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Reducing Materialism Through Financial Literacy

By Dan N. Stone, Ben Wier, and Stephanie M. Bryant

FEBRUARY 2008 - Today's generation lives better—and larger—than any in history. For example, 50 years ago the average U.S. home was around 1,200 square feet. By 1976, the average home had grown to 1,645 square feet. By 2005, the average home was 2,434 square feet. Houses are bigger, cars are more extravagant, and, as every parent of a teenager knows, designer clothes and electronic gear are the norm.

But high living comes at a high price, as the ongoing subprime mortgage crisis demonstrates. Too often, what people consider a "normal" lifestyle is in fact financed by debt. Surveys suggest that Americans lack basic financial knowledge about how to successfully manage debt. For example, most Americans neither understand credit scores nor regularly review their credit reports. A study by Experian, one of the three largest credit-reporting agencies, on whether consumers are using more debt to finance the "American Dream," found that consumer debt rose 12.5% over the two-year period from February 2004 through February 2006, and averaged $11,669 in 2006 (see the Exhibit). More ominously, the number of late payments rose almost 20%, and personal bankruptcies increased over 31% during that time period.

An individual's first experience with debt often occurs when borrowing money to finance a college education. As college costs soar, students increasingly finance their educations with easy-to-obtain student loans and credit-card debt. The Project on Student Loan Debt notes that one-fourth of graduating seniors in 2004 carried more than $25,000 in student loan debt. At public four-year institutions, 62.4% of graduating seniors have student loan debt, while 73.9% of graduating seniors at private, nonprofit four-year institutions have student loan debt. Upon graduating, many young professionals incur more debt to purchase a home (which must then be furnished) and a car. The pressure on young professionals to appear successful (e.g., new clothes, and meals at expensive restaurants) often fuels additional credit-card debt.

Cultural Trend Toward Materialism

Pursuing a financial goal of owning more "stuff" reflects a general cultural trend towards materialism. For example, a 1970 survey of about a quarter-million new college students found that about 40% considered "being very well-off financially" to be very important, and about 70% considered "developing a meaningful philosophy of life" to be very important. By 1987, and continuing through the most recent survey, these numbers reversed: In 2005, about 70% of entering college students considered being very well-off financially to be very important, while about 40% consider developing a meaningful philosophy of life to be very important.

One online dictionary defines materialism as "the preoccupation with, or emphasis on, material objects, comforts, and considerations, with a disinterest in or rejection of spiritual, intellectual, or cultural values." Making the attainment of material possessions a priority in one's life leads to a bigger house or better car, but the hidden psychological and relationship "costs" of materialism are considerable. For example, higher credit-card and mortgage payments often lead to a stay-at-home spouse needing to return to work, to work overtime, or to take a second job. Less time with family and community follows from such choices. What is the psychological cost of these choices?

Are people happier with bigger homes and better cars? Research suggests not. More-materialistic people are less happy, and have poorer psychological health, than are those who are less materialistic. These results hold true in many countries, including Australia, Bulgaria, England, Germany, Romania, Russia, Singapore, South Korea, and the United States. Research also indicates that progress toward materialistic financial goals (e.g., a bigger house, a better car) does not increase psychological health or emotional well-being.

In addition, results from both the United States and Hong Kong indicate that workers who care more about money are more willing to engage in unethical and illegal workplace behaviors. Hence, materialism is a threat to workers' psychological health and to organizational internal control systems. Because of this vast body of accumulated evidence, we have come to think of materialism as a public health problem.

However, despite the contrary claims of some psychologists, not all financial goals are psychologically unhealthy. Our research results suggest that positive (i.e., functional) financial goals contribute to happiness. For example, financial goals of saving for college or retirement, or thoughtfully giving to charity, all correlate with better psychological health. Furthermore, research has shown that progress toward nonmaterialistic goals (financial or otherwise) increases psychological health, while progress toward materialistic goals does not.

The AICPA's 360 Degrees of Financial Literacy program (www.360financialliteracy.org) focuses on educating the public about the importance of financial literacy, and provides tools that help individuals at various life stages work toward setting and achieving functional financial goals. This program, begun in 2004, has earned widespread praise. No one, however, has investigated the possibility that financial education like 360 Degrees may also reduce materialism.

Can the Tiger of Materialism Be Tamed?

A survey of more than 1,000 college students and 200 accounting professionals examined the link between materialism and financial literacy by asking about financial and nonfinancial goals, credit histories, purchasing habits, and what they would do with a financial windfall. The survey also measured their financial knowledge (e.g., literacy), level of materialism, and psychological health, using tools previously validated in prior literature.

The survey found no relationship between financial knowledge and materialism. It did find, however, that materialistic people are less likely to believe that: 1) they have financial autonomy, 2) they are financially competent, and 3) financial resources can create and sustain community and interpersonal relationships. The survey also found that more-materialistic people are less happy; are more likely to spend compulsively; are less likely to set and achieve "functional" financial goals; and are more likely to spend, rather than save, a financial windfall.

The authors' research design doesn't allow us to draw conclusions about why materialistic people are less happy. This important issue is a continuing focus of research. But the authors' results, and common sense, imply that changing consumers' attitudes towards money may also help them to be happier. Furthermore, the research suggests that financial literacy education may have multiple benefits. Specifically, financial literacy education may decrease materialism, increase positive financial attitudes, and consequently, create happiness and psychological health. The authors are excited about future research into the extent to which, and how, financial literacy may reduce materialism.

The authors invite those who are interested to contact us to consider ways that we may partner together to achieve this important goal.

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