Working hard for money decreases consumers' willingness to risk their earnings, study shows

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Studies show that consumers believe people who work hard for their money have higher incomes, are more financially literate and are more comfortable taking on prudent financial risk.

Similarly, national survey data used by policymakers to assess the relationship between effortful earning and financial risk-taking also shows a positive correlation between the two.

While at the population level this may be true, new research from the University of Notre Dame shows that the harder an individual consumer works, the less willing they are to risk those earnings through investments and elsewhere. In other words, when comparing two people, the person who works harder will likely be more tolerant of risk. When looking at a single person, they are less tolerant of risk when they work hard and more tolerant of risk when they don't work hard.

"Working Hard for Money Decreases Risk Tolerance" is forthcoming in the *Journal of Consumer Psychology* from lead author Christopher Bechler, assistant professor of marketing in Notre Dame's Mendoza College of Business, along with Samina Lutfeali, Szu-chi Huang and Joshua Morris from Stanford University.

"Consumers feel greater psychological ownership over their earnings when they work hard for them, which makes them value these earnings more and be more averse to losing them," Bechler said. "So, they choose less risky investments and invest less."

The team conducted four experiments and one supplemental study that employed a unique, incentive-aligned paradigm to capture the causal effect of effortful earning on risk taking.

Participants exerted effort to acquire money over three to six periods (months) within a microcosmic financial cycle. Tasks they completed to earn money included pressing the "S" key on their keyboard tens or hundreds of times and transcribing Dutch poems. After each period, participants received an opportunity to risk their earnings—most frequently an investment opportunity.

"We show that when controlling for the individual, more effortful earning actually leads consumers to take on less risk, despite their riskier options having greater expected returns," Bechler said.

The negative effort-risk relationship revealed in this study could become increasingly influential. Bechler points out that people have always worked hard to earn money, but even more so in the midst of the COVID-19 pandemic, persistent high inflation, low wage growth and other factors.

"The temporal gap between effortful earning and spending/investing decisions has always been short in some industries," Bechler said. "Individuals working for tips often receive daily compensation and technological advancements are further reducing this gap, helping more workers get paid immediately after work—for example, Walmart employees can be paid daily—and allowing earnings to be immediately spent or invested. The shorter the gap between earning and investing, the more influential our effect will be."

The study provides support for interventions that automate the accumulation of assets by moving income directly into an investment plan.

"This could keep consumers' hard work from undermining their investment decisions," Bechler said.

More information: Christopher J. Bechler et al, Working hard for money decreases risk tolerance, *Journal of Consumer Psychology* (2023). DOI: 10.1002/jcpy.1365

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