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Psychometric evaluation of the Financial Threat Scale (FTS) in the context of the great recession

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ABSTRACT

In the current economic downturn, people are fearful, uncertain, and preoccupied about how the recession affects them, their loved ones, and their collective futures. In short, they feel threatened by the stability and security of their personal finances. This study examined the psychometric properties of the *Financial Threat Scale* (FTS), a 5-item scale which was designed to measure these feelings. Data were collected in Canada at the height of the recession as part of a larger international investigation on the economic downturn and psychological health. Results showed the FTS is unidimensional and highly reliable. The FTS' validity was supported by showing its relations with (1) psychological health outcomes, financial situation measures, and individual differences measures, all in the expected directions. The FTS also showed incremental validity by accounting for variance in psychological health outcomes above-and-beyond that of either the financial situation measures or individual differences measures. The theoretical and practical implications of the FTS are discussed.

1. Introduction

The current economic downturn, popularly dubbed the "Great Recession," has had an immense negative impact on economies all over the world. At the level of the individual, personal financial situations have worsened for some to the point of exasperation (Ayers et al., 2012; Barr, Taylor-Robinson, Scott-Samuel, McKee, & Stuckler, 2012; Richman et al., 2012; Tefft, 2011), while most others have experienced at least some negative effects, such as increased job insecurity, increased debt levels, and investment losses (Deaton, 2012). According to a study by Sperling, Bleich, and Reulbach (2008), the public's initial reaction to the crisis was characterized by fear, anxiety, and a generalized sense of panic. Several years into the crisis, the mood of disparate populations about the health and trajectory of their economies remains largely negative (Erlanger, 2010; Hill, 2012; Marlar, 2012).

Recent studies across the social sciences have shown that the deterioration of personal finances, which is itself exacerbated by economic downturns, is a major source psychological turmoil. For example, recent cross-cultural research has

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shown strong associations between gross domestic product (GDP) per capita and well-being indexes (Diener, Ng, Harter, & Arora, 2010; Stevenson & Wolfers, 2008). The worse, on average, a country's citizenry does financially, the less they report subjective well-being and satisfaction with life. In fact, studies have linked personal financial problems as a contributing factor to a wide array of negative psychosocial outcomes, such as psychological distress and mental illness (Brown, Taylor, & Wheatley Price, 2005; Fitch, Hamilton, Bassett, & Davey, 2011; Jenkins et al., 2008; Roberts, Golding, Towell, & Weinreb, 1999), depression (Mirowsky & Ross, 2001), suicide and suicide ideation (Yip, Yang, Watson, Ip, & Law, 2007), dissatisfaction with life, stress, and dysfunctional impulsivity (Bechtel, 2012; Norvilitis, Szablicki, & Wilson, 2003), low birth weight (Binascca, Ellis, Martin, & Petitti, 1987), heart-disease mortality (Brenner, 1971), and divorce and marital discord (Gigy & Kelly, 1992).

A potential psychological concept that can bridge the gap between financial health and psychological well-being is stress appraisal. According to the transactional model of stress, stressors are first assessed as to their significance or threat level (Lazarus & Folkman, 1984). Largely, this primary appraisal process involves estimating the harm a stressor has already had or is likely to cause in the future. In general, the greater the harm estimated, the greater the stressor is perceived as being threatening. After levels of a stressor's threat have been appraised, a secondary appraisal process ensues that evaluates potential approaches one has for coping with threats. Perceived inability to cope leads to maladaptive psychosocial outcomes, such as emotional exhaustion, cynicism, and perceived loss of control (i.e., burnout; Greenglass, Fiksenbaum, & Burke, 1996; Maslach, 2001).

It follows that, due to the importance of personal finances for maintaining standards of living, any potential for disruption or destabilization of personal finances is likely to be taken very seriously by most people. In times of economic crisis, in particular, perceived financial threat would likely be higher than normal. This is because the probability of suffering financial setbacks is increased due to deterioration of the economic environment. In addition, reminders of the potential for financial setbacks are more salient in media-reported indicators, such as rising unemployment rates and lowering quality of life standards (Canadian Index of Wellbeing, 2012; Grant, 2012), and through contact with individuals who have themselves suffered a negative impact. In an analysis of Gallup poll data from 2008 and 2009, researchers examined the relation between yearly personal income and well-being indexes in more than 450,000 Americans (Kahneman & Deaton, 2010). The correlation between income and well-being was positive and strong but tended to plateau after income reached about $75,000 US. Tellingly, their findings also showed that having low income was significantly correlated with suffering a myriad of negative psychophysiological outcomes, such as emotional pain and ill health. Thus, although the old adage may be still be true—money does not buy happiness—it may be exceedingly difficult to be happy without it.

In light of the these collective findings we argue that as individuals perceive that their personal financial situations have been eroded and destabilized by an economic downturn, they will increasingly experience high levels of *perceived financial threat*—a mixture of fear, uncertainty, and cognitive preoccupation about the security and stability of their personal finances (Hypothesis 1). Similar to the experience of other stressors, the more acute the feeling of financial threat, the greater it will be reflected in maladaptive psychophysiological health outcomes, such as psychological distress, depression, anxiety, and mood disturbance (Hypothesis 2).

1.1. Individual differences and financial threat

The above rationale raises another question. Given the same financial situation and economic environment, do all individuals experience financial threat equally or are some people more prone to it than others? Based on previous research on personality and psychological health, several trait characteristics are likely to be associated with both financial threat and maladaptive outcomes. For example, individuals who tend to worry have higher levels of anxiety and depression than non-worriers (Brown, Antony, & Barlow, 1992). Worry can be defined as negative thoughts and affect related to perceived inability/lack of control to achieve personal goals (see Kubzansky et al., 1997). Worriers are also more intolerant of uncertainty (Freeston, Rhéaume, Letarte, Dugas, & Ladouceur, 1994), remember threat-related words in memory tasks better than neutral words (Friedman, Thayer, & Borkovec, 2000), and have higher levels of heart-disease risk (Kubzansky et al., 1997). Given this, we expect to find that worry and perceived financial threat are positively related variables. Individuals who tend to worry are more likely to perceive instability and insecurity in their personal financial situations than individuals who tend to worry less.

Another likely correlate of financial threat is rumination—the tendency to have frequent, unsolicited negative thoughts about experiences or themes, and dwell on their obstruction of personal goals (Scott & Mclntosh, 1996). Trait rumination has been empirically connected to a wide array of maladaptive outcomes, such as depression, anxiety (Harrington & Blankenship, 2002), and post-traumatic stress disorder (Clohessy & Ehlers, 1999), and is positively related to trait worry (Scott & Mclntosh, 1996). In surveys of nurses who worked with patients during the SARS crisis, the nurses who spent the most time in direct contact with SARS patients and spent time in quarantine as a result of this contact were the most likely to report feelings of threat and rumination about vulnerability to infection (Bai et al., 2004; Maunder et al., 2003). In turn, these nurses also experienced high levels of negative psychosocial outcomes like emotional exhaustion, state anger, and avoidance behaviors (Fiksenbaum, Marjanovic, Greenglass, & Coffey, 2006; Marjanovic, Greenglass, & Coffey, 2007). We glean from these studies that perceived threat and rumination seem to be intimately connected and both appear related to negative psychosocial outcomes that are common to exposure to acute levels of stress.