

The Mindful Life

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Do You Fall Prey to Mental Accounting?

When it comes to money, few of us think rationally all the time. One example: Mental accounting. This is when we treat certain money differently than we do other money. Since we're in the midst of income tax filing season, we need look no further than the hoped-for tax refund. Many people treat this money like a gift, or a bonus, and may spend it on things that they wouldn't buy without the tax refund check. Retailers know this, and frequently make reference to tax refund money when enticing customers to purchase big-ticket items like cars and large-screen television sets. So what's the problem?

By viewing money from certain sources differently than money from other sources, we risk being relatively frivolous with some money and comparatively frugal with other money. Of course there's nothing wrong with being frivolous with money, as long as we can afford it and we're making the choice freely. Mental accounting, however, might lead us into spending that isn't rational or that we can't really afford. Getting back to the tax refund, in actuality that is money you earned and the government "saved" for you (without paying you interest). Would you take money out of a savings account to make the same purchase you make with the tax refund? If not, your decision is a prime example of mental accounting.

Other sources of money that may be spent with less caution than earnings or savings are gifts, winnings, and profits. Money that we don't associate with payment for actual work is often valued less. That's not to say that we don't appreciate gifts and winnings, but we devalue those dollars by treating them like they're worth less than hard-earned income. An easy solution is to take "found" or "free" money and deposit it into a savings or checking account for a substantial period of time before making a decision about how to spend it. After the "easy" money has co-mingled with our earned income for awhile, we start to attach the same value to it. It's as though we start to remember that a dollar is worth a dollar, regardless of where it came from.

How does mental accounting relate to keeping budgets? Many of us were taught that maintaining a budget is a wise strategy for managing money. Certainly there are benefits; budgets help keep us from overspending in certain categories or during a set period of time. But what happens if we have an opportunity to save money on a certain purchase and have already spent the money budgeted for that category? We may feel forced to pass up the opportunity, even though, in the long run, doing so will cost us more money than if we exceeded our budget to take advantage of the opportunity. Also, what if (miraculously) we end up with "extra" (unspent) money in a particular budget? We may feel free to spend more loosely than we would otherwise; after all, we have "extra" money this month.

Mental accounting tends to creep in when we rationalize splurging because of the season, or our mood, or to celebrate something. Of course we often engage in mental accounting when deciding how to spend other resources as well, like time or our choice about which calories to consume. When you find yourself rationalizing why you're spending in a way that deviates from your usual priorities, ask yourself why these particular dollars, or calories, or minutes are being valued differently than others. Doesn't each day consist of only 24 hours, regardless of whether it's a week day or weekend?

MIND Morsels

*You can never get enough
of what you don't need to make you happy.*

– Eric Hoffer

How often do we act as though we're heading in the right direction and simply haven't traveled far enough? Instead of asking whether we're unhappy because we're going in the wrong direction, we simply plow ahead, seemingly on the assumption that we just haven't gotten enough of what we've been accumulating or striving for. Maybe that assumption is accurate, but how will we know unless we repeatedly test it?

*The cost of a thing is the amount of what I call life
which is required to be exchanged for it,
immediately or in the long run.*

– Henry David Thoreau

We're used to assessing the cost of things according to the amount of money required to buy those things. Another "cost," however, involves the time, energy, worry, and lost opportunities we may "spend" on something long after the initial monetary cost has been paid. Thoreau believed that the more we owned, the more work it took to maintain those possessions, and that was time, energy, and attention he didn't want to pay for the sake of saying he owned certain things. Now the old expression that we don't own possessions, they own us, makes more sense.

*Death twitches my ear.
"Live," he says. "I am coming."*

– Virgil

Few of us like to think of our own mortality; doing so can be depressing or anxiety-provoking. For that reason, we're motivated to avoid thinking along those lines. Of course we know, intellectually at least, that one day we'll die, but on a daily basis we get too caught up in the details to remember our mortality. Our own end lies somewhere unknown in what we assume is the distant future. By avoiding the anxiety from thinking of our own mortality, we pay the price of not prioritizing what we're doing today. By living under the vague assumption that we have lots of time left, we tend to spend a lot of time on things that, if pressed, we'd have to admit don't really matter. Some have suggested that we occasionally stop for an exercise in which we imagine that we somehow know we only have a matter of days left to live. What would we do differently if we knew that? Such a short-term "deadline," however, prompts choices such as "quit work." That's unrealistic when we, most likely, will go on living well past the next few days. Still, it may be helpful to occasionally perform the imagination exercise, but assume a demise a year or two off. Would you live certain aspects of your life differently? If not, congratulations on living an authentic life. If so, what are you waiting for?

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