Saver or spender? People are not as financially responsible as they may think, study shows

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Banking apps that automate saving money are effective—especially for low-income earners—but are not a solve-all to achieve financial wellness, according to new research from the Weatherhead School of Management. Credit: CC0 Public Domain

Financial responsibility means managing money in a relatively sensible

way by minimizing superfluous or unnecessary spending. But according to new research from the University of Notre Dame, people think they are more financially responsible than they actually are.

Even when people consistently spend their money superfluously, they still believe that they manage their money in a responsible fashion, according to "Popping the Positive Illusion of Financial Responsibility Can Increase Personal Savings: Applications in Emerging and Western Markets," forthcoming in the *Journal of Marketing* from Emily Garbinsky, assistant professor of marketing at Notre Dame's Mendoza College of Business.

"People generally hold positive illusions of being financially responsible, because this enables them to feel good about themselves," said Garbinsky, who also published a recent study on financial infidelity.

Garbinsky, along with Nicole Mead from York University and Daniel Gregg from the University of New England in Australia, developed an intervention that combats this self-enhancing bias by triggering people to recognize just how often they do spend money unnecessarily. In turn, this realization motivates them to boost their self-perceptions of financial responsibility by increasing their savings.

The "superfluous-spender" intervention involved having participants answer a brief survey of five questions before making a savings decision. The questions focused on their past superfluous spending behavior such as going out to dinner instead of cooking at home. Importantly, participants responded to these five questions using a continuous scale that was anchored by either a relatively low frequency (1 equals once a year or less) or a relatively high frequency (7 equals 12+ times a year). The researchers designed the scale anchors such that most participant responses would fall in the upper range, with higher scores indicating greater frequencies of past superfluous spending.

Ensuring that the majority of responses fell in the upper range was crucial, as past research has shown that people use their placement on rating scales to make inferences about themselves (in this case, that they are not as financially responsible as they thought they were). This realization then prompts them to enhance their feelings of financial responsibility by saving.

In addition to testing the effectiveness of this intervention on students at both Notre Dame and York universities as well as on various online panels, the team conducted two studies with chronically poor coffee growers in rural Uganda—one study examined the intervention's ability to affect savings of earned income over time, whereas the other study examined the intervention's ability to affect savings of a financial windfall. "The latter is particularly important in developing countries," Garbinsky explained, "as an emerging policy option has been to 'shock' struggling households with large monetary transfers.

"Collectively, this work shows that people view their financial responsibility through rose-colored glasses, which can undermine their financial well-being," Garbinsky said. "People around the world are not saving enough money, and we propose that one reason they under-save is because they falsely believe themselves to be financially responsible. If that is in fact the case, deflating this inflated self-view may increase saving, as people should become motivated to restore perceptions of financial responsibility."

More information: Emily N. Garbinsky et al. EXPRESS: Popping the Positive Illusion of Financial Responsibility Can Increase Personal Savings: Applications in Emerging and Western Markets, *Journal of Marketing* (2020). DOI: 10.1177/0022242920979647