Present bias and the consequences of instant gratification

A lack of savings, rushed investment decisions and procrastination – when ‘the now’ takes over

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We’re often told to enjoy ‘the now’ and live in the present. It’s solid advice if you don’t want to miss out on what’s happening right now. But focusing too much on the present could have significant repercussions for your future.

It's all about the here and now

The tendency to focus on the here and now and over-value immediate rewards at the expense of long-term intentions and benefits is called present bias. That’s true even if the long-term effect or reward is more beneficial than the immediate one.

In a well-known academic experiment, participants were given the choice to either take 150 euros right now or 160 euros in four weeks. Many chose to receive 150 euros right now.

Over four weeks, ten euros might not seem like a substantial gain, but when the participants were asked to choose between 160 euros in a year or 150 euros in 48 weeks, which is also a four-week difference, many chose to receive 160 euros instead. In this case, the money wouldn’t be coming until a future time anyway, so they might as well choose the larger amount. But if they could get money right now, they took it.

What happens in reality?

Present bias can explain a few of our bad habits, and not saving regularly is one of them. Over a quarter of people say they don’t have any savings and one of the reasons is putting away money for the future can feel like a loss right now. The feeling of “I need my money right now” can have a detrimental impact on people’s retirement fund as they might not have saved enough money to maintain a decent standard of living in their golden years.

Another consequence is rushed investment decisions, especially when an investment starts to fall. Investing is usually considered a long-term commitment, and we start it with the best intentions, but when we see our investment falling in value, the urge to withdraw can be overpowering. But
that will only lock in the loss, rather than waiting for the investment to rise again.

Other consequences of present bias include procrastination or eating unhealthily, even though we promised ourselves we wouldn't.

**Your risk appetite and self-control might be the answer**

There are two important reasons why we tend to favour the here and now: self-control and risk.

Self-control is tough in a world filled with stimuli and temptations. Every day most of us are confronted by a plethora of ads or products shouting “buy me!” And a lot of them can look very attractive thanks to the magic of marketing.

Mostly, we ignore these cries to purchase but, depending on our mood, we might be more susceptible to their influence. When we find ourselves in what is called a ‘hot state’ - a state in which our emotions are a lot stronger than our logic, we become an easy target for stimuli. It’s why they say you should never go grocery shopping on an empty stomach.

Secondly, there is the aspect of risk. In general, people don’t like risk very much – especially when money is involved. So if we look at the experiment we mentioned earlier from a risk perspective, we could rationalise people chose to receive the 150 euros today because that’s a guaranteed gain, whereas the 160 euros in four weeks, no matter the promises, might never actually happen. Think of the saying ‘a bird in hand is worth two in the bush’. And ING research finds about half of the people in 13 European countries say they either ‘occasionally’ or ‘most of the time’ run out of money at the end of the pay period, so hardly surprising many would take the guaranteed money today and put it to use straight away.

But present bias is much more than just a cognitive bias. It can have consequences on a much larger scale, and some industries were built on feeding into our desire for immediate rewards.