

The Emotional Effects of Debt

It goes without saying that, making money, spending money and thinking about money take up a substantial portion of our lives. It's also safe to say that most people would like to have more money. Having enough money allows us to provide for our families, [plan for the future](#) and enjoy our leisure time. Not having enough money narrows our choices and restricts our ability to fully share in our society's abundance. Money helps shape the contours of our day-to-day lives. It dictates where and how we live, what and how much we buy and, to some extent, our position in the social order. Money is also intimately linked with our inner lives. Its presence, or lack thereof, has profound physical, mental and emotional repercussions. Perhaps in more ways than we would like to admit, money has tremendous power over us. It's rare for someone to never have money problems. Trouble happens: jobs disappear, [marriages fail](#), people get sick, [homes lose their value](#) and bills pile up. No one is immune. One day we find ourselves in the middle of a financial emergency, left to deal with an array of material and psychological consequences.

Responding to Debt: Some money problems are self-inflicted. Behavior patterns that compel someone to spend without restraint, or misuse money in a way that is self-defeating, can drive that person into debt just as certainly as any financial emergency. Regardless of how someone gets into debt, once there, being in debt can trigger unsettling emotional responses — especially if the debts are perceived as unmanageable or overwhelming.

- **Denial**

And yet, for some people — even those under crushing debt — their initial reaction to being in debt is denial. These debtors simply find it too difficult to face the frightening financial facts, so they continue to spend compulsively while ignoring their deteriorating economic condition. They put off dealing with their problems until some outside event — denial of credit, [threat of foreclosure](#), legal action, [pursuit by bill collectors](#) — forces them to change their lifestyle and begin making some long-overdue decisions.

- **Stress**

On the other hand, many people in debt find themselves all too aware of their situation, making them continually worried and restless. They may be unable to fall asleep because they are thinking about how to pay the bills. Eating habits may also change due to worry. Eventually, the stress prevents them from functioning at work, at home and in their daily lives. Persistent stress of this kind can also lead to serious physical and psychological problems.

- **Fear and Panic**

In some cases, worry can descend into fear or panic. The phone rings, and you don't want to answer it because it could be a creditor. You won't open your mail because it may contain a late bill notice. Regardless of who knocks on your door, you're never home. You fear that you will never get out from under your financial obligations. You shun social contact, as your constant apprehension and paranoia cloud your relationships with your family, friends and co-workers. All aspects of your daily life become infected with anxiety.

- **Anger**

Debt can also make you angry. You become angry at yourself for getting into this untenable position in the first place. You are angry at your boss for not paying you enough. You are angry at your creditors who charge too much interest, have too little patience or compassion, or are otherwise enjoying your predicament. You are angry at your loved ones because of the burden they have placed on you for their subsistence. You are angry at the world for not letting you win the lottery, which would put an end to all of your money problems. Anger can precipitate impulsive actions involving violence and/or illegal activities.

- **Depression**

When negative feelings have built up over a long time and your debts have become the overriding issue in your life, sinking into a deeply depressed condition is a very real danger. Depression is a state of hopelessness with the feeling that things cannot be fixed or changed. A depressed person may withdraw from the world, stay in bed all day, weep uncontrollably, or turn to alcohol or drugs to numb the pain of perceived failure and disappointment. Depression and desperation over debt have been the cause of many suicides over the course of history, especially during times of economic upheaval. Any of the aforementioned negative emotional responses to debt may be serious enough to require medical or psychological intervention. In addition to dealing with your debt, it's important to see a doctor about any physical or psychological problems that develop.

- **Relief**

To find relief, a person in debt needs to take practical steps to deal with the financial underpinnings of the problem. Whatever circumstances may have plunged you into some [uncomfortable level of debt](#), you have two major choices to consider: How are you going to deal with the challenges to your financial stability? And how will you handle its

effects on your emotional life? The way you answer these questions will set the tone for the health and well-being of your bank account, your personal life, and your family's future. A financial counselor or a mental health counselor can help you chart a [path to a healthier future](#).

Researchers: Psychology of Debt Tells Us about Ourselves

Every year, American universities confer more than 3,000 Ph.D.s in psychology. Ever wonder what all those pointy headed academics do with their time? Well, most of their efforts go into studying the rest of us — what makes us tick, how we live, why we do the things we do. Lately, no doubt because fallout from the Great Recession challenges us all in some way, a host of post-doctoral researchers began examining the nature and psychology of debt and the economic underpinnings of our lives. It turns out that studying the psychology of debt brings in a wide range of topics, and money — and the lack of it and the owing of it — affects us in many ways.

More Debt Equals More Depression, Fewer Wedding Bells

The University of Wisconsin's Lawrence M. Berger published a paper in October 2012 entitled, "Household Debt and Adult Depressive Symptoms." His findings: short-term household debt — mainly credit card debt and overdue bills — is positively associated with "greater depression and stress, declining quality of marital relations and parenting behavior, and adverse child outcomes." Guess it took an impressive study to quantify what most of us would assume is obvious.

Fenaba R. Addo, Ph.D., another postdoctoral fellow at Wisconsin-Madison, recently published "Debt, Cohabitation, and Marital Timing in Young Adulthood." The results of her findings suggest that "the accumulation of credit card debt is far less of a barrier to those entering into cohabitating unions than marital ones; education loan debt negatively impacts the entrance into marital unions, but only for women; [and] women whose credit debt exceeds their predicted earnings are least likely to transition into marriage." Who knew?

People Making Bad Debt Decisions

Dr. Moty Amar of the Ono Academic College in Israel teamed up with several colleagues from Duke University, Washington University in St. Louis, and the University of Michigan for a study they published in the *Journal of Marketing Research* entitled "Winning the Battle but Losing the War: The Psychology of Debt Management."

What they found is that many consumers are victims of self-induced "debt account aversion." Challenging the conventional wisdom that borrowers who carry multiple debts should repay the debt with the highest interest rate most quickly, the researchers discovered that the opposite is actually the prevailing norm. Instead, most people tend to pay off the smallest loan first to reduce the total number of outstanding loans, thereby achieving "a sense of tangible progress toward debt repayment." In four experiments, Amar and his colleagues found that: "Participants consistently pay off small debts first, even though the larger debts have higher interest rates." Talk about being penny wise and pound foolish.

Anuj K. Shah of the University of Chicago published a paper in *Science Magazine* entitled "Some Consequences of Having Too Little." His study of poor individuals suggests that excessive borrowing often reinforces the conditions that keep people in poverty, because scarcity itself changes how people allocate their attention. According to Shah, when money is scarce and expenses are not being met easily, the urgency to attend to immediate problems seizes attention away from the bigger picture: "People focus on problems where scarcity is most salient. Because scarcity elicits greater engagement in some problems, it leads to neglect of others. While focusing on the groceries from week to week, we might neglect next month's rent."

This is why poor individuals are more likely to over borrow, especially from payday lenders who charge high interest rates in return for requiring little financial information from their customers. While attempting to solve today's problems, these borrowers lose focus on the future problems they are ultimately creating. So, when it comes to being in debt, taking things "one day at a time" doesn't appear to be the best strategy.

It's all About Brain Chemistry

Finally, Brian Knutson, an associate professor of psychology and neuroscience at Stanford University, and Gregory R. Samanez-Larkin, a post-doctoral fellow in psychology and imaging science at Vanderbilt University, chalked up all of our borrowing and debt decisions to the activation of various parts of our brains. In "Brain, Decision, and Debt," the neuroeconomics researchers suggest that "activation of a brain region associated with anticipating gains (the nucleus accumbens) precedes an increased tendency to seek financial gains, whereas activation of another region associated with anticipating losses (the anterior insula) precedes an increased tendency to avoid financial losses."

A Brave New World of Borrowing

So maybe we're headed toward a future where we can stimulate the proper areas of our cerebral cortexes to keep us all from self-defeating debt behaviors. With the right cranial techniques, electro-chemical or otherwise, we might be able to lower our stress levels, learn to pay off our highest interest credit cards first, begin to think more long-term about our financial situations, and — who knows? — maybe even go to a few more weddings.