

Finance

# MONEY TO BURN, BUT NO CHANGE TO SPARE

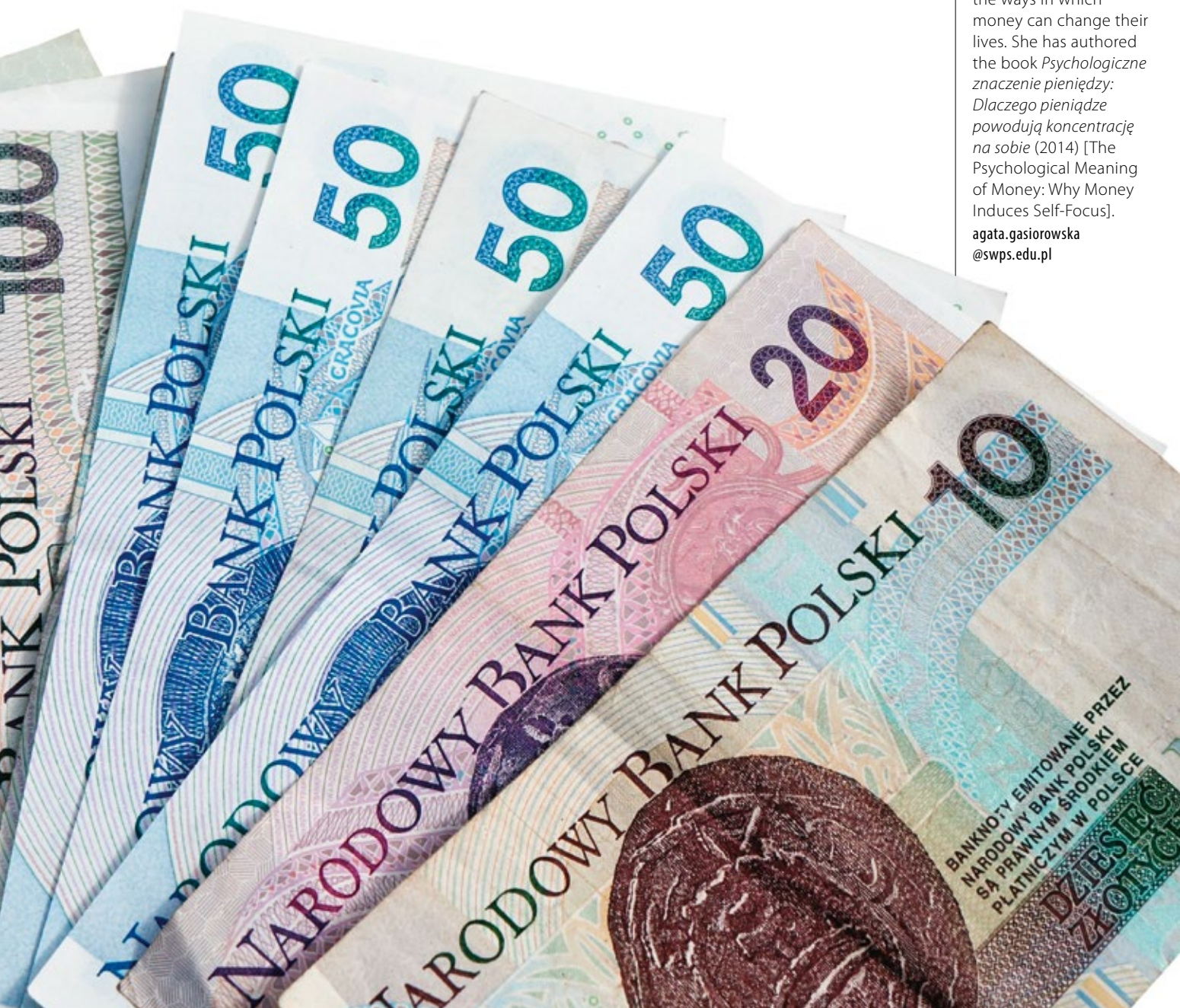


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**A**ssoc. Prof. Agata Gąsiorowska of the SWPS University of Social Sciences and Humanities ponders if the Poles know how to manage their money wisely.



## ACADEMIA Focus on Finance

**ACADEMIA:** Is there such a thing as the typical Polish consumer?

**AGATA GAŚSIOROWSKA:** That's a generalizing question, and that's why it's very difficult to answer it. As the saying goes, if one of my neighbors beats his wife every day and another one never beats his, then statistically each of them beats his wife every other day. That's why it's impossible to answer such a question in a sensible way. It is nonetheless possible to say what distinguishes us Poles from other European nations: as consumers, we are more "economical" than focused on the image of a product or a brand. In other words, many Poles continue to be guided in their choices by price, and when they pay attention to the relationship between price and quality, they do so not to pay extra because of the brand or quality but because they're frugal with money. For example, they search for bargains and buy things on special offers and in sales.

### **Are we good at that?**

We are relatively good at doing everyday shopping. We spend most of our money on such purchases, as opposed to large, exceptional expenditures.

### **What are we not good at?**

Saving money so as to have a financial cushion. However, that problem is not limited to Poland – the scale of difficulty, or rather the reluctance to save, is about the same in Poland and in such countries as the United States. There's practically no savings culture in the whole of Western Europe, or what we call the Western world of consumption. The Koreans and the Chinese, on the other hand, are quite good at saving.

### **Why?**

First of all, we Poles are quite firmly convinced that if you want to save money, you need to have money. But that is not true: financial resources are not crucial for savings. If you want to save money, you need to get into the savings habit. It doesn't matter if you put aside 5, 50 or 500 zlotys every month. What's important is that you do so regularly. Secondly, we have different attitudes to money than people in the countries of the Far East. The Asians see money as something neutral, they're not ashamed to talk about it. It's natural to them that money is a certain determinant of a person's life, but it is not understood through the prism of Western materialism, which holds that "if you're rich, you're better than those who are poor." They naturally compare people in the context of money. For example, they have no problem telling others how much they earn, but they don't attach such emotional importance to money as we do. Also, financial education in those countries is definitely better than in Poland. As a result of all these things, the Asians from the Far East understand better than us that saving is not a matter of wealth.

### **Do Poles rarely open savings accounts?**

Even if they did so often, it would be nothing to cheer about. In principle, savings accounts are one of the worst ways of saving. With such low interest rates, they don't differ much from stashing money away under the mattress. You can save money in this way in the short run by putting aside small amounts for a year to save up for a vacation. Saving that makes sense in the long run, for example saving up for retirement or a house, means not only putting money aside but also ensuring it will grow. Stashing money away, regardless of whether at home or in a bank, will not translate into future profits.

### **What will, then?**

Investing money, which means taking advantage of different financial instruments. However, the Poles, and not only the Poles, have a considerable problem as consumers in financial markets. Every year, the Kronenberg Foundation studies how the Poles cope with savings and finance in the broad sense and what attitudes they have to those issues. These surveys show that over the past 10 years the number of the Poles who declare that they are guided by their own knowledge, or more precisely intuition, when making savings and investment decisions has dropped substantially, while the share of those who report that they use information materials and consult advice from financial institutions has surged to 40-50%.

### **That's probably good.**

But when the respondents are asked who they trust when it comes to savings and investment decisions, it



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turns out that nothing has changed in this respect. The Poles trust either themselves or no one. Unfortunately, the situation is disastrous, because they know very little about finance. I mean not only more complicated instruments or phenomena but also elementary issues. Many Poles are unable to explain the concept of inflation, they can't tell the difference between credit cards and debit cards, they don't understand the state-ordained circulation of money, which means that they don't know what happens to the taxes we pay. They resort to such platitudes as "health care is financed from the taxes we pay," but they essentially don't understand what that really means. As a society, we Poles know very little about finance, and they say that they draw upon the knowledge of other people, for example those who work in financial institutions, but they don't trust them, because they only trust themselves. In this way, we reach a contradiction in terms of the possibility of arriving at rational decisions regarding money management.

**Maybe we don't trust financial consultants, because we don't understand them.**

Indeed, Poland is generally characterized by a low level of public trust compared with other nations in Europe. I mean the trust that we Poles have in one another, in their neighbors, in institutions, in the system, and in the government. It therefore comes as no surprise that we don't trust financial institutions, especially in the context of how little they know about the economy and the information that they receive from the media. When the so-called "Swiss franc crisis" broke out in the real estate market, we were told that banks had been treacherous and evil, deceiving people by pushing them to take out loans in Swiss francs, which those people certainly didn't really want. But are we sure that they didn't actually want those loans? Let's try to think about what could have happened using medicine as an example. Let's imagine a typical Pole who feels under the weather and is convinced that he is sick. He goes to the doctor, and the doctor tells him that he's fine. What will a Pole say to that?

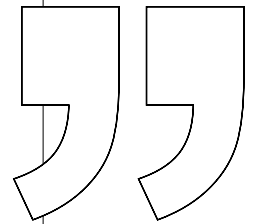
**It's preposterous. The doctor doesn't know anything.** Exactly. After that, he will most probably search long enough and find a doctor who will tell him he is sick, prescribe him meds, and, most preferably, refer him for an fMRI and a CT scan. And that will be a good doctor. If the Poles go to a financial consultant and say they want to take out a loan, then a loan is what they want, period. If the consultant advises them against it, because their financial situation is not good enough, they will probably look for another consultant who will tell them what they expect to hear, which is: "No problem, you can take out a loan, preferably a large one to have enough money for a large apartment." Prof. Tomasz Zaleskiewicz and I have been studying

this phenomenon for several years. We have observed it both among the Poles and among the Americans. We call it the confirmation effect. It means that people are more likely to perceive as competent only those consultants who tell them what they want to hear.

**With that knowledge, it's even more difficult to trust the advice of specialists, who are surely aware of this effect, too.**

I'm not trying to say that all consultants are always competent and honest or that all consultants always want to mislead us to profit from that. I rather want to say that people generally overrate the importance of information that is consistent with their own opinions and expectations. When someone discredits their views, they don't treat this as advice but as an *ad per-*

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*sonam* remark. If the consultant suggests certain behavior, and the client doesn't trust the consultant but is financially illiterate, the client will do whatever he or she wants, anyway. In our eyes, a consultant's role is to affirm that we've made the right decision. Getting back to the Swiss franc loans, many people, even if they had been informed about the potential foreign exchange risk, would have probably ignored it as inconsistent with their conviction that if the Swiss franc's exchange rate was so low, it would always remain low. And even if anything changed, they would think about that later.

**Do you mean the famous Polish attitude of "jakoś to będzie" – things will work out, one way or another?**

Yes. What poses an additional problem is that this attitude does not really mean "should something happen, I know I'll manage." It's more the approach of a three-year-old who puts a pillow over his head when something goes wrong and thinks he is not there anymore, so the problem has disappeared, too. For example, that's what many debtors do: when payment reminders are sent, they don't check their mailbox, they don't answer their phone, they pretend they're not at home. They don't confront the situation.

**You've mentioned education. Let's talk about that.** Unfortunately, many people believe that economic education should be provided by schools. But six-

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and seven-year-olds are, in certain aspects, somewhat too old to start learning about good economic behaviors. There's much to indicate that children as young as four are mature enough to learn certain economic habits, for example saving money. Parents don't teach them that, because they think that children will be harmed, they will be materialistic and overly focused on money. However, there's a flip side: teaching kids that if they save, they will have money is something completely different than convincing them that money will change their lives. In addition, adults believe that it's enough to tell children: "you need to save money." But parents won't achieve anything if they spend money mindlessly, argue over it, and tell their kids "we can't buy you this, because we don't have enough money," which implies that if they had the money, they would buy their children anything.

**That may be because of the Polish People's Republic...**

No! People who are now in their forties barely remember the communist era. For example, I only have certain memories of it, for instance my mom giving me a glass bottle and sending me off to get milk, but I finished university and started working in 1998, already ten years after the transformation. We were raised as children in the Polish People's Republic, but we learned to be adults and to work in a different era. I would not overestimate the impact of communism on the behavior of today's 40-year-olds.

**But the holdovers from that era do include a certain mistrust of the state, institutions, and other people. Apart from that, barely anyone knew how to manage money for those 44 years, because there wasn't too much of it. Doesn't that matter?**

We can't answer this question. If we wanted to, we would have to have a communist-Poland and a non-communist Poland. We might say, contrarily, that maybe we should blame not the Polish People's Republic but the earlier partitions and serfdom. And the 18th-century nobles, who followed the principle "*zastaw się, a postaw się*" (spare no expense to impress others), so they managed their money in a completely irrational way. I could also hazard the claim that the problems that the Poles have are related to the Catholic religion. What stance does Protestantism take to hard work, frugality, and wealth in Protestantism? An unambiguously positive stance. But if we explore the Catholic perception of money, we will find out that it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God – that's from the Gospel of Matthew. That creates considerable discord. The question is not whether we are a society of believers or non-believers but in what traditions we are raised. We should be modest, we shouldn't flaunt our wealth, and those who are rich are definitely thieves. But on the other hand, we say that if people are poor, that means they are losers. We lack positive words linked to either wealth or the lack of it.

**And we have the comforting saying "money doesn't buy happiness." However, the Poles constantly aspire to have more money, for example by surrounding themselves at any price with objects meant to evidence their high social status.**

That's the discord I mentioned. On the one hand, we've been raised to believe that we must not be guided by wealth as a value in our lives. On the other hand, we suddenly woke up one day in 1989, in what was a completely new reality. We've been literally snowed under with values upon which we can build our lives, but they contradict the ones that were followed ear-

How should we cope with the discord between two attitudes: "money doesn't buy happiness" and "if you are poor, it means you're stupid"?

**What should they say, then?**

"We can't buy you this toy, because you already have so many toys that you don't need another one." That's a rational explanation, unlike the one-size-fits-all answer "we don't have the money." That's also where another problem emerges, namely the question of how educated adult Poles are. People aged 40 and above currently make up the most affluent generation. They entered the job market back in the 1990s, and they struck gold. Consequently, today's 40- and 50-year-olds are often people who are financially successful to a large extent, have a stable financial situation, and so on. On the other hand, many of them can't manage their money, and they will have some money left at the end of the month only because they haven't managed to spend everything. They don't think about how much money they will need when they retire to maintain a similar standard of living. In this context, I liked the advertising campaign launched by one bank. It featured a young, up-and-coming professional who said to himself: "I'll think about that later." But when he stopped working, he was left with half of a car, half of a house, half of a beach chair, and so on. That's a good way of educating adults. Just like children, they don't like to be lectured, so education with a touch of humor may prove effective.

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lier. Societies in America and Western Europe grew slowly into such values, gradually building their world outlook and social relations on them. How should we cope with the discord between “money doesn’t buy happiness” and “if you are poor, it means you’re stupid and deserve condemnation, and you only have yourself to blame?”

**We are said to live in an era of predatory capitalism that demands a lot from people. But the demands are in reality made by other people. A person’s social status depends on what he or she has.**

Yes, but this is slowly changing. Some of the people who were born at the end of the twentieth century at least try to use the available goods in a somewhat different way. I don’t want a car, they say, because I would only spend half an hour a day driving it, but I would have to pay insurance. Why should I own my own bike, if I can use city bikes? Why should I take out a loan to buy an apartment and be tied down to one place for decades like my parents, if I don’t even know what I’ll be doing a year from now? On the other hand, people from this generation copy the behavior of their parents: a permanent job is important, and so is an apartment or a house, but we also need a car so that our neighbors can see it and envy us, which is yet another value. When people receive conflicting signals about what is important and what isn’t, they can’t easily decide what they should believe. Despite appearances to the contrary, we could be compared to South Korean society. On the one hand, it is based on the traditional religious foundations of Confucianism, modesty, respect for the elderly, and a refusal to focus on possessions, because that is

superficial. On the other one, they follow the patterns from the United States – everything must be above all fast and nice, one has to have possessions, fame, popularity, beauty, and professional success. South Korea has the highest suicide rates not only among adults but also among children and teenagers. Many people can’t withstand the pressure of conflicting values.

**What about us? Where are we?**

We’re splitting into two different societies. Some Poles are increasingly drifting toward “I’m not interested in saving money, the future pensions from the Social Insurance Institution (ZUS) are reportedly going to be minimal anyway, so I prefer working in the gray economy, and I will at least have more money now”. In other words, they’re burying their heads in the sand, and they have no intention of learning. Other people, those more educated and more aware, are drifting in the opposite direction: they think about their finances and their future, they make rational decisions. Unfortunately, however, they’re not pulling along those who don’t want to think about their financial situation in 20 or 30 years.

**What might the results be?**

The burdens that the state will have to cope with will likely cause social security contributions and taxes to consume a lot more than half of our earnings, which will probably lead to the expansion of the gray economy and an even greater aversion to saving. So unless someone can think of a wise antidote, we will possibly go bankrupt in economic terms.

INTERVIEW BY KATARZYNA CZARNECKA

