

Attitudes Toward Indebtedness in the U.S. Midwest

by Dov Cohen* & Robert M. Lawless**

I. Introduction

Driving down a city street, a car races past you, and the thought that occurs to many is “What a jerk.” Walking down a crowded sidewalk, a person coming the other way bumps into you, and the thought that occurs to many is “What an oaf.” Reading today’s newspaper, you see your neighbor has filed bankruptcy, and the thought that occurs to many is “What a deadbeat.” We are all often quick to conclude observed behavior stems from the actor’s personality, yet this conclusion is often a mistake.

Behavior is often the result of circumstance. The speeding driver may be rushing to meet an appointment. The person bumping into another on the sidewalk may have been distracted by street noise. The bankruptcy filer may have experienced a medical problem that left the filer unable to work and facing a pile of hospital bills.

Psychologists call the tendency to attribute behavior to characteristics rather than circumstance the “fundamental attribution error.”¹ The phenomenon has been well documented experimentally and across a variety of settings. The fundamental attribution error is not that personal characteristics are never determinative of behavior. Rather, it is that persons tend to construct narratives that over-attribute observed behavior to innate characteristics rather than circumstance.

Our work explores the construction of narratives around personal indebtedness. We hypothesize that people construct narratives about other people based on the borrowing behavior. We think these narratives will exhibit the characteristics of the fundamental attribution error in that they will focus on the innate characteristics of the person rather than the person’s

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The research and experiments described in this paper are a collaborative effort. This draft is principally the work of co-author Lawless, and any errors in the analysis are his.

¹ JENNIFER K. ROBBENNOLT & JEAN STERNLIGHT, *PSYCHOLOGY FOR LAWYERS: UNDERSTANDING THE HUMAN FACTORS IN NEGOTIATION, LITIGATION AND DECISION MAKING* 18 (2013).

circumstances. We further hypothesize that these narratives will vary across demographic and socioeconomic characteristics of both the person constructing the narrative and the object of the narrative. We are uncertain whether the narratives will vary across regions and countries. One possibility is that cultural shifts across geographies will change the narratives around indebtedness. On the other hand, it is possible that the narratives reflect deeply ingrained instincts against “out” groups in any society.

This particular draft presents data that are preliminary and early in the research project. The data on these pages confirm that people do construct narratives around debt and provide some support for the idea that these narrative revolve around the innate characteristics of the person.

The narratives that are constructed around household debt not only shape behavior but also shape laws and policies toward those who become overindebted. A narrative that focuses on personal characteristics results in a laws and policies that deal with characteristics, that is laws and policies that tend to be punitive toward the overindebted. There are certainly aspects of overindebtedness that might stem from personal characteristics, but the social science suggests the more prevalent explanations for overindebtedness are largely situational. In the United States, for example, studies show most bankruptcy filers have experienced a job loss, medical problems, or a divorce.²

We are aware of only one other paper exploring similar issues. In a paper written during the debates over the 2005 changes to the U.S. bankruptcy law, Efrat tried to explore the disconnect between the perception that abuse of the bankruptcy system was rampant and the empirical studies showing very low levels of abuse actually occurred.³ Efrat identified the fundamental attribution error among a category of attribution theories that might plausibly explain the disconnect. In the latter part of the paper, Efrat hypothesized the phenomenon was likely to be global and therefore explored Israeli bankruptcy filers. Finding that Israelis also tended to view

² The scholarship is numerous, but the most well-known examples are from the Consumer Bankruptcy Project studies reported in TERESA SULLIVAN, JAY LAWRENCE WESTBROOK, AND ELIZABETH WARREN, *THE FRAGILE MIDDLE CLASS: AMERICANS IN DEBT* (2000) and TERESA SULLIVAN, JAY LAWRENCE WESTBROOK, AND ELIZABETH WARREN, *AS WE FORGIVE OUR DEBTORS* (1989).

³ Rafael Efrat, *Attribution Theory Bias and the Perception of Abuse in Consumer Bankruptcy*, 10 *Geo. J. Poverty Law & Pol’y* 205 (2003).

bankruptcy filers as persons of irresponsible character, Efrat looked at the files of actual bankruptcy filers and found the reality to be far different. He saw the Israeli example as similar to the U.S. experience. Although Efrat's work involved empirical examination of actual bankruptcy filers, his evidence about cultural narratives on indebtedness was largely anecdotal.

Like Efrat, we also hypothesize that any attribution errors surrounding debt are likely to be global phenomena, although the intensity and nature of the errors will likely be culturally contingent. Ultimately, we suspect that debt may be different, that is debt has characteristics that lead people to make certain type of attribution errors. Observing that debt is different in many ways is no better than observing that every snowflake is different. Every different social context is likely to interact with the fundamental attribution error in its own way. What interests us is not so much that debt is different but how it is different.

This early draft reports on the early stages of a long-term project to better understand attitudes toward household debt with the hope of therefore better understanding whence the narratives that are constructed around household debt. The first step is to understand exactly what attitudes people express toward the act of incurring debt, both a person's own debt and debt incurred by others. Those looking for grand theories or conclusive and final declarations about the hypotheses posed in the previous paragraph will be disappointed. The work will necessarily be incremental with the usual fits and starts of social-science research. To fully understand the phenomena, research projects will need to be done across socio-economic strata and across borders. Here, we report on one effort in the U.S. Midwest but with some promising results for a research design that can be used in other contexts.

II. Methodology

Working with a social services organization in a micro-urban area in the U.S. Midwest, we designed a survey instrument that both helped the organization with needs assessments for programs and asked questions about financial literacy, financial attitudes, and attitudes toward indebtedness. The organization screened low-income persons for eligibility for a government program assisting with the payment of heating bills. While the organization's clients were waiting for their screening appointment, a research assistant would approach and ask if the person was

willing to fill out a survey. The survey instrument also gave permission to link the person's financial information given to the organization with their survey responses. The survey research was conducted consistent with the human subjects research procedures typical in U.S. universities. Few persons declined to fill out the survey when asked.

The survey instrument collected information about the person's choices for housing and financial services as well as basic demographic information. Financial literacy was tested on a well-known three-item scale from Lusardi & Mitchell⁴ and now incorporated into the U.S. Health & Retirement Study:

1. Suppose you had \$100 in a savings account and the interest rate was 2% per year. After five years, how much do you think you would have in the account if you left the money to grow? *More than \$102, Exactly \$102, Less than \$102, Do not know*

2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year would the money in the account let you buy? *More than today, Exactly the same as today, Less than today, Do not know*

3. Do you think that the following statement is true or false? "Buying stock in a single company usually provides a safer return than a stock mutual fund." *True, False, Do not know*

Respondents were also given a 10-point MacArthur Scale of Subjective Social Status, commonly referred to as a "MacArthur Ladder" on which they could circle a rung on three ladders to indicate the perceived socio-economic status of themselves now, their parents in the past, and their children in the future. Thus, the instrument captured self-perception of intergenerational social mobility.

To capture attitudes toward indebtedness, respondents were given a short statement of facts about a person named "John." The respondents were given one of four versions:

- Imagine John needs \$500 to pay for dental surgery, and he borrows the money to pay for it.

⁴ See Annamaria Lusardi & Olivia S. Mitchell, "Financial Literacy and Planning: Implications for Retirement Wellbeing," working paper (May 2011) (available at <http://www.nber.org/papers/w17078.pdf>).

- Imagine John needs \$500 to pay for a new television after his old television broke, and he borrows the money to pay for it.
- Imagine John needed \$500 to pay for dental surgery, and he borrowed the money to pay for it. Later, John discovers that he does not have the money to pay back the loan. He tells the lender he has to use his money for rent, food, and so on. He asks the lender to cancel the debt because he cannot repay it.
- Imagine John needed \$500 to pay for a new television after his old television broke, and he borrowed the money to pay for it. Later, John discovers that he does not have the money to pay back the loan. He tells the lender he has to use his money for rent, food, and so on. He asks the lender to cancel the debt because he cannot repay it.

Thus, respondents were presented with scenarios where the debt incurred was less discretionary (oral surgery) versus more discretionary (television set) and where the debt was either incurred versus had been incurred and not repaid. The versions were fully crossed for a 2x2 experimental design.

Respondents were then presented with a grid of words and told to describe the words that best described John:

capable	honest	trustworthy
considerate	impulsive	unhelpful
clever	incompetent	greedy
foolish	intelligent	unreliable

The survey then stated, “We know you have only a little information, but please give us your best guesses about John.” Respondents were instructed to “circle all that apply.”

The respondents were thus presented with choices that evaluated John along the dimensions of warmth and competence, the “two fundamental dimensions of social perception” as described by Cuddy, Fiske, and Glick.⁵ Six of the choices presented to

⁵ Amy J.C. Cuddy, Susan T. Fiske & Peter Glick, *Warmth and Competence as Universal Dimensions of Social Perception: The Stereotype Content Model and the BIAS Map*, 40 *Advances in Experimental Social Psychology* 61 (2008).

respondents evaluated John along a warmth dimension with positive and negative connotations: considerate, honest, and trustworthy vs. greedy, unhelpful, and unreliable. The other six of the choices allowed an evaluation of John along a competence dimension, again with positive or negative connotations: capable, clever, and intelligent, vs foolish, incompetent, and impulsive. By presenting a grid and not a list of words with Likert scales, the research design gave respondents more freedom to react to the short vignette they were given. Respondents could choose either or both competence or warmth dimensions on which to evaluate John and do so positively or negatively in both dimensions.

The research design was inspired by our previous findings with Braucher where U.S. consumer bankruptcy attorneys were presented a vignette describing a couple seeking to file bankruptcy. The bankruptcy attorneys were asked which procedure the couple should choose – chapter 7 (liquidation) or chapter 13 (repayment plan). The attorneys were presented with vignettes that described the couple with racial cues suggestive of an African-American couple or with cues suggestive of a white couple. The hypothetical couple also expressed a preference for either chapter 7 or chapter 13. In our work, attorneys viewed an African-American couple who wanted to file chapter 13 as being of greater competence than an African-American couple who expressed a preference for chapter 7. At the same time, an African-American couple who wanted to file chapter 13 was viewed more favorably along the warmth dimension – as being of better character --- than an African-American couple who wanted to file chapter 7.⁶ Thus, from our previous work, we believed that attitudes toward descriptions of other people’s borrowing would map onto the warmth/competence dimensions described by Cuddy, Fiske, and Glick. In this work, we explore whether these attitudes vary based on the incurrence of debt and the failure to repay as well as the reasons the debt was incurred.

III. Results

A. Sample Characteristics

⁶ Jean Braucher, Dov Cohen, and Robert M. Lawless, *Race, Attorney Influence, and Bankruptcy Chapter Choice*, 9 J. Empirical Legal Stud. 393 (2012).

The total sample size was 250. The sample demographics reflected the characteristics the social services organization's clientele.

Table 1. Sample Characteristics	
<i>Age (median)</i>	53 years
<i>Sex</i>	
Female	81.7%
Male	18.3%
<i>Race (multiple categories could be selected)</i>	
African-American	30.0%
Latino/a	3.4%
White	70.0%
All others	6.0%
<i>Educational level</i>	
High school or less	61.8%
Some college/associate's degree	28.3%
College degree	5.6%
Graduate degree	2.2%
Other	2.2%
<i>Employment Status (multiple categories could be selected)</i>	
Employed/self-employed	21.7%
Unemployed, seeking working	10.2%
Unemployed, not seeking work	6.0%
Disabled	44.6%
Retired	23.9%

In addition to the data in Table 1, 59.5% of the respondents reported living in rental housing and 34.0% reported owning a house. On transportation, 66.4% reported owning a car, and

23.2% reported regular use of mass transit as a means of getting around (multiple categories could be selected).

As to financial literacy, the mean (median) number correct of the three questions was 1.4 (1.0). Only 14.3% of the sample got all three questions correctly, and 25.0% got none of the questions correct. As to the specific questions, 45.2% correctly answered the question about compound interest; 48.0% correctly answered the question about inflation eroding purchasing power; and 40.0% correctly understood that a mutual fund will be of lower risk than a single stock. For the same questions, Lusardi and Mitchell received correct answers from 67.1% of respondents for the first question, 75.2% of respondents for the second question, and 52.3% for the third question. Overall, our respondents display much lower levels of financial literacy than in Lusardi and Mitchell observe in a more general population. It is worth keeping in mind that the third question is a true/false choice, meaning our respondents answered worse than random chance would suggest.

A disadvantage of our sample is that it is not typical of a random sample of U.S. citizens. Our findings might be skewed by an overrepresentation of women, lower levels of income (all respondents were applying for a government subsidy for utilities), and lower levels of education. Despite the socioeconomic disadvantages our population faced, they appear to see themselves as temporarily out of the U.S. middle class. On the 10-point scale of the MacArthur ladder, the respondents selected a median score of 5.5 for the socioeconomic status of their parents and a median score of 6.5 for the socioeconomic status they see for their children, but the same respondents selected a median score of 3.5 for their own socioeconomic status. A significant advantage of our sample is that it measures the attitudes among a population that can be hard to reach in conventional university research.

B. Debt Attitudes

The attitudes expressed toward John and his borrowing varied across conditions. The variation was robust across the conditions separately and across different aggregations of the attitudes. The choices by individual word and condition appear in the Appendix. Our principal finding in this paper is that the attitudinal measure appears to be robust and effective in capturing

attitudes toward borrowing behavior. The rest of this section discusses how the measure varies across experimental conditions and concludes with some preliminary analysis of how the attitudes expressed varied across the demographic characteristics of the sample.

1. General Tendencies Toward Warmth or Competence

Across all conditions, respondents tended to judge John across the warmth dimension (68.3%) slightly more often than the competence dimension (61.1%). The choice seems to have been stark -- only 29.4% of the respondents chose words in both dimensions. Of those 156 respondents who assessed across only one dimension 55.1% used the warmth dimension. Thus, there seems to a tendency to assess borrowing behavior more in terms of warmth than competence, although competence was chosen not infrequently.

Those who tended to choose warmth words had a lower financial literacy score than those who did not (1.29 vs. 1.61, $t = 2.28$, $p = 0.024$). The opposite occurred for competence words with a higher average financial literacy score than those who did not (1.51 vs. 1.21, $t = 1.21$, $p = 0.027$). The effect also may be related to education.

<i>Highest Educational Level Attained</i>	<i>Mean Financial Literacy Score</i>
No high school degree or equivalent	0.80
High school degree or equivalent	1.34
Some college or associate's degree	1.70
Bachelor's degree or higher	1.67
$F(3, 220) = 7.21, p < 0.001$	

As Table 2 shows, financial literacy scores not surprisingly were higher at higher levels of educational attainment. In turn, respondents with lower levels of educational attainment tended to choose warmth words than competence words. For example, 80.7% of those respondents without a high-school degree chose a warmth word as compared to 65.3% of those with a high-school degree, although the effect was only marginally significant (chi-square = 2.82, $p = 0.093$).

Conversely, persons without a high-school degree were less likely to choose competence words than those with a high-school degree (43.8% vs. 61.7%, chi-square = 3.74, $p = 0.053$). In logit regressions with educational attainment and financial literacy as independent variables, financial literacy is marginally predictive of using warmth words ($p = 0.058$) and not predictive of using competence words ($p = 0.116$). Educational attainment is not predictive. The relationship between financial literacy, educational attainment, and the tendency toward assessing borrowing and repayment along warmth and competence dimensions seems to be a promising area for further study.

Other demographic variables were not predictive of the tendency to choose competence or warmth words, making the relationships with financial literacy and educational attainment all the more interesting for future study. Neither sex, age, race, nor employment status had any relationship in this sample with the tendency to choose warmth or competence words. Socioeconomic status also had no apparent pattern with two exceptions that were statistically significant – persons with higher self-reported personal socioeconomic status had a tendency to select warmth words and persons with a higher predicted socioeconomic status for their children tended to choose competence words. Given that there were six comparisons – three socioeconomic status (self, parents, and children) and two dimensions (warmth and competence) – the statistical significance of two of the comparisons may be spurious.

2. Differences Across Experimental Conditions

The primary research design was not merely to observe whether there were general tendencies toward assessments along warmth and competence dimensions but to test whether the assessments were positive or negative and whether they varied across experimental conditions. For each dimension, respondents could select up to three positive and three negative words. As a reminder, the experimental design was a 2x2 matrix where the debtor had borrowed or had borrowed and could not now repay and also where the debtor had borrowed for a less discretionary expense (dental surgery) or a more discretionary expense (television set). Regardless of how one scores the answers or whether one collapses across experimental conditions, the results are robust.

Table 3 presents the mean number of positive and negative words chosen across each experimental condition. Fifty-seven percent of the respondents selected only word, and seventy-five percent selected two or fewer words. Thus, the mean number of words selected is less than one for each dimension:

	Borrowed for dental surgery (n = 50)	Borrowed for TV set (n = 66)	Cannot repay debt for dental surgery (n = 49)	Cannot repay debt for TV set (n = 66)
Positive warmth words, F (3, 217) = 3.27, p = 0.022	0.89	0.49	0.73	0.49
Negative warmth words, F (3, 217) = 20.05, p < 0.001	0.00	0.04	0.50	0.55
Positive competence words, F (3, 217) = 14.49, p < 0.001	0.59	0.39	0.07	0.09
Negative competence words, F (3, 217) = 8.67, p < 0.001	0.19	0.67	0.53	0.91

As Table 3 shows, the results are statistically significant across all four experimental conditions. Perhaps not surprisingly, the respondents tended to view borrowing for dental surgery more favorably than borrowing for a television set. Again not surprisingly, respondents tended to view an inability to repay more negatively than the act of incurring a debt. Strikingly, *good* warmth words are almost as prevalent when the hypothetical could not pay for dental surgery as when he borrowed for it and exactly as prevalent in the television set vignette. The facts suggest an “owning up” by the debtor – that the debtor tells the lender he needs money for necessities and cannot repay. The respondents may have been reacting to this owning up, and the results parallel some findings in the U.S. bankruptcy system of debtors feeling responsible when they file bankruptcy because it is an admission of fault.

Although respondents were fairly lenient along warmth dimensions when the debtor could not pay, they also judged the debtor to be less competent and especially so when the debtor

had borrowed for a television set ($t = 2.55, p = 0.012$). It is not immediately clear why this should be so as a matter of logic. In both instances, the debtor had borrowed and not been able to repay, yet the respondents obviously included the reasoning for the borrowing as part of their assessment of the debtor along competence dimensions.

Although most respondents selected only one word, 43% selected multiple words meaning they could select more than one word in a dimension or select good and bad words in a dimension that would net out. Therefore, we also constructed a warmth and competence score that runs from -3 if the respondent picked all negative words to +3 if the respondent picked all positive words. Table 4 presents these scores across all four experimental conditions, and Table 5 presents these scores with the experimental conditions collapsed into “borrowed” and “cannot repay” categories.

**Table 4. Net Warmth and Competence Scores
Across Experimental Conditions**

	Borrowed for dental surgery (<u>n = 50</u>)	Borrowed for TV set (<u>n = 66</u>)	Cannot repay debt for dental surgery (<u>n = 49</u>)	Cannot repay debt for TV set (<u>n = 66</u>)
Warmth score F (3, 217) = 8.07, $p < 0.001$	0.89	0.43	0.23	-0.06
Competence score F (3, 217) = 16.55, $p < 0.001$	0.38	-0.28	-0.45	-0.82

**Table 5. Net Warmth and Competence Scores
Across Collapsed Experimental Conditions**

	“Borrowing” Conditions (<u>n = 116</u>)	“Cannot Repay” Conditions (<u>n = 115</u>)
Warmth score $t = 4.08, p < 0.001$	0.66	0.09
Competence score $t = 5.42, p < 0.001$	0.05	-0.64

	Dental Surgery Conditions (n = 99)	Television Set Conditions (n = 132)
Warmth score t = 2.55, p = 0.011	0.51	0.14
Competence score t = 3.82, p < 0.001	-0.10	-0.59

Again, the results are robust even if perhaps not particularly surprising. Borrowing is viewed more favorably than borrowing and not repaying, and borrowing for a less discretionary item is viewed more favorably than borrowing for a more discretionary item. Notably, borrowing is viewed positively along the warmth dimension, and even along the competence dimension for dental surgery. The vignette described a person short of means with a problem that needed solving, and our predominately low-income group of respondents saw the person who borrowed to solve the problem as navigating successfully through one of life's problems. A full 40.0% of the respondents described the hypothetical debtor as "capable" when he borrowed to pay for dental surgery. It will be interesting to see if in future research this result holds up in higher income groups.

Indeed, the principal point of this short draft is to establish the robustness of our measure about attitudes toward debt. The "word jumble," as we tend to call it, provides a free-form selection of descriptors along the two well-known social dimensions of warmth and competence. Thus, the research design allows respondents to select themselves which attitudes they most wish to express in regard to the described borrowing and repayment behavior. The results were robust to different specifications of measurement variables as well as across collapsing categories of the experimental design. Future steps will be to add complexity to the fact pattern as well varying the identity of the hypothetical debtor along different demographic lines.

3. Toward Cross-Sectional Differences

Although not a principal point of this draft, we did begin to explore cross-sectional differences in the attitudes expressed by our respondents. Because our respondents were relatively homogenous, we may fail to detect cross-sectional differences that exist across the

population. Still, we do see some suggestions of cross-sectional differences. For example, as discussed above, we found differences along financial literacy scores and (less strongly) among educational levels in whether the respondent chose to assess along warmth or competence dimensions. In the rest of this part, we focus on differences in the aggregated net warmth and competence scores.

Table 6. Regressions on Net Warmth and Competence Measures

	<u>Warmth</u>	<u>Competence</u>
<i>Experimental Condition</i>		
Borrowed for dental surgery	omitted	omitted
Borrowed for TV set	-0.393* (0.237)	-0.745* (0.213)
Cannot repay for dental surgery	-0.757* (0.221)	-0.872* (0.198)
Cannot repay for TV set	-1.012* (0.227)	-1.331* (0.203)
Financial literacy score	-0.082 (0.080)	-0.069 (0.720)
High school graduate	-0.239 (0.229)	-0.291 (0.205)
African-American	0.150 (0.179)	0.289 (0.161)
Male	-0.438* (0.203)	-0.085 (0.182)
Age	0.005 (0.005)	0.012* (0.004)
Self-reported socioeconomic status	0.076* (0.037)	0.023 (0.033)
Constant	0.692 (0.458)	0.006 (0.411)
Adjusted R-squared	0.145	0.218
F-statistic	4.44, p < 0.001	6.63, p < 0.001)

n	183	183
coefficients with standard errors in parentheses		
* -- statistically significant at the 0.05 level		

As the analysis in Part III.B.1 suggested, there are few differences across respondent characteristics. Respondents reacted primarily to the experimental stimuli again suggesting their usefulness in further research. Higher socioeconomic status was associated with higher levels of assessment of warmth, while men were less likely to give higher assessments of warmth. On competence assessment, age was associated with higher levels of assessment. It is not immediately clear why this should be so, although it is possible that life experience brings a recognition of the difficulty of dealing with personal financial emergencies.

IV. Conclusions

[to come]

Appendix. Word Choices by Experimental Conditions				
	Borrowed for dental surgery (n = 50)	Borrowed for TV set (n = 66)	Cannot repay debt for dental surgery (n = 49)	Cannot repay debt for TV set (n = 66)
<i>Positive competence words</i>				
Capable	40.0%	28.6%	0.0%	3.0%
Clever	2.0%	2.0%	3.0%	1.5%
Intelligent	12.0%	6.1%	4.6%	4.6%
<i>Negative competence words</i>				
Foolish	10.0%	22.5%	16.7%	39.4%
Incompetent	2.0%	0.0%	12.1%	12.1%
Impulsive	6.0%	40.8%	22.7%	37.9%
<i>Positive warmth words</i>				
Considerate	8.0%	2.0%	9.1%	3.0%
Honest	38.0%	16.3%	53.0%	39.4%
Trustworthy	36.0%	26.5%	9.1%	6.1%
<i>Negative warmth words</i>				
Greedy	0.0%	3.0%	0.0%	3.0%
Unhelpful	0.0%	2.0%	0.0%	7.6%
Unreliable	0.0%	2.0%	45.5%	43.9%