

THE ECONOMIC MIND

The Social Psychology of
Economic
Behaviour



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Preface

Psychologists and economists until quite recently have had very little to do with each other. Psychologists thought that the economic model of man was simply wrong; economists thought that psychology had nothing useful to contribute. There were a very few exceptions, like George Katona. During recent years however there has been a rapid growth of interest, on both sides, into a wide range of topics of joint interest. A new journal has started, the *Journal of Economic Psychology*. So far that research has not been gathered together in a single volume, and this book is the first to do so.

The book is the product of a most successful collaboration between a social psychologist and a methodologist each distinguished and the author of many successful studies in their own fields. Adrian Furnham is a social psychologist who has carried out much research in the areas covered by the book—for example, with lay explanations of poverty, wealth and unemployment, the economic socialisation of children, attitudes to money and gambling. Alan Lewis is a methodologist who has carried out surveys of attitudes to and knowledge about wealth, taxation and unemployment. They have also done a joint study of lay ideas about reducing unemployment.

For psychologists there is a new field here—‘economic psychology’—attitudes and beliefs about money, and how they affect buying and saving, becoming rich and poor, evading tax, and other aspects of economic behaviour. For economists there is also a new field—‘psychological economics’—which extends traditional ideas of economic self-interest, to include the effects of economic socialisation, and of the beliefs and values of the public, industry and government, and how they affect economic behaviour.

Some of these issues are of practical importance to policy-makers, for example, in the design of tax systems, the distribution of wealth, the handling of unemployment. Other topics are of theoretical interest. For psychologists there are some basic questions about the psychology of money: Is the need for money based on conditioning, on Freudian symbolism or some other process? Why do people save? Is there really a Protestant ethic? Does being rich make people happier? For economists there are interesting basic questions too: Why do people want to become rich? How do consumers really make choices? Does taxation act as a work incentive? How much do people understand about taxation and government expenditure?

The authors have succeeded in bringing together these and many other issues in a masterly way. They are extremely well informed about a very

large area of research, and have added their own original research to it. The book is a very rich source of information on these important issues. And the problems are discussed from several points of view, including politics, ethics and even religion.

Michael Argyle

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Responsibility for the opinions expressed and any mistakes in the present volume rest, of course, securely with the authors.

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Part I:
Introduction

1 The Social Psychology of Economic Behaviour

This book attempts to review and criticise the highly fragmented and diverse social psychological literature on economic phenomena and related topics. The selection of topics and the way they are treated is, of course, somewhat idiosyncratic given that a rapprochement between psychology and economics is still at an early but exciting phase.

Social psychologists are concerned with how the behaviour, cognitions (thoughts, beliefs, attitudes) and emotions (feelings) of one individual are influenced or determined by the behaviour and/or specific characteristics (physical, psychological, demographic) of others (be they individuals or groups). Although there are a number of theories in social psychology (e.g. social facilitation theory, balance theory, equity theory, attribution theory), many of which could profitably be applied to the study of economic behaviour, little or no work has been done in this field. Despite the diversity of topics investigated by social psychologists (e.g. attitudes, bargaining, conformity, etc.) very little work has been devoted to how people comprehend or behave in the economic world.

As the above definition implies social psychology is concerned with social *behaviour*, social *beliefs* and social *emotions*. A social psychological approach to economics would include all three components, though they are, of course, not necessarily mutually exclusive. The sort of questions that a social psychologist would ask (and hopefully research) would be somewhat different from those of concern to a sociologist, anthropologist or experimental psychologist interested in economic behaviour. Consider for example the social psychology of economic beliefs. As in other areas of the psychology of lay beliefs there are a number of topics that may be considered:

1. THE *DEVELOPMENT* OF ECONOMIC BELIEFS

No description of economic beliefs is complete without a full understanding of the aetiology of these beliefs. Developmental psychologists have long been interested in how and when children come to understand the physical world and concepts like time, mass and space, yet they have ignored in large part how the child begins to understand the economic world. There exist very few theories or models of how people come to hold the various economic and related social and political beliefs that they do. An exception is the work of McClelland (1961), who attempted to explain how parents'

socialisation of their children leads them in turn to believe in the Protestant work ethic. Similarly, Furnham and Thomas (1984a) have suggested that social class differences in the way in which young children and adolescents are given pocket-money (allowances) may be partly responsible for differences in adult economic beliefs and habits. However there is no systematic work in this field, and no parsimonious theory for guidance. What is of most importance is to establish *which* socialisation experiences (potty-training for the psychoanalyst; early reinforcement schedules for the behaviourist) contribute to the establishment of which specific, consistent and stable economic beliefs. In short what is required is a developmental theory of economic beliefs and habits (Jahoda, 1979). Equally important is to study how these economic beliefs develop. That is, how there is a *social construction* of the economic world.

2. THE RELATIONSHIP BETWEEN ECONOMIC BELIEFS

There are at least three equally important, but distinct, topics of research within this category. The first is the relationship between specific economic beliefs within the individual or group. It is important to establish whether beliefs about the causes of poverty mirror beliefs about the causes of wealth. Or it may be that attitudes to taxation are quite distinct from attitudes to welfare benefits. What, however, is most probable is that both global and specific economic beliefs are related in a coherent, relatively stable manner. A second area of interest is the relationship between economic beliefs and other social or political beliefs. Work already done in this field suggests the interesting paradox: 'The issues, then, on which voters and the MPs they have elected agree would be those concerned with taxation, nationalisation and economic power generally. On all other issues there is a clear-cut chasm where "cross-voting" takes place, with electors and elected pulling their different ways' (Eysenck, 1977, p.208). It may be that Conservatives vote into parliament MPs who share their economic but not social and political beliefs in general. Yet other beliefs about justice and control (just world/locus of control) probably do reflect more closely the views of the electors and elected. Finally, and perhaps of most importance in this section, there is the question of the relationship between economic beliefs and economic behaviour. There is a voluminous (and for the simple-minded practitioner, very depressing) literature on why attitudes do not predict behaviour more consistently. Economic, like all other social behaviour is complex, specific and multi-determined, and hence general attitudes may be poor predictors of specific economic behaviours. Yet if specific attitudes and intentions are measured over time to specific economic phenomena they

may be fairly good predictors of behaviour. Certainly very little work appears to have been done in this area.

3. THE *FUNCTION* OF ECONOMIC BELIEFS

Much of cognitive social psychology is concerned with how people make sense of the social world. That is, various belief systems (locus of control, just world, Protestant work ethic beliefs) serve to make the world a stable, orderly and predictable place. The function of these beliefs is often to establish a cause-and-effect relationship between phenomena, which in turn enables one to apportion blame, praise or responsibility. Economic belief systems may function in various ways: to justify one's own economic position *vis-à-vis* others, to attempt to predict the future of economic trends, etc. Functionalist theories, though somewhat unfashionable, provide useful insights into why people maintain and change various economic beliefs (Gans, 1972).

4. THE *STABILITY* AND *CONSISTENCY* OF ECONOMIC BELIEFS

The question of how and when individual and/or shared economic beliefs change is of considerable interest to psychologists, economists and politicians. The temporal stability of both micro- and macroeconomic beliefs has, of course, very important implications for how these beliefs may be changed. The stability of beliefs refers to their similarity over time, while consistency of beliefs refers to their similarity across situations. The stability and consistency of economic beliefs has implications for how they are measured. For instance, if economic beliefs are fairly inconsistent and influenced greatly by the context in which they are gathered it is important to make reference to the context when evaluating the evidence. Similarly, if they are relatively stable over time, results from surveys and interviews may be safely generalised to predict future beliefs. Perhaps what is most interesting in this area is what factors lead to economic beliefs being stable and unstable, consistent and inconsistent.

5. THE *CONSEQUENCES* OF ECONOMIC BELIEFS

Economic beliefs are not only of importance in the understanding of individual behaviour, but in how groups and societies function. There is likely to be a collective view in certain groups about the nature of the economic world. These collective views may not be explicit or sophisticated

as in a school of economic thought, but may nevertheless be important in the way in which groups or societies behave towards themselves and others. That is, belief systems have certain consequences. The idea of unidirectional causality with regard to collective economic beliefs and the state of the economy may be misplaced; it is equally improbable to suggest that 'consumer sentiment' solely determines consumer demand, or that economic forces solely determine consumer sentiment (economic beliefs). Katona (1971) found that public pessimism about the economy showed a sharp decline about 6–9 months *before* each of the major recessions. However, what is not clear is whether public pessimism caused the depression or simply mirrored it. The issue of cause and correlation dogs a great deal of research in this field. But shared economic beliefs do have consequences as to how people perceive themselves and others, who they vote for and who they believe.

6. THE *CHANGING* OF ECONOMIC BELIEFS

Central to social psychological research on attitudes and beliefs are theories of attitude change and consequent suggestions as to the best methods of changing them. There are a number of different approaches including learning and reinforcement theories based on behaviouristic ideas of stimulus–response learning, social judgement and consistency theories which stem from Gestalt tradition and function theories which place most emphasis on human needs. These theories place different emphases on both the causes and methods of change, and are in large part mutually exclusive. Applied research in the area of racism and religious prejudice has revealed the difficulty of attitude change due to the complexity of the process and the number of internal and external factors involved. Yet there are cases of quite sudden and surprising change in beliefs as a result of various happenings. Sudden inflation, the collapse of a bank, increasing unemployment, sudden personal wealth, may each serve to change specific economic beliefs. Economists and planners have to anticipate consumer reaction to specific changes, such as a sudden shortage of petrol. Of equal importance is research on how changes in certain economic beliefs affect changes in other economic beliefs. If economic beliefs form a coherent, balanced, (psycho-) logical system, change in one or more elements is likely to cause changes in other aspects of the system. Extensive research on balance theory is clearly relevant here and may explain why beliefs and attitudes are so resilient to change. That is, to change beliefs about the causes of poverty may involve changing other rather different beliefs about, for instance, mastery over the environment, or postponement of gratification (Furnham and Bland, 1983).

7. THE *MANIPULATION* OF ECONOMIC BELIEFS

Related to topic (6) is how various groups—politicians, advertisers, health agencies—attempt to manipulate beliefs for specific ends. There is a rich yet somewhat atheoretical literature on advertising, and a rather depressing literature on more dramatic means of changing attitudes such as brainwashing. Both may be important in understanding how attempts are made to manipulate the economic beliefs of specific groups or society at large.

8. THE *STRUCTURE* OF ECONOMIC BELIEFS

Studies on the structure of beliefs aim to determine how a variety of economic beliefs are organised along specific dimensions. For instance, Eysenck (1957) suggested that political beliefs could be structured in terms of two (and not one as previously considered) dimensions: Radical-Conservative; Tender-minded-Tough-minded. The same is probably true of economic beliefs in that all lay economic beliefs are probably structured according to a number of specific dimensions. For instance, it is possible

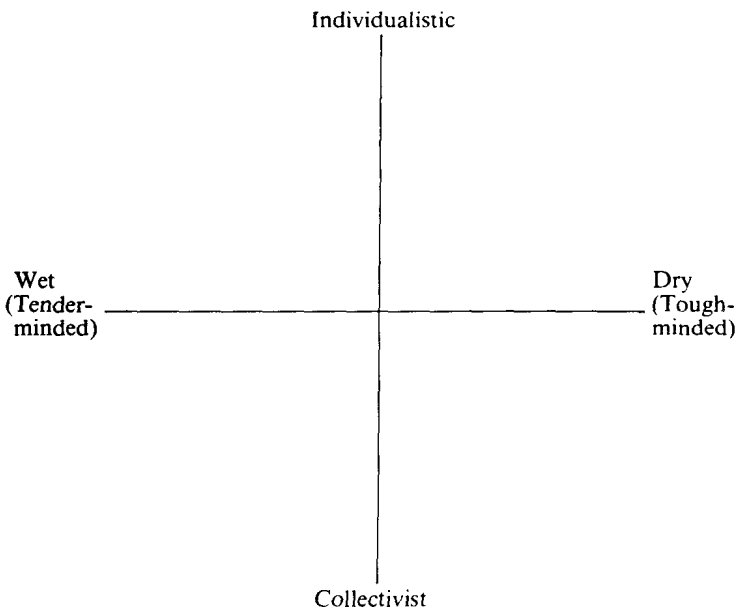


Figure 1.1: A possible structure for economic beliefs

that economic beliefs may be structured in two dimensions: individualistic-collectivistic; tough-minded-tender-minded. The first dimension would reflect right-wing, conservative capitalism, free enterprise beliefs vs. left-wing, radical, socialist, state control beliefs, while the second dimension would reflect economic policy implications with tough-minded beliefs emphasising state, legal or political action, while tender-minded beliefs would emphasise passive, consensual or conventional rather than interventionist policies. The terms 'wet' and 'dry', already in current usage in Britain, may be used interchangeably with tough- and tender-minded views to avoid confusion with Eysenck's work. Hence it is possible that economic beliefs are structured as shown in Figure 1.1.

However this is mere speculation based on similar social psychological research on the structure of lay theories and beliefs. Thus empirical studies will be necessary to establish the validity of this model. Furthermore, it may be that economic beliefs are unusual in that people appear to hold ambivalent beliefs simultaneously (apparently contradictory views at the same time).

9. LAY BELIEFS ABOUT ECONOMIC BEHAVIOUR V/S. ECONOMISTS BELIEFS ABOUT LAY BEHAVIOUR

Whether they are ever made explicit or not, economists hold various theories about mass behaviour of people. Many of their calculations are based on expectations about how people behave economically in varying circumstances. These expectations are often based on previous aggregated evidence and are often fairly accurate. Yet this is not always the case and this may be due to the fact that their view (if there is a collective view) about lay people's behaviour is wrong. Indeed schools of economic thought might differ amongst other things on how they perceive human nature—individual needs, wants, drives and habits. Although some work has been done on politicians' views on human nature, very little work appears to have been done on economists' perspectives.

As well as a number of neglected topics in the area of social beliefs with regard to economics, there are numerous aspects of economic behaviour that have been woefully neglected. There is a paucity of social psychological research on why and how people save money; what determines their gambling habits; how economic issues dictate their voting patterns, etc. Similarly, economics generates a great deal of emotional passion. Indeed in a newspaper interview (*New York Times*, 12 February 1975) Margaret Thatcher said 'the longer I am in politics the more I realise that facts are not the determining thing. Feelings are what count—feelings which are totally out of accord with some of the facts.'

WHAT THE BOOK IS NOT

It would be unfair, either through the title or the introduction, to promise the reader various things that the book does not and cannot fulfill. The book is not a handbook or compendium to all psychological theory as it applies to economic phenomena, partly because it is highly uncertain as to what constitutes the relevant psychological theories and what economic phenomena are to be considered. Topics like inflation, investing, supply and demand are touched on only in passing as psychologists have hardly ever attempted to investigate them. Though the research and theorising of economists, politicians, sociologists, policy-makers, etc. are occasionally mentioned, the focus of this book is social psychological. Therefore the book does not attempt to be a practical manual for the struggling social worker or applied psychologist. Nor is it supposed to provide the economist with a new set of concepts, dimensions or variables which would make his predictions better. This volume is an attempt to offer a comprehensive critique of the (social) psychological literature as it applies to various specific economic phenomena. The latter were chosen primarily to reflect the type of economic issues that social psychologists have concerned themselves with. Of necessity the chapters vary in length and depth, in the amount of theorising and research done in the area, and in relevance and applicability of this research.

Any complete science of economic psychology would not only be able to specify the structure, the aetiology and the consequences of economic beliefs, behaviours and affective states, but also be able to explain the relationship between them. This is, of course, a formidable task.

Perhaps the first task is to review the state of the art so far. This book attempts to do just that.