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Research Dialogue

If money doesn't make you happy, then you probably aren't spending it right

Elizabeth W. Dunn [a,*], Daniel T. Gilbert [b,1], Timothy D. Wilson [c,2]

[a] *University of British Columbia, Douglas Kenny Building, Room 2013, 2136 West Mall, Vancouver, British Columbia, Canada V6T 1Z4*

[b] *Department of Psychology, Harvard University, William James Hall, Cambridge, MA 02138, USA*

[c] *Department of Psychology, University of Virginia, P.O. Box 400400, Charlottesville, VA 22904-4400, USA*

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Abstract

The relationship between money and happiness is surprisingly weak, which may stem in part from the way people spend it. Drawing on empirical research, we propose eight principles designed to help consumers get more happiness for their money. Specifically, we suggest that consumers should (1) buy more experiences and fewer material goods; (2) use their money to benefit others rather than themselves; (3) buy many small pleasures rather than fewer large ones; (4) eschew extended warranties and other forms of overpriced insurance; (5) delay consumption; (6) consider how peripheral features of their purchases may affect their day-to-day lives; (7) beware of comparison shopping; and (8) pay close attention to the happiness of others.

Scientists have studied the relationship between money and happiness for decades and their conclusion is clear: Money buys happiness, but it buys less than most people think (Aknin, Norton, & Dunn, 2009; Diener & Biswas-Diener, 2002; Frey & Stutzer, 2000). The correlation between income and happiness is positive but modest, and this fact should puzzle us more than it does. After all, money allows people to do what they please, so shouldn't they be pleased when they spend it? Why don't a whole lot more money make us a whole lot more happy? One answer to this question is that the things that bring happiness simply aren't for sale. This sentiment is lovely, popular, and almost certainly wrong. Money allows people to live longer and healthier lives, to buffer themselves against worry and harm, to have leisure time to spend with friends and family, and to control the nature of their daily activities—all of which are sources of happiness (Smith, Langa, Kabeto, & Ubel, 2005). Wealthy people don't just have better toys; they have better nutrition and better medical care, more free time and more meaningful labor—more of just about every ingredient in the recipe for a happy life. And yet, they aren't that much happier than those who have less. If money can buy happiness, then why doesn't it?

Because people don't spend it right. Most people don't know the basic scientific facts about happiness—about what brings it and what sustains it—and so they don't know how to use their money to acquire it. It is not surprising when wealthy people who know nothing about wine end up with cellars that aren't that much better stocked than their neighbors', and it should not be surprising when wealthy people who know nothing about happiness end up with lives that aren't that much happier than anyone else's. Money is an opportunity for happiness, but it is an opportunity that people routinely squander because the things they think will make them happy often don't.

When people make predictions about the hedonic consequences of future events they are said to be making *affective forecasts*, and a sizeable literature shows that these forecasts are often wrong (for reviews see Gilbert & Wilson, 2007, 2009; Wilson & Gilbert, 2003). Errors in affective forecasting can be traced to two basic sources. First, people's mental simulations of future events are almost always imperfect. For example,

* Corresponding author.
E-mail address: edunn@psych.ubc.ca (E.W. Dunn).
[1] Fax: +1 617 495 3892.
[2] Fax: +1 434 982 4766.

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people don't anticipate the ease with which they will adapt to positive and negative events, they don't fully understand the factors that speed or slow that adaptation, and they are insufficiently sensitive to the fact that mental simulations lack important details. Second, context exerts strong effects on affective forecasts and on affective experiences, but people often fail to realize that these two contexts are not the same; that is, the context in which they are making their forecasts is not the context in which they will be having their experience. These two sources of error cause people to mispredict what will make them happy, how happy it will make them, and how long that happiness will last.

In this article, we will use insights gleaned from the affective forecasting literature to explain why people often spend money in ways that fail to maximize their happiness, and we will offer eight principles that are meant to remedy that.

Principle 1: Buy experiences instead of things

"Go out and buy yourself something nice." That's the consoling advice we often give to friends who have just gotten bad news from their employer, their doctor, or their soon-to-be-ex spouse. Although the advice is well-meant, research suggests that people are often happier when they spend their money on experiences rather than things.

Van Boven and Gilovich (2003) defined experiential purchases as those "made with the primary intention of acquiring a life experience: an event or series of events that one lives through," while defining *material purchases* as those "made with the primary intention of acquiring a material good: a tangible object that is kept in one's possession" (p. 1194). Although there is a "fuzzy boundary" between these two types of purchases, with many purchases (e.g., a new car) falling somewhere in the hazy middle, consumers are consistently able to describe past purchases that clearly fit these definitions, both in their own minds and the minds of coders trained in this distinction (Carter & Gilovich, 2010, p. 156). In one study, these definitions were presented to a nationwide sample of over a thousand Americans, who were asked to think of a material and an experiential purchase they had made with the intention of increasing their own happiness. Asked which of the two purchases made them happier, fully 57% of respondents reported that they had derived greater happiness from their experiential purchase, while only 34% reported greater happiness from their material purchase. Similar results emerged using a between-subjects design in which participants were randomly assigned to reflect on either a material or experiential purchase they had made; individuals experienced elevated mood when contemplating a past experiential purchase (relative to those contemplating a past material purchase), suggesting that experiential purchases produce more lasting hedonic benefits.

There is no doubt that some experiences are better than others: people report being happier when they are making love or listening to music, for example, than when they are working or commuting. But when it comes to happiness, the nature of the activity in which people are engaged seems to matter less than the fact that they are engaged in it (Csikszentmihalyi, 1999). Fig. 1 shows the results of a large-scale experience-sampling study in which people reported their current happiness, their current activity, and the current focus of their thoughts (Killingsworth & Gilbert, 2010). The upper half of the figure shows the average amount of happiness that people reported while doing their daily activities, and although the difference between the most and least pleasant activities is real and significant, it is also surprisingly small. In contrast, the bottom half of Fig. 1 shows the average amount of happiness that people reported when their minds were focused on their current activity, and also when their minds were wandering to pleasant, neutral, or unpleasant topics. As the figure shows, people were maximally happy when they were thinking about what they were doing, and time-lag analyses revealed that mind-wandering was a cause, and not merely an effect, of diminished happiness. A wandering mind is an unhappy mind, and one of the benefits of experiences is that they keep us focused on the here and now.

Experiences are good; but why are they better than things? One reason is that we adapt to things so quickly. After devoting days to selecting the perfect hardwood floor to install in a new

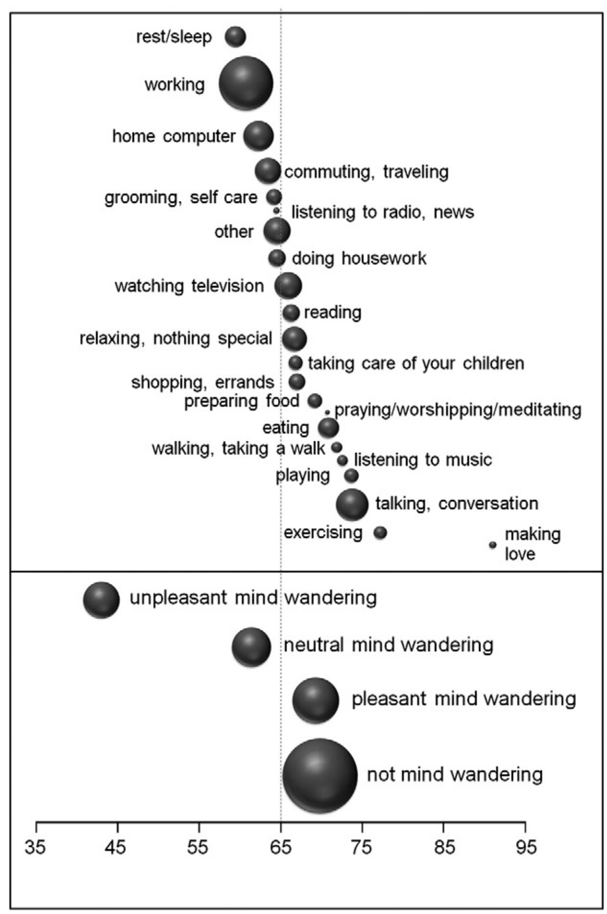

Fig. 1. From Killingsworth & Gilbert (2010). Upper half shows mean centered happiness reported by people who were doing each activity. Bottom half shows mean centered happiness reported by people whose minds were wandering to unpleasant topics, or neutral topics, pleasant topics, or whose minds where not mind wandering. Bubble size indicates the number of reports.