

Who's Wealthy? Beyond Net Worth, Asset and Debt Levels Change Our Perceptions

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Will borrowing money to buy a new car make you feel richer? It depends on your net worth, says a new study in [*Psychological Science*](#), a journal published by the [Association for Psychological Science](#).

“People’s perceptions of wealth vary not only as a function of their net worth, but also of the amount of assets and debt they have,” says Princeton University psychology graduate student Abigail B. Sussman, who wrote the study with Princeton professor Eldar Shafir. In fact, increasing your assets by taking on debt affects perceived wealth in opposite ways for people who are in the red (their debt outweighs their assets), or in the black (their assets outweigh their debt).

The studies recruited participants from the online platform Mechanical Turk. All were U.S. residents, average age 36, with average household incomes from \$50,000 to \$75,000. In six experiments, subjects considered pairs of financial profiles. In each pair, both profiles had equal positive or negative net worth, but one indicated lower debt and lower assets, while the other had relatively higher debt and assets. The first experiment tested perceptions: Participants were asked which person or household was financially better off. Whether shown brief, hypothetical descriptions or the detailed finances of actual households—including stocks, home values, student loans, and mortgages—the results were the same. When net worth was positive, more respondents called those with less debt wealthier than those with higher debt and more assets. By contrast, those in the red were perceived as wealthier when they had higher assets, even though accompanied by higher debt.

Do such perceptions lead to different decisions? Considering similar profile pairs, subjects were asked whether they’d borrow to buy something they couldn’t pay for outright—a luxury like a motorcycle or a necessity like bathroom repairs—or whether, as a loan officer, they’d lend to someone to do so. Again, positive-net-worth people with low debt and negative-net-worth people with high assets were more likely to borrow or be seen as credit worthy.

Why these fickle responses? “People generally like assets and dislike debt, but they tend to focus more on one or the other depending on their net worth,” says Sussman. “We find that if you have positive net worth, your attention is more likely to be drawn to debt, which stands out against the positive background.” On the other hand, “when things are bad, people find comfort in their assets, which get more attention.”

These findings challenge classical theories that net worth matters most in people’s feelings about their financial situations. And, says Sussman, understanding the nuances the study reveals can help predict economic behavior that otherwise appears puzzling. A person deep in debt may borrow to buy a new car, while a person with positive net worth may skip the loan and the car. And both are likely to feel wealthier for doing so.