

## The feeling of scarcity

At some point, there will likely come a time when we face the prospect of being scarce of something. This may range from money, food, time or any such limited resource. How we manage to be short of resources can be as problematic as the scarcity itself. Here, we look at how thought processes are impacted by scarcity and how this may stifle rational thinking



A young mother is working remotely at home while a daughter is hugging her

Source: Shutterstock

With more people now than ever working from home, traditional office hours are becoming a thing of the past for some. It's not uncommon to hear those who have kept their jobs say they work longer hours now than they did before the lockdown. Evidence supports this.

[Microsoft](#) has found that 54% of parents in a survey of six countries said it's been difficult balancing household demands while working from home while [LinkedIn](#) research alongside the Mental Health Foundation found that those working from home during the pandemic are racking up an extra 28 hours of monthly overtime since lockdown began.

This amounts to almost an additional four days' work per month. For those working from home, managing their time can be difficult because it is scarce. And precisely because it is scarce, they may not manage their time well.

## Defining scarcity

Scarcity is defined in the Oxford English dictionary as “insufficiency of supply”.

When it comes to economics, however, the term has a slightly different sense. The influential textbook on Economics by Greg Mankiw defines [scarcity](#) as the limited nature of society’s resources and economics as the study of how society manages its scarce resources. This subtle, yet important change, leads to discussing topics such as efficiency, equity, rationality and opportunity cost.

Another twist to the definition of scarcity was introduced by behavioural economist Sendhil Mullainathan and psychologist Eldar Shafir’s in their 2013 book, [“Scarcity: The true cost of not having enough”](#). They argue that scarcity is more than a physical event. It has psychological effects. They argue: “Scarcity is more than just the displeasure of having very little. It changes how we think. It imposes itself on our minds.”

If Mullainathan and Shafir are correct that scarcity changes the way we think, this has important implications for both traditional and behavioural economics.

## Scarcity affects decision making

Mankiw’s textbook argues that “Rational people think at the margin”. This is one of Mankiw’s ten principles of economics. Rational people are those who systematically and purposefully do the best they can to achieve their objectives.

People who are more inclined towards a behavioural approach to economics have long argued the traditional idea of rationality used in economics – homo economicus - is flawed. A common rebuttal is that people think either fast or slow – instinctively or deliberately. This idea provided the title of the book by economics Nobel prize laureate Daniel Kahneman, “Thinking Fast and Slow”.

Mullainathan and Shafir go further. They argue that scarcity is not just a physical constraint but also that it changes the way that people think. Even slow and deliberate thinking systems can be compromised. They write: “As the psychologist Daniel Kahneman would say, scarcity captures the mind both when thinking fast and when thinking slow.”

It is important to recognise that scarcity is not simply an accounting concept. It is an emotional response. People exposed to scarcity feel they are rushed even if they may not be. As a result, they narrow their thought processes leading to a tunnelling process that focuses on one objective while ignoring wider effects. The feeling of scarcity means that they have little mental bandwidth to concentrate in a way that allows either rational or slow and deliberate thought.

## There is plenty of scarcity

Scarcity affects almost everyone. Various experiments show that when people are placed into an environment where a particular item is scarce, their decisions differ from those who are placed into the same environment but with a relative abundance of the same item. This is irrespective of their background.

Typically, the items that can be controlled in these experiments are money and time. Interestingly, those who have plenty of money but are so busy that time becomes scarce, appear to make decisions when it comes to time that echo the monetary decisions of those for whom money is

limited.

Many of us would have seen it or experienced it. When time is tight, meetings may be booked back-to-back throughout the day or week. Unfinished work is pushed to the end of the day, creating long working hours and exhaustion. You turn up late to the restaurant for dinner with friends despite guaranteeing them that you would be on time. They are already on the main course and annoyed with you.

These time allocation problems are similar to the monetary allocation problems seen for those for whom money is tight. Bills are not paid on time so they are delayed, risking late payment fees or default. You may have borrowed money from a friend or family member just to tide you over until pay day but an unexpected bill arrives and you pay your friend back late.

## Managing scarcity

The easy answer to managing scarcity is to have more of what is scarce. But that is tautology. The required item would not be scarce if there was more of it. Therefore, the scarce item must be identified and managed.

When it comes to time, Mullainathan and Shafir recommend that having external factors force a change in how time is used. They cite the example of the assistants to busy executives who interrupt meetings five minutes before the end to let everyone know that time is almost up and then deliberately close the meeting five minutes later as an example of an external force. A day each week deliberately set aside to meet with family and others, such as followed by some religions, is also cited as another example.

It can be more difficult with money. Using auto payments to ensure bills are paid on time and budgeting expenditure to ensure it is spread evenly so you do not run out of money before you are next paid can help. But when money is very tight, this may not be possible. Difficult choices may be unavoidable and persistent.

## Scarcity and pandemic

You could dismiss those complaining about the pressures of working from home as people who are poor at managing their time.

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*The Institute for Fiscal Studies in the UK has calculated that during the pandemic, mothers combine paid work with other activities (almost always childcare) in 47% of their work hours, compared with 30% of fathers' work hours*

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For some, they may truly have less time because working from home allows others to place an extra call on their time. Parents, especially women, with children may face this problem. For example, the Institute for Fiscal Studies in the UK has calculated that during the pandemic, mothers combine paid work with other activities (almost always childcare) in 47% of their work hours, compared with 30% of fathers' work hours.

For others, the pressures of working from home and the difficulty of allocating their time may have changed the way they think about it. An external intervention allowing them to change the way they make decisions may be necessary. And as experiments have suggested, nobody is immune to the effects of scarcity.

## Author

### **Olivia Grace**

Editor

[olivia.grace@ing.com](mailto:olivia.grace@ing.com)

### **Julian Geib**

Junior Economist, Global Trade

[julian.geib@ing.de](mailto:julian.geib@ing.de)

### **Zoltán Homolya**

Economic research trainee

[zoltan.homolya@ing.com](mailto:zoltan.homolya@ing.com)

### **Amrita Naik Nimbalkar**

Junior Economist, Global Macro

[amrita.naik.nimbalkar@ing.com](mailto:amrita.naik.nimbalkar@ing.com)

### **Mateusz Sutowicz**

Senior Economist, Poland

[mateusz.sutowicz@ing.pl](mailto:mateusz.sutowicz@ing.pl)

### **Alissa Lefebre**

Economist

[alissa.lefebvre@ing.com](mailto:alissa.lefebvre@ing.com)

### **Deepali Bhargava**

Regional Head of Research, Asia-Pacific

[Deepali.Bhargava@ing.com](mailto:Deepali.Bhargava@ing.com)

### **Ruben Dewitte**

Economist

+32495364780

[ruben.dewitte@ing.com](mailto:ruben.dewitte@ing.com)

### **Kinga Havasi**

Economic research trainee

[kinga.havasi@ing.com](mailto:kinga.havasi@ing.com)

### **Marten van Garderen**

Consumer Economist, Netherlands

[marten.van.garderen@ing.com](mailto:marten.van.garderen@ing.com)

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

**Sander Burgers**

Senior Economist, Dutch Housing

[sander.burgers@ing.com](mailto:sander.burgers@ing.com)

**Lynn Song**

Chief Economist, Greater China

[lynn.song@ing.com](mailto:lynn.song@ing.com)

**Michiel Tukker**

Senior UK & Eurozone Rates Strategist

[michiel.tukker@ing.com](mailto:michiel.tukker@ing.com)

**Michal Rubaszek**

Senior Economist, Poland

[michal.rubaszek@ing.pl](mailto:michal.rubaszek@ing.pl)

**This is a test author**

**Stefan Posea**

Economist, Romania

[tiberiu-stefan.posea@ing.com](mailto:tiberiu-stefan.posea@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Jesse Norcross**

Senior Sector Strategist, Real Estate

[jesse.norcross@ing.com](mailto:jesse.norcross@ing.com)

**Teise Stellema**

Research Assistant, Energy Transition

[teise.stellema@ing.com](mailto:teise.stellema@ing.com)

**Diederik Stadig**

Senior Economist, Healthcare & Technology

[diederik.stadig@ing.com](mailto:diederik.stadig@ing.com)

**Diogo Gouveia**

Sector Economist

[diogo.duarte.vieira.de.gouveia@ing.com](mailto:diogo.duarte.vieira.de.gouveia@ing.com)

**Marine Leleux**

Sector Strategist, Financials

[marine.leleux2@ing.com](mailto:marine.leleux2@ing.com)

**Ewa Manthey**

Commodities Strategist

[ewa.manthey@ing.com](mailto:ewa.manthey@ing.com)

**ING Analysts**

**James Wilson**

EM Sovereign Strategist

[James.wilson@ing.com](mailto:James.wilson@ing.com)

**Sophie Smith**

Digital Editor

[sophie.smith@ing.com](mailto:sophie.smith@ing.com)

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

**Adam Antoniak**

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@ing.pl)

**Min Joo Kang**

Senior Economist, South Korea and Japan

[min.joo.kang@ing.com](mailto:min.joo.kang@ing.com)

**Coco Zhang**

ESG Research

[coco.zhang@ing.com](mailto:coco.zhang@ing.com)

**Jan Frederik Slijkerman**

Senior Sector Strategist, TMT

[jan.frederik.slijkerman@ing.com](mailto:jan.frederik.slijkerman@ing.com)

**Katinka Jongkind**

Senior Economist, Services and Leisure

[Katinka.Jongkind@ing.com](mailto:Katinka.Jongkind@ing.com)

**Marina Le Blanc**

Sector Strategist, Financials

[Marina.Le.Blanc@ing.com](mailto:Marina.Le.Blanc@ing.com)

**Samuel Abettan**

Junior Economist  
[samuel.abettan@ing.com](mailto:samuel.abettan@ing.com)

**Franziska Biehl**  
Senior Economist, Germany  
[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

**Rebecca Byrne**  
Deputy Global Head of Editorial and Supervisory Analyst  
[rebecca.byrne@ing.com](mailto:rebecca.byrne@ing.com)

**Mirjam Bani**  
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)  
[mirjam.bani@ing.com](mailto:mirjam.bani@ing.com)

**Timothy Rahill**  
Credit Strategist  
[timothy.rahill@ing.com](mailto:timothy.rahill@ing.com)

**Leszek Kasek**  
Senior Economist, Poland  
[leszek.kasek@ing.pl](mailto:leszek.kasek@ing.pl)

**Antoine Bouvet**  
Head of European Rates Strategy  
[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)

**Jeroen van den Broek**  
Global Head of Sector Research  
[jeroen.van.den.broek@ing.com](mailto:jeroen.van.den.broek@ing.com)

**Edse Dantuma**  
Senior Sector Economist, Industry and Healthcare  
[edse.dantuma@ing.com](mailto:edse.dantuma@ing.com)

**Francesco Pesole**  
FX Strategist  
[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

**Rico Luman**  
Senior Sector Economist, Transport and Logistics  
[Rico.Luman@ing.com](mailto:Rico.Luman@ing.com)

**Jurjen Witteveen**  
Sector Economist  
[jurjen.witteveen@ing.com](mailto:jurjen.witteveen@ing.com)

**Dmitry Dolgin**

Chief Economist, CIS  
[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

**Nicholas Mapa**  
Senior Economist, Philippines  
[nicholas.antonio.mapa@asia.ing.com](mailto:nicholas.antonio.mapa@asia.ing.com)

**Egor Fedorov**  
Senior Credit Analyst  
[egor.fedorov@ing.com](mailto:egor.fedorov@ing.com)

**Sebastian Franke**  
Consumer Economist  
[sebastian.franke@ing.de](mailto:sebastian.franke@ing.de)

**Gerben Hieminga**  
Senior Sector Economist, Energy  
[gerben.hieminga@ing.com](mailto:gerben.hieminga@ing.com)

**Nadège Tillier**  
Head of Corporate Sector Strategy  
[nadege.tillier@ing.com](mailto:nadege.tillier@ing.com)

**Charlotte de Montpellier**  
Senior Economist, France and Switzerland  
[charlotte.de.montpellier@ing.com](mailto:charlotte.de.montpellier@ing.com)

**Laura Straeter**  
Behavioural Scientist  
+31(0)611172684  
[laura.Straeter@ing.com](mailto:laura.Straeter@ing.com)

**Valentin Tataru**  
Chief Economist, Romania  
[valentin.tataru@ing.com](mailto:valentin.tataru@ing.com)

**James Smith**  
Developed Markets Economist, UK  
[james.smith@ing.com](mailto:james.smith@ing.com)

**Suvi Platerink Kosonen**  
Senior Sector Strategist, Financials  
[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

**Thijs Geijer**  
Senior Sector Economist, Food & Agri  
[thijs.geijer@ing.com](mailto:thijs.geijer@ing.com)

**Maurice van Sante**

Senior Economist Construction & Team Lead Sectors

[maurice.van.sante@ing.com](mailto:maurice.van.sante@ing.com)

**Marcel Klok**

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

**Marieke Blom**

Chief Economist and Global Head of Research

[marieke.blom@ing.com](mailto:marieke.blom@ing.com)

**Raoul Leering**

Senior Macro Economist

[raoul.leering@ing.com](mailto:raoul.leering@ing.com)

**Maarten Leen**

Head of Global IFRS9 ME Scenarios

[maarten.leen@ing.com](mailto:maarten.leen@ing.com)

**Maureen Schuller**

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

**Warren Patterson**

Head of Commodities Strategy

[Warren.Patterson@ing.com](mailto:Warren.Patterson@ing.com)

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@ing.pl)

**Philippe Ledent**

Senior Economist, Belgium, Luxembourg

[philippe.ledent@ing.com](mailto:philippe.ledent@ing.com)

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

**Inga Fechner**

Senior Economist, Global Trade

[inga.fechner@ing.de](mailto:inga.fechner@ing.de)

**Dimitry Fleming**

Senior Data Analyst, Netherlands

[Dimitry.Fleming@ing.com](mailto:Dimitry.Fleming@ing.com)

**Ciprian Dascalu**

Chief Economist, Romania

+40 31 406 8990

[ciprian.dascalu@ing.com](mailto:ciprian.dascalu@ing.com)

**Muhammet Mercan**

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

**Iris Pang**

Chief Economist, Greater China

[iris.pang@asia.ing.com](mailto:iris.pang@asia.ing.com)

**Sophie Freeman**

Writer, Group Research

+44 20 7767 6209

[Sophie.Freeman@uk.ing.com](mailto:Sophie.Freeman@uk.ing.com)

**Padhraic Garvey, CFA**

Regional Head of Research, Americas

[padhraic.garvey@ing.com](mailto:padhraic.garvey@ing.com)

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

**Tim Condon**

Asia Chief Economist

+65 6232-6020

**Martin van Vliet**

Senior Interest Rate Strategist

+31 20 563 8801

[martin.van.vliet@ing.com](mailto:martin.van.vliet@ing.com)

**Karol Pogorzelski**

Senior Economist, Poland

[Karol.Pogorzelski@ing.pl](mailto:Karol.Pogorzelski@ing.pl)

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

**Viraj Patel**

Foreign Exchange Strategist

+44 20 7767 6405

[viraj.patel@ing.com](mailto:viraj.patel@ing.com)

**Owen Thomas**

Global Head of Editorial Content

+44 (0) 207 767 5331

[owen.thomas@ing.com](mailto:owen.thomas@ing.com)

**Bert Colijn**

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

**Peter Vanden Houte**

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

**Benjamin Schroeder**

Senior Rates Strategist

[benjamin.schroeder@ing.com](mailto:benjamin.schroeder@ing.com)

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

**Gustavo Rangel**

Chief Economist, LATAM

+1 646 424 6464

[gustavo.rangel@ing.com](mailto:gustavo.rangel@ing.com)

**Carlo Cocuzzo**

Economist, Digital Finance

+44 20 7767 5306

[carlo.cocuzzo@ing.com](mailto:carlo.cocuzzo@ing.com)