Take the money now or later? Financial scarcity doesn't lead to poor decision making, says study

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When people feel that their resources are scarce—that they don't have enough money or time to meet their needs—they often make decisions that favor short-term gains over long-term benefits. Because of that, researchers have argued that scarcity pushes people to make myopic, impulsive decisions.

However, a study published by the American Psychological Association provides support for a different, less widely held view: People experiencing scarcity make reasonable decisions based on their circumstances, and only prioritize short-term benefits over long-term gains when scarcity threatens their more immediate needs.

"This research challenges the predominant view that when people feel poor or live in poverty, they become impatient and shortsighted and can't or don't think about the future," said study co-author Eesha Sharma, Ph.D., of San Diego State University. "It provides a framework, instead, for understanding that when people are experiencing financial scarcity, they're trying to make the best decision they can, given the circumstances they're in."

The research was published in the *Journal of Personality and Social Psychology*.

Sharma and co-authors Stephanie Tully, Ph.D., of the University of Southern California, and Xiang Wang, Ph.D., of Lingnan University in Hong Kong, wanted to distinguish between two competing ideas: That people's preference for shorter-term gains reflects impatience and impulsivity, or that it reflects more intentional, deliberate decision-making. To do so, they examined how people's decisions change depending on the timeline of the needs that they feel they don't have enough money for.

"Needs exist across a broad time horizon," said Tully. "We often think about immediate needs like food or shelter, but people can experience scarcity related to future needs, too, such as replacing a run-down car before it dies, buying a house or paying for college. Yet research on scarcity has focused almost exclusively on immediate needs."

In the current study, the researchers conducted five experiments in which they measured or induced a sense of scarcity in participants, and examined how the choices people made changed depending on whether that scarcity was related to a shorter- or longer-term need.

Overall, they found that when people feel that they don't have enough resources to meet an immediate need, such as food or shelter, they are more likely to make decisions that offer an immediate payout, even if it comes at the expense of receiving a larger payout later. But when scarcity threatens a longer-term need, such as replacing a run-down car, people experiencing scarcity are no less willing to wait for larger, later rewards—and in some cases are more willing to wait—compared with people not experiencing scarcity.

In one experiment, for example, the researchers identified more than 1,000 participants via Facebook ads who were planning a wedding. For some, they induced a sense of scarcity by asking whether wedding planning ever made them feel as though they didn't have enough money, and what part of the wedding cost they were most concerned about. A control group was asked to reflect on the part of their wedding they were most excited about.

Next, participants were told they'd be entered into a lottery to win a cash prize: $200 immediately or $300 several months later. The researchers found that on average, participants in the scarcity group were not significantly more likely to choose the immediate payout than those in the control group, suggesting that scarcity, on its own, did not cause greater impatience.

But when they examined participants' choices through the lens of wedding dates, they found scarcity did affect preferences. When the participants' wedding dates were before the payout date of the larger prize (a shorter time horizon), participants were more likely to choose the smaller, sooner payout, but when participants' wedding dates were after the payout of the larger prize (a longer time horizon), they were more likely to choose the larger, later payout.

In a follow-up experiment, the researchers found that the time horizon effect only influenced participants' choices when the payout was relevant to the threatened need, suggesting that the decisions reflected participants' deliberate attempts to meet the threatened need.

In other words, when participants felt short on money for an immediate need, they were more likely to choose a smaller, quicker cash payout, compared with when they felt short on money for a long-term need. But when they were made to feel short on time rather than money, then whether the need was immediate or long term didn't affect whether they chose a small, quick cash payout or a larger, later one.

The research is relevant to decision-making for almost everyone, not just those who are living in poverty, according to Sharma. "A lot of people talk about financial scarcity as though it is interchangeable with poverty," she said. "But the experience of feeling that your resources are inadequate is almost universal—it's something everyone can relate to, because at some point in your life, you've probably felt you don't have enough money."

The results also have implications for what types of interventions are likely to help people make better long-term decisions about everything from personal finances to climate change, according to Wang.

"Understanding experiences of scarcity is critical, particularly as factors in society—climate change affecting water and food supplies, inflation impacting cost of living and more targeted forms of advertising increasingly manufacture perceived needs—produce never-ending triggers of perceived scarcity," she said.

More information: Eesha Sharma, Scarcity and Intertemporal Choice, *Journal of Personality and Social Psychology* (2023). DOI: 10.1037/pspa0000353. www.apa.org/pubs/journals/rele … /psp-pspa0000353.pdf

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