Granger causality (Granger 1988). This extends prior research on materialism which had to rely on general attitudinal rather than behavioral measures of saving and debt, on cross-sectional rather than longitudinal data, and on student rather than general population samples (Norvilitis et al. 2006; Pirog and Roberts 2007; Watson 1998). Using a cross-lagged panel model it found that overall materialism did not influence later saving, but did predict later debt. Importantly, and in line with our predictions, acquisition as the pursuit of happiness was negatively related to saving and positively related to debt. However, in this study, possession-defined success was unrelated to both saving and debt, counter to our predictions. The results do show that the three materialism motivations have differential effects on saving and debt. Moreover, saving and debt influenced all three materialism motivations such that people with lower saving and more debt had higher levels of materialism in later years. This reveals, not only that materialism influences saving and debt over time, but also that materialism is a response to a consumer’s financial situation.

Study 2 used a large scale experiment of 2,848 regular consumers to test predictions about the associations between materialism, impatience and liquidity preferences. Participants engaged in a delay discounting task (Thaler 1981; Van den Bergh, Dewitte, and Warlop 2008), and indicated preferences for liquid or illiquid saving and debt based on two scenarios. The results showed that people high in overall materialism were indeed systematically more impatient and were more likely to prefer liquid debt over illiquid debt. Again, these associations appeared to be driven by the motivation acquisition as the pursuit of happiness. That is, people who strongly believed that possessions and acquisition are essential for their satisfaction and well-being in life were more impatient and preferred liquidity for both saving and debt. Acquisition centrality and possession-defined success did not significantly influence impatience or liquidity preferences.

Together, the results contribute to financial decision making research by showing that materialism not only influences consumer saving and debt, but that saving and debt also influence materialism, which can result in a self-perpetuating cycle. A recent study by Tully, Hershfield, and Meyvis (2015) showed that consumers facing financial constraint engage in more materialistic and less experiential consumption. Our results extend these findings by showing that those who are more financially restrained become more materialistic over time, whereas those who are better off financially become less materialistic over time. Furthermore, previous research has already shown that materialists are more impulsive buyers (Dittmar and Bond 2010) but the finding that materialism, and particularly the motivation acquisition as the pursuit of happiness, is related to impatience and liquidity preferences is new and has broader potential in explaining why materialism may lead to reduced consumer saving and increased debts.

REFERENCES


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