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Decisions under financial scarcity

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Citation

Hilbert, L. P. (2024, March 27). *Decisions under financial scarcity*. Kurt Lewin Institute Dissertation Series. Retrieved from <https://hdl.handle.net/1887/3729782>

Version: Publisher's Version

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Note: To cite this publication please use the final published version (if applicable).



Chapter 7

Summary, Samenvatting, Acknowledgements, CV

Summary: Decisions under Financial Scarcity

Worldwide, hundreds of millions of people live in poverty. Even in the richest countries in the world, a substantial part of the population has difficulties to pay their regular expenses. Such financial problems can have a myriad of negative consequences, ranging from worse mental and physical health to impaired child development and educational outcomes, as well as to reduced social connections and political participation. These consequences of financial hardship can further exacerbate financial problems, a concept known as poverty traps. To better understand psychological poverty traps, scarcity theory aims to describe the psychological experience and consequences of having insufficient financial resources to meet demands. In the context of scarcity theory, the research in this thesis investigates how financial scarcity affects decisions that might have relevant outcomes to one's financial situation.

In **Chapter 2**, we developed the Household Task in which participants manage the finances of a household. During the task, we induced financial scarcity by manipulating whether participants accumulated debts or savings. Across five experiments, we investigated the effect of financial scarcity on temporal discounting. Temporal discounting describes the tendency to devalue outcomes that are realized in the future. We found that participants who experienced financial scarcity showed stronger discounting of gains and losses. Yet, we did not find evidence for the hypothesis that a scarcity mindset increases discounting when controlling for available resources. Last, we found that when participants experienced financial scarcity and could expect available resources to be lacking in the future, discounting increased even when available resources were controlled for. Chapter 2 thus provide evidence that financial scarcity increases temporal discounting as a response to current or predicted insufficient resources. This suggest that people who experience financial scarcity might adjust their temporal preferences in a sensible way according to the problematic circumstances of their financial situation.

In **Chapter 3**, we investigated whether financial scarcity might be associated with financial avoidance, which is the tendency to avoid dealing with one's finances. To do so, we conducted a longitudinal panel study with a large and representative sample of the adult Dutch population. Across a period of almost 2 years, we used self-report questionnaires to measure participants' experience of financial scarcity and their financial avoidance behavior. We found that higher initial levels of financial scarcity were associated with an increase of subsequent levels of financial avoidance. Likewise, we found that higher initial levels of financial avoidance were associated with an increase in subsequent levels of financial scarcity. Chapter 3 thus shows that financial scarcity and financial avoidance increase alongside each other. While these findings were not causal, they are in line with the concept of a psychological poverty trap.

In **Chapter 4**, we used the Household Task from Chapter 2 to investigate whether financial scarcity is also a causal predictor of financial avoidance. To do so, during each round of the Household Task, we presented participants with an expense letter. As an attentional measure of financial avoidance, we assessed participants' gaze patterns with an eye-tracker. In addition, we gave participants

the option to delay paying these expenses until the end of the experiment. Results did not show support for our hypothesis that participants who experienced financial scarcity would attentionally disengage from (i.e., not look at) the expense letters. We did find, however, that participants who experienced financial scarcity were more likely to delay paying the expenses. These findings suggest that financial scarcity can increase the tendency to delay paying one's bills, a form of behavioral avoidance from one's finances. Yet, in the context of this study, there was no evidence suggesting that such behavioral avoidance might be accompanied by attentional disengagement from negative financial information.

In **Chapter 5**, we investigated whether financial scarcity is associated with lower perceived control, and whether this association varies across the globe. To do so, we conducted a survey study in 51 societies across the globe. Results showed that across societies, the more people experience financial scarcity, the less they feel in control over their lives. There was, however, a large variance in this association between societies. To further investigate this variance, we combined our dataset with societal-level indicators from existing datasets. In opposite direction of our hypotheses, we found that the association between financial scarcity and perceived control was weaker in societies with lower (instead of higher) welfare provisions, quality of institutions, and labor condition. To better understand these findings, we explored whether other societal indicators might help to explain the variance in associations between financial scarcity and perceived control. We found that in societies with lower economic development, as well as in societies with more collectivistic and traditional values, the negative association between financial scarcity and control was weaker. These findings suggest that people who experience financial scarcity are more likely to feel lower control over their lives, but that this association differs considerably across societies and cultures.

Taken together, the research in this thesis shows that financial scarcity increases temporal discounting and financial avoidance, and is associated with lower perceived control over one's life. As such, this thesis contributes to our understanding of psychological poverty traps.