

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

Research finds it's not how much money you make that really matters, it's more about how you spend it. Here are eight strategies to help you get the biggest happiness buck



Many have been told by a wise relative at some point that “money can't buy happiness”. And research backs this up: beyond a certain minimum level, more money does not necessarily bring much more happiness. But some academics believe it's not the amount spent but rather the way in which money is spent that can have a substantial impact on how happy we are.

Psychologists Elizabeth Dunn (co-author with Michael Norton of [Happy Money](#)), Dan Gilbert, and Timothy Wilson suggest that “if money doesn't make you happy, then you probably aren't spending it right”. In their research paper, the trio offer a list of eight strategies to keep in mind when spending money that may help to improve happiness.

1. Buy experiences instead of things

When we get used to something our happiness wears off, and research shows people adapt to material goods (such as a new sofa) faster than to experiences (such as a carpentry class). Additionally, people anticipate and remember experiences more than they remember things, so we derive pleasure not just when we have the experience, but also before and after. Experiences

have the added benefit of often being shared with other people and socialising tends to make us happy.

2. Help others instead of yourself

Spending on others or [giving to charity](#) is known to make us happier than spending on bills or gifts for ourselves. Researchers gave people up to \$20 cash and told them either to spend it on themselves or to spend it on others. The participants were contacted at the end of the day, and those who spent their money on others reported being happier on average. Interestingly, most people don't realise this and predict that spending money on themselves will make them happier.

3. Buy many small pleasures instead of a few big ones

Since we adapt to our purchases, it may be worth replacing one big purchase with spending the same amount on several different little pleasures over time to experience many new hits of happiness. For example, in a study from 2008, researchers gave people either one long massage or two shorter massages split by a 20-second break. The second group, experiencing more, shorter massages enjoyed the overall experience more and were willing to pay more, even though they had an objectively inferior massage as the total massage time was shorter. So when planning the year ahead, try two short holidays instead of one long one to boost the happy effect.

4. Buy insurance that's worthwhile

We buy insurance to protect us from potential problems, but there is a point at which insurance might go too far. Just as we adapt to pleasures, so too do we adapt to pains. So if the TV, for example, plays up, it seems the owner will quickly get used to the missing button on the remote control or the volume being stuck on a particular level. Studies show that we enjoy something more if we don't have the opportunity to exchange it, so consider skipping the expensive warranties or exchange policies.

5. Pay now and consume later

The flip side of this motto, "buy now, pay later", encourages financial short-sightedness which can lead to debt and problems repaying. Along with avoiding these problems, paying upfront may improve happiness because when you do eventually consume (say a meal at a restaurant), you don't have to think about the upcoming bill; the pain of paying is reduced. Also, paying in advance provides time to look forward to the event. People enjoy the anticipation of a pleasurable future treat, sometimes even more so than they enjoy the treat itself.

6. Think about what you're not thinking about

Our tendency to mispredict how we'll feel in the future (referred to as poor affective forecasting) may skew our ability to judge how worthwhile a purchase is and how much happiness (or not) it will bring. The poor forecasting is partly down to the fact that we too [narrowly focus](#) our attention on a single event. For example, we may think that a bigger house will make us happy, but have possibly ignored the more mundane aspects of a bigger house such as the extra space that needs to be cleaned. Considering "everything else" may help to judge better if your plans will make life better.

7. Follow the herd instead of your head (sometimes)

Following the herd can be costly when investing but in other situations, the opinion of the crowd can help. Ratings of products, experiences, or even people, can give us a better idea of how much we'll like them, more so than a detailed search on their various attributes. So checking out Amazon customer reviews may help predict whether you'll enjoy that new book better than checking how many literary prizes the author has won.

8. Beware of comparison shopping

When we shop and compare products, the context while we are comparing is often not the context in which we will be consuming – and this can make a big difference. In a store, one camera having more megapixels than others on offer seems important, but on holiday it might be that you are simply happy to have something on hand to capture the image of your sister feeding a parrot. This doesn't mean that you should never look for the best deal; it simply suggests that when comparison shopping, it may help to zoom out and think about the big picture.

[Read the full paper here](#)

Some people [question](#) whether happiness is even a purpose of money. Other argue that thrift or spending less can improve happiness. Academics Joseph Chancellor and Sonja Lyubomirsky [cite](#) several studies finding materialistic people to be unhappier, feel less competent, and have worse social relationships than thriftier counterparts. But when it comes to boosting happiness, tweaking the way we spend might help. The idea isn't that we need to spend more (and, of course, many things or experiences that bring happiness are free). Rather, the idea is to spend differently to make the most of what brings us happiness.

For more articles on consumer economics, visit our sister-site ezonomics.com or subscribe to the newsletter [here](#).