Stress, money and the negative feedback loop

One in five millennials suffers from mental health problems as a result of problematic debt. But stressing about money only adds to the problem

Buy now, worry later

People spend money they don't have on things they really don't need. Whether it's to keep up with the latest technologies or a fear of not belonging, the temptation is to buy now, worry later.

But impulsive spending leads to financial problems, which in turn leads to rising stress levels. Indeed, financial worries are among the most important causes of stress. What's worse, this cycle of stress and poor decision-making can create a negative feedback loop.

Stress can be a good thing...

Let's first start by identifying what stress is. The feeling of stress arises when there is a gap between what you have to do and what you can do. For example, having difficulties paying your monthly rent, or more generally 'to make ends meet', most likely makes you feel stressed. Other major sources of stress include high workload, major life events or even your social environment.

It is a misconception that stress is always negative. A little bit of stress can actually be very useful and increase motivation and performance. The surge of adrenaline through your body prepares to 'flight-or-fight', leading to increased levels of attention and focus. This acute form of stress can be recognised by an increase in heart rate, sweaty hands and other physical characteristics.

Recent research has shown that this type of short-term stress enhances the likelihood of choosing or doing things that were previously rewarding. At the same time, it impairs the ability to avoid situations in which we previously experienced negative outcomes. In other words, we are more likely to take risks and to disregard information that would advise us to act differently. Buying the newest smartphone without taking into account the chances of ending up in the red at the end of the month, is exactly what stress can do. Taking risk can be beneficial, and some people, like traders in financial markets, even have to. But seeking risk can be addictive - think of the adrenaline junkies who thrive on taking financial bets over and over again. What's interesting here, is that the effect of this short-time stress on risk-taking is found to be much more pronounced for men than for women.

But only if it's temporary

But what happens when temporary stress develops into constant stress? In case stress persists for a longer period of time, it is not adrenaline but increased levels of the hormone cortisol that run through our body. This type is also called chronic stress, and coping causes extreme fatigue and sometimes even depression and anxiety. In contrast to people experiencing short-term stress, chronically stressed people are more sensitive to negative experiences, and are more easily afraid of the potential consequences of their behaviour. This fear, even if there is no risk at all, could lead to the belief that one is unable to control or influence the situation, a mental state also called 'learned helplessness'. These people develop a certain insensitivity to changes in their financial situation, not realising that doing nothing could even worsen the situation.

Important to mention is the difficulty of measuring chronic stress, especially in experimental settings. That is probably why there is also a stream of research arguing that both short-term stress and chronic stress lead to increased risk-taking. Interestingly, these studies show that the effect of chronic stress as opposed to acute stress, is more pronounced for women than for men.

Even though research points in several directions and substantial variance exists between individuals, it seems that feeling stressed does not positively contribute to getting your finances in order. Do we observe a vicious cycle here? If impulsive spending leads to financial worries and stress, and these in turn motivate us to take unnecessary risks or do nothing at all, chances are high that the problem reinforces itself.

So what do we do? First of all, the financial sector needs to acknowledge that mental health problems such as stress affect financial decision-making. But most importantly, there is an urgent need to find out how we could break through this vicious cycle. Perhaps financial institutions could provide targeted interventions for people at risk of financial problems, or better yet, use technology to prevent impulsive spending in the first place.