



RESEARCH BRIEF #2: DISCOUNTING THE FUTURE

Decision Making, Poverty and Vulnerability: An Interdisciplinary Approach to Policy

The rate at which individuals are willing to forego near term benefits, or avoid near term costs for a future return or future payment, is called their discount rate. Higher discount rates suggest a stronger discounting of the future and preference for current consumption. Traditionally, economic models treat discount rates as constant, that is, any twenty-four hour period in the future is considered the same as the twenty-four hour period between today and tomorrow. We report on results that illustrate that for most people, foregoing immediate consumption is harder than agreeing to forego future consumption, and that all individuals are not equally “patient.”

Sample: 238 residents Quynh Mai and Thach Ban communes, Vietnam, and 378 residents in and around Novosibirsk and Irkutsk, Russia..

Question: Imagine that you have just borrowed VND 100,000 from a local non-governmental organization. You can pay back this amount immediately or wait until later, at which time you will have to pay back a larger amount. There is no possibility of avoiding paying back the money if you wait. How much money in total would you be willing to pay back one month from now that would be equivalent to paying back the original sum today?

Main Results:

1. Individuals in Vietnam and Russia reveal the same pattern of time varying discount rates that were documented twenty years earlier in Israel and the U.S.
2. Men and women in our sample do not have significantly different discount rates.
3. Rural residents have higher levels of discount rates, but those who are also agriculturally based have rates that change less over time than their urban counterparts.

Policy Implications: Individuals make important daily choices that have future consequences: borrowing money, consuming natural resources, immunizing and educating their children, migrating. If an individual has constant discount rates, access to options that allow them to borrow against the future have the potential to beneficially smooth consumption or income flows. If an individual has time varying discount rates, however, their short run choices will be to over consume relative to their long run plan -- increased liquidity can make them worse off. Our results also suggest that the populations being targeted for easier access to credit may aggravate this: men and women are similarly time inconsistent, and the poorest of the poor and urban dwellers are more so. Simple policy and program commitment devices, such as refundable deposits, lock boxes, mandatory savings, or default options that require individuals to “opt out” of pledges can help individuals keep immediate choices and long run goals aligned.

To learn more, visit: <https://depts.washington.edu/dempov/>

Sources:

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