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WHY WE SPEND: THE PSYCHOLOGY OF SPENDING MONEY



It's likely no surprise that [money is a leading cause of stress](#) [<http://www.apa.org/helpcenter/willpower-finances.aspx>], among most Americans. Financial decisions—whether making purchases, paying down debt or building up savings—require willpower, good judgment and discipline. Why is it, however, that even when people aren't in the midst of a financial crisis or vicious cycle of debt, making ends meet can seem so difficult? One reason is simply that many Americans are in the habit of spending money they just don't have. In fact, a recent [survey on financial well-being by the Consumer Financial Protection Bureau \(CFPB\)](#), [http://files.consumerfinance.gov/f/documents/201709_cfpb_financial-well-being-in-America.pdf], found about one-third of people ages 30-49 have more credit card debt than savings.

Why do people overspend and why is it so hard to curb those impulses? Even if it appears simple on the surface, the fact is, the reasons people spend money are a complex. Plenty of research backs that up. Below are some of the top reasons that lead people to spend.

Emotional appeals

As social animals, there are many things people hope to be, including healthy, happy, loved, safe, admired and—for some—better than others. Advertisers appeal to your hopes when they imply their products will garner admiration from others, make your home splendid or your children especially healthy. Alternatively, they appeal to fear when selling products that promise to make your home more secure, your car safe from accidents and your body more attractive. Marketers study consumers' lifestyles and world views to focus on specific psychological triggers. Once tapped, it's difficult to remain rational in the face of them.

People love a bargain



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Too many choices

The more decisions you have to make, the less likely you are to resist temptation.

Researchers have shown [<https://www.harpercollins.com/9780062651204/dollars-and-sense/>], when people's willpower is run down, they spend more money and purchase more items than those who haven't recently exerted their willpower. This interview [<http://healthland.time.com/2013/01/14/ga-willpower-expert-roy-baumeister-on-staying-in-control/>], with social psychologist Roy Baumeister, for example, sites a study with Audi dealers that found that car buyers "were more effortful with their first few choices." After that, they were more likely to take the default and suggested choices, which can quickly add up. "They used up their energy deciding which of the 200 interior fabrics they wanted and ended up buying [a] lot of stuff they don't need and spending extra money."

As the American Psychological Society explains, willpower is like a muscle [<http://www.apa.org/helpcenter/willpower-finances.aspx>], that gets tired after a certain amount of exertion. People who are financially insecure and, thus constantly faced with difficult financial decisions, are at a greater risk of depleted willpower. One study showed [<https://www.degruyter.com/view/j/bejeap.2011.11.issue-1/1935-1682.2973/1935-1682.2973.xml?format=INT>], for example, financially insecure people are more likely to buy food and drink while shopping than people who are well off. Other studies have shown [<http://blog.nasafcu.com/2015/07/why-we-shop-understanding-the-psychology-of-spending/>], shoppers in malls are likely to make most of their purchases in the third hour of their time there.

In a word: when our willpower is depleted, we are more likely to be swayed by desires, urges, and cravings—even if we are likely to regret those purchases later.

Needs versus wants

One result of globalized trade is products that used to be considered luxury items—toys and electronics, for example—are increasingly produced *en masse*. This proliferation of consumer goods has made products more affordable (and disposable) than ever. Think of all the things new parents are told they "should" have or all the gear required by "real" outdoorspeople. An abundance of affordable things is not necessarily a bad thing, however it makes distinguishing what is truly necessary (versus what we suddenly are told that we want) increasingly challenging.

Buying love

Holidays and birthdays are traditional reasons for gift giving. In fact, spending during winter holidays makes up 20 percent [<https://chopra.com/articles/the-psychology-of-spending-and-how-to-avoid-pressure-to-spend/>] of America's total annual retail sales. Likewise, Valentine's Day, Mother's Day, Father's Day, Siblings' Day, Administrative Professionals' Day, etc. have presented themselves as reasons to give...and spend. If you equate your appreciation with the cost of your gift, or feel guilty about neglecting a loved one, you are more likely to overspend. In a materialistic world, it's hard to remember experiences are far more memorable [<https://www.apa.org/news/press/releases/2014/12/materialism-holidays.aspx>].—and happiness inducing—than things.

Filling a void

In 2014, researchers from the University of Michigan's Ross School of Business released a report [<https://www.sciencedirect.com/science/article/pii/S1057740813001149>], revealing shopping helps people feel better. Because people feel sad or helpless about a situation they have found themselves in, they argue, "retail therapy," may help people feel better. That's because the choices involved in shopping (and not just in browsing) can bolster their sense of personal control. Shopping, much like overeating or drinking alcohol, is a way of regulating distress.

But buyer beware: The researchers were clear about the limitations of their own conclusions, writing "Whether the increased control afforded by shopping results in a loss of control later (due to increased debt), and thus counteracts the temporary benefits of retail therapy, remains an important open question."

course, immediate gratification (say, that trendy new trench coat) gets in the way of our long-term goals (like a down payment on a house), even if the latter would provide far greater happiness (<https://safetynet.com/blog/the-relationship-between-money-and-happiness/>), down the line.

What's more, credit cards and online shopping have made immediate gratification easier to achieve than ever. As [this article](https://www.psychologytoday.com/us/blog/science-choice/201801/10-reasons-why-people-spend-too-much) (<https://www.psychologytoday.com/us/blog/science-choice/201801/10-reasons-why-people-spend-too-much>), explains, credit cards "separate the pleasure of buying from the pain of paying."

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Marketers understand the forces that influence consumer behavior. Because those forces play to your deepest emotions, including your fears and dreams for yourself and your loved ones, everyone can fall victim to at least some of those forces some of the time.

Yet, the more you know about these forces and your relationship to them, the better equipped you are to make positive spending choices.

For proof and inspiration that self-awareness can result in financial well-being, just browse the stories of [people](https://safetynet.com/blog/put-yourself-on-spending-freeze/) (<https://safetynet.com/blog/put-yourself-on-spending-freeze/>), like [these](https://safetynet.com/blog/frugal-closet-challenge/) (<https://safetynet.com/blog/frugal-closet-challenge/>), who have chosen to take matters into their own hands (and homes) to learn more about how those forces impact their own spending habits.

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