

Chapter 2

Money for Happiness: The Hedonic Benefits of Thrift

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In Tolstoy's "How Much Land Does a Man Require?" Pahóm, a nineteenth century Russian peasant, aspires to be a landowner. Yet, after a small plot fails to satiate his hunger, he begins chasing larger and larger acquisitions. Eventually, a wealthy man offers him an unusual "all-you-can-eat" real estate buffet: Pahóm can own as much land as he can circle on foot while the sun is shining. Although Pahóm stakes an enormous claim, after hours of overexertion, he unexpectedly drops dead. As a servant digs a grave for Pahóm's body, Tolstoy concludes, "Six feet from his head to his heels was all he needed."

If Tolstoy's Pahóm had lived in the early twenty-first century, he might have been feverishly flipping houses during the property bubble, carelessly trading stocks on his iPhone while driving, and unexpectedly dying at the wheel of his Mercedes. Whatever the time period, success in commercial business does not always translate into success in the business of life. As preachers, poets, and philosophers throughout history have cautioned, the breathless pursuit of material wealth may leave one disappointed, depressed, or yes, even dead (Kasser and Ahuvia 2002; Kasser and Ryan 1993; Eckersley 2006).

Furthermore, overconsumption is not only deleterious for the individual: the resultant consumption of scarce resources and pollution of the environment harms the collective. As global economic progress affords millions' entry into the middle class, the world can only hope their possessions do not overflow their garages as do those of middle-class Americans (Arnold et al. 2012).

The virtue of thrift, a lifestyle of strategic underconsumption, offers an intriguing alternative: living richly, without being rich. In this chapter, we present the benefits of practicing thrift, a relatively neglected construct in consumer psychology. First, we summarize decades of research on the surprising relationship between money and happiness. Next, we investigate three chief reasons that more money fails to produce more happiness (and can actually detract from it). Then, we discuss the meaning and history of practicing thrift, with an emphasis on how it contrasts with

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modern mindsets and habits. Finally, we draw from decades of research in social and consumer psychology to suggest ten ways that individuals can practice thrift in their daily lives—spending and consuming less, but becoming happier in the process.

2.1 What Money Buys

Money is essential for living, but insufficient for thriving. Hundreds of investigations conducted in almost every country in the world support this simple truth. Altogether, research over the past several decades reveals six major findings, described later, about the nuanced relationship between objective indicators of prosperity (e.g., income and wealth) and subjective measures of well-being (e.g., positive affect, negative affect, and life satisfaction).

2.1.1 Money Buys (Some) Happiness

The first major conclusion from the money and well-being literature is that money matters. Income relates to numerous beneficial outcomes throughout a person's life. Children born to wealthier families are less likely to die as infants (Kramer et al. 2000) and more likely to start kindergarten with better academic performance, even before instruction begins (Lee and Burkam 2002). Richer people are relatively more likely to have good physical health (Furnée et al. 2011; Lynch et al. 2000), and less likely to experience stressful life events (Brady and Matthews 2002), suffer from mental health conditions (Hudson 2005), and be the victims of violent crimes (Levitt 1999). The rich even benefit at the end of life, living longer than everyone else, a finding that persists after accounting for preexisting differences in health behaviors and chronic conditions (Bassuk et al. 2002).

Considering the numerous benefits of extra income, the biggest surprise is that these advantages do not always translate to greater happiness. Although income does correlate with happiness (see Diener and Biswas-Diener 2002, for an exhaustive review), the magnitude of the relationship is relatively weak. Surveys across 19 nations, for example, show that the poor are only 20% less likely to report being satisfied with their lives than the rich (Diener and Biswas-Diener 2002). Although money buys entrance into better schools, more lucrative careers, and safer neighborhoods, it brings less happiness than people assume.

2.1.2 Earning More but Mattering Less

The second major finding from the money and well-being literature is that income most strongly correlates with happiness when one is poor, but the size of the relationship wanes as income rises (Deaton 2008; Diener et al. 2010; Eckersley 2005;

Howell and Howell 2008; Inglehart 2000). In other words, the money that makes a person happiest is that which keeps her out of poverty. Looking at the data another way, as income increases, the relative amounts matter more than their absolute values (Kahneman and Deaton 2010). Researchers have even calculated the dollar amount above which salary ceases to matter: a modest \$ 75,000 in the USA (Kahneman and Deaton 2010), which is a surprise to those aspiring to “six-figure” incomes.

2.1.3 Not All Types of Happiness Require Money

Psychologists measure the components of well-being in several different ways, and not all of these measures correlate highly with income. When asked to evaluate their lives as a whole, people often base their answers on their salaries or their savings accounts. As a result, money is more strongly correlated with overall life satisfaction (Diener et al. 2010; Tay and Diener 2011). A moderate income also means not experiencing the misery of lacking basic necessities and freedoms, reflected in its association with less negative affect (Tay and Diener 2011).

But, do the wealthy feel happier than everyone else at every minute of the day? Hardly. Moment-to-moment feelings, especially positive ones, are less strongly related to people’s incomes and more strongly related to the extent to which their psychological needs are being met through their daily activities and their immediate context (Diener et al. 2010; Lyubomirsky et al. 2005b; Schwarz et al. 2009). In other words, if researchers picked an individual off the street at random, they could infer more about his present feelings from what he is doing and whom he is with than from rifling through his wallet.

2.1.4 National Prosperity May Not Trickle Down

Political leaders can be forgiven for believing that building a strong economy inevitably breeds happy constituents: A nation’s changes in prosperity (as measured by growth in Gross Domestic Product [GDP] or income) correlate with changes in its citizens’ life satisfaction. However, as prosperity rises and falls, corresponding shifts in positive or negative emotions fail to materialize (Diener et al. 2011; but see Easterlin et al. 2010; Easterlin and Angelescu 2010; Stevenson and Wolfers 2008, for alternative perspectives). Even when income or GDP does increase, a number of barriers make surges in life satisfaction less likely. For example, GDP makes less of a difference if household material wealth remains unchanged (i.e., the nation’s wealth does not “trickle down” to ordinary people; Diener et al. 2011). Additionally, extra income only benefits citizens when they are satisfied with their incomes and optimistic about their futures (Diener et al. 2011).

Intriguingly, in special cases, subjective and objective indicators can even diverge. When the Berlin Wall fell, for example, the economic fortunes of East Germans

increased over time along with their life satisfaction. However, West Germans grew less satisfied with life over time, despite the fact that their incomes were also rising (Easterlin and Zimmerman 2006).

Modern economic development brings its citizens a mixed bag of blessings and curses (Easterlin and Angelescu 2010). National prosperity may mean more jobs and rising incomes, but also increasing urbanization, obesity, job obsolescence, various kinds of pollution, and social upheaval. Also, although the fortunes of many may rise, their relative standing often remains intact. Relative standing matters a great deal to well-being because after positive improvements in their lives, human beings are inclined to increase their expectations (e.g., “My new house needs new furniture”) and make social comparisons (e.g., “Everyone else has an iPhone”; Boyce et al. 2010; Clark et al. 2008; Clark and Oswald 1996; Ferrer-i-Carbonell 2005; Luttmer 2005)—two tendencies that serve to undermine such improvements.

2.1.5 Happiness Attracts Wealth

An important caveat about the relationship between money and happiness is that this relationship is not solely explained by the fact that money makes people happy. A number of longitudinal studies document that happier people at Time 1 proceed to earn higher incomes at Time 2. For example, self-reported happiness predicted subsequent increases in income in Australians (Marks and Fleming 1999), and higher income and lower unemployment in Russia (Graham et al. 2004). Similarly, cheerfulness in undergraduates was found to predict their incomes 16 years later, even after controlling for parental income (Diener et al. 2002). Optimistic insurance agents (who tend to be happier) sell more insurance (Seligman and Schulman 1986), and optimistic CEOs garner better performance ratings and produce bigger returns on investment for the companies they lead (Pritzker 2002). Although many assume that possessing money precedes and therefore causes subsequent happiness, happiness often precedes the procurement of wealth and explains at least part of the relationship between the two.

2.1.6 Chasing Possessions but Missing Happiness

A significant downside of money, however, is the danger that arises from fixating on it. Studies show that materialism means floundering, not flourishing (Kasser 2002). Materialistic individuals report less satisfaction (Richins and Dawson 1992), more unhappiness (Belk 1985), and lower levels of relatedness, competence, autonomy, gratitude, and meaning in life (Kashdan and Breen 2007). Materialists enjoy their relationships less (Kasser and Ryan 2001), an opinion their friends and families share (Nickerson et al. 2003; Solberg et al. 2004). Furthermore, high financial aspirations are associated with lower social functioning and more antisocial behavior in young adults (Kasser and Ryan 1993). Low income materialists report particularly high distress, but even as their incomes rise, wealthy materialists never reach the happiness

of everyone else (Nickerson et al. 2003). Even in places that revere financial achievements, such as business schools, students with strong, internalized materialistic values are more anxious, less happy, and have poorer physical health (Kasser and Ahuvia 2002). In experiments, participants exposed to materialistic cues—such as viewing luxury products or playing the role of a consumer in a game—feel worse, display less social involvement, and act more competitively (Bauer et al. 2012). Altogether, the evidence suggests that an overly strong focus on acquiring money and possessions negatively impacts well-being across a broad number of life domains.

2.2 Why Dollars Disappoint

Why does money matter less than people think? Psychologists have identified at least three reasons why possessions and money fail to translate into greater happiness, and can in certain cases even undermine it.

2.2.1 *We Choose Poorly*

Although a Yiddish proverb holds that “the heart is half a prophet,” people’s accuracy in prophesying what will make them happy routinely disappoints. Individuals often mispredict what pursuits will make them happy, how large of a hedonic boost they will earn, and how long the rewards will last. For example, many suppose that winning the lottery is a ticket to perpetual happiness, but studies suggest that the effects are relatively short-lived (Brickman et al. 1978). To nonmillionaires, the downsides of wealth are hard to imagine, yet they exist—endless appeals for money, worries about children becoming spoiled, and constant suspicions of others’ motives (Wood 2011). In general, people overestimate the happiness they can garner from any isolated event, like the purchase of a new home or a raise in salary (Wilson and Gilbert 2005), and underestimate their ability to adapt to negative events, like a financial downturn (Bonanno 2004; see Wilson and Gilbert 2003, for a review). When pursuing happiness, especially by purchasing it, forecasting errors increase the likelihood of feeling buyer’s remorse.

2.2.2 *We Adapt Promptly*

No blessing brings perpetual bliss. People quickly reach a point where, as B. B. King memorably belted, “the thrill is gone.” Hedonic adaptation, the psychological term for this phenomenon, explains how the happiness that comes from owning a new widget or securing a pay raise erodes via two key pathways: decreased pleasures and increased aspirations (Lyubomirsky 2011; Sheldon and Lyubomirsky 2012; Wilson and Gilbert 2008). As time passes, the pleasures of a positive change evaporate. One enjoys a newly remodeled bathroom for a season, but over time,

it becomes less noticeable and produces fewer positive feelings. Eventually, the change becomes unnoticeable, fading into the psychological background. Furthermore, positive changes often increase one's expectations and desires, impeding the full effect of the next positive change. After remodeling the bathroom, one begins noticing the drabness of the den.

Hedonic adaptation explains why constant luxury becomes banality. Faced with chronic surpluses, aspirations can ultimately become so high that they choke off all of life's pleasures, leaving one miserable even in the midst of favorable circumstances. After achieving success in every military campaign he led, Alexander the Great resolved to conquer the entire known world. However, after marching to India, his soldiers almost mutinied and forced him to return home, and he died shortly thereafter. An epitaph summarized his brief, ambitious life: "A tomb now suffices him for whom the whole world was not sufficient" (Benham 1907, p. 686). Only by accounting for rising aspirations is it possible to grasp why continuing positive changes lead to diminishing hedonic returns; and when outcomes fall short of one's expectations, disappointment is the price of presumption.

2.2.3 *We Spend Profligately*

Left unchecked, poor choices and fleeting thrills can drive people to overconsume—provided that their pocketbooks can keep up. Fully 20% of wealthy American households owning assets of \$ 1–10 million spent all of their incomes or more in 2004 (Frank 2008). In 2006, the American personal saving rate, already low by worldwide standards, went negative for the first time since the Great Depression (Danger time for America 2006).

Psychologists call the endless cycle of acquisition and adaptation the *hedonic treadmill* (Brickman and Campbell 1971), and its function provides insight into why people continue to purchase and possess, never reaching a point when their life is sufficiently pleasurable and satisfying. The consequence is runaway materialism, in which more and more money is spent and less and less happiness is derived from it.

In sum, at least three human tendencies—choosing poorly because of affective forecasting errors, adapting quickly to positive experiences, and chronic overspending—conspire to nullify or reverse the hedonic benefits of extra wealth. Given the limited resources of our planet and how easily these resources are wasted, we argue that the practice of thrift offers a unique opportunity to simultaneously reduce consumption while boosting fulfillment.

2.3 Thrift and Frugality: Definition and Brief History

Thrift is an ancient virtue that alludes to the curbing of consumption and boosting of fulfillment (Chancellor and Lyubomirsky 2011). It is highly relevant both in times of scarcity (when resources must be conserved) and in times of surplus

(when temptations for unsatisfying pursuits abound). Although many associate *thrift* with being miserly or stingy, the word actually originates from the term *thrive* (Skeat 1993). We define thrift as “a voluntary lifestyle choice involving the careful stewardship of finite resources, such as time, money, and possessions, with optimal long-term material and psychological gain.” Thrift has close associations with the virtues of industry (as the harder one labors for benefits, the less likely one is to squander them), generosity (to use one’s surplus to benefit others), temperance (consuming in moderation), and wisdom (to avoid wasting resources on frivolous pursuits).

In the consumer literature, thrift is often called frugality, which researchers define as consumer restraint in the acquisition of goods, and resourcefulness in using them to achieve long-term goals (Lastovicka et al. 1999). Voluntary simplicity, a related concept, is an intention to reduce expenditures to focus on nonmaterialistic satisfaction and meaning (Craig-Lees and Hill 2002). Thrift is conceptually distinct from tightwadism (the reluctance to spend money at all, even on the necessities; Rick et al. 2008) and hyperopia (a tendency to overwork and deprive oneself of any enjoyable experiences; Kivetz and Simonson 2002). Throughout this chapter, we use the terms thrift and frugality interchangeably, but always in the sense of managing time, money, and possessions with optimal long-term results.

The practice of thrift spans history and cultures. Almost 2,500 years ago, Socrates saw his life mission as persuading people to pay less attention to the pursuit of money, reputation, and honors and more attention to seeking truth, wisdom, and self-improvement. King Solomon, the richest man of his day, noticed that people who loved money were never satisfied with their incomes and lost sleep because they worried about losing their wealth (Ecc. 5:10, 12). Buddhist texts recount how monks practiced extreme thrift by squeezing maximum utility out of their meager possessions: they recycled old robes into quilts, old quilts into covers, old covers into rugs, old rugs into dusters, and eventually, old dusters into a mixture of clay and cloth to repair the monastery’s walls (de Silva 2010).

Thrift arose as a key virtue in North American culture, arising from a combination of religious tradition and practical circumstances (Witkowski 2010). The survival of early colonists, for example, depended entirely on their own competence in managing scarce resources. Puritan and Quaker communities encouraged hard, productive labor for the common good and strongly discouraged wasteful and excess consumption (Shi 1985; Witkowski 2010).

As American history unfolded, thrift and frugality came in and out of fashion depending on the economic, political, and social climate (Witkowski 2010). For example, during the American Revolution, the Civil War, World War I, and World War II, frugality campaigns redirected scarce resources to the war effort. At these crucial moments in history, governments sanctioned thrift, citizens widely practiced it, and it contributed to wartime success. In the modern era, however, due to the overdependence of the American economy on consumer spending, government leaders often steer citizens away from the widespread practice of thrift. For example, following the terrorist attacks of September 11, 2001, President Bush, fearing an economic recession, encouraged Americans to “go shopping” instead

(Kasser 2011). In fact, according to Keynesian economic theory, which enjoyed a resurgence during recent global recessions and drove policy decisions in both the Bush and Obama administrations (The Keynes comeback 2009), excessive saving actually prolongs depressions, and governments can spur growth by discouraging thrift in favor of consumption and investment (Tucker 1990). Ironically, those feeling the sting of economic depressions come to the opposite conclusion; they wish they had been better prepared for tough times by having saved more and spent less (Tucker 1990).

In times of scarcity, thrift ensures physical survival. But even in times of plenty, thrift aids in psychological survival, by helping individuals avoid unfulfilling distractions and orient their lives toward need-satisfying pursuits. However, even when shunned by the masses, a wealth of research suggests that under the right conditions, thrift provides a number of financial and psychological benefits to its practitioners.

2.4 Practicing Thrift to Earn Hedonic Dividends

How can people manage to squeeze more happiness out of less money? The consequences of practicing thrift have not been well documented in extant psychological research, and the few studies that do exist report conflicting outcomes (see Kasser 2011, for a brief review). Thus, whether individuals derive benefits from conserving more or spending less depends on a number of intervening factors, such as their motivation, goals, expectations, specific practices, and social support. We survey a broader literature on well-being, emotions, economics, and consumer psychology to offer ten psychologically and financially sound principles on how to increase happiness without spending much money, and in many cases substantially less.

2.4.1 *Cure Ills Before Seeking Thrills*

In one of Aesop's fables, a pair of mice samples each other's lifestyles. Although the country mouse subsides on crumbs, the city mouse serves fine wines and cheeses stolen from his homeowners' cupboards. But their sumptuous dinner ends abruptly when the drunken homeowners return and ravenous dogs give chase. As the country mouse heads home, he confesses to his friend, "I'd rather have a crust in peace and safety than all your fine things in the midst of such alarm and terror."

Happiness is not just about feeling good—it is also about seldom feeling bad (Diener et al. 1999). Hence, one can become happier by either increasing positive affect or decreasing negative affect. Although maximizing positive affect is the most obvious strategy, minimizing negative affect has one strong but overlooked advantage: pain is much more potent than pleasure. As the country mouse discovers, even bland is better than best with bad.

Decades of research supports that, indeed, bad is stronger than good (Baumeister et al. 2001; Taylor 1991). All else being equal, preventing or halting a negative experience provides a three- to fivefold return on investment over adding a positive one (Fredrickson and Losada 2005). Negative experiences and emotions affect people more than do positive experiences and emotions when they perform different kinds of tasks, including being subconsciously primed with photos (e.g., Smith et al. 2006), memorizing information (e.g., Bless et al. 1992; Ohira et al. 1998; Porter and Peace 2007), filtering information (e.g., Pratto and John 1991), and detecting emotions (e.g., Oehman et al. 2001). Also, negative information attracts more attention and relative importance in interpersonal interactions (e.g., Gottman and Krokoff 1989), first impressions (e.g., Peeters and Czapinski 1990), and when decoding nonverbal messages (e.g., Frodi et al. 1978). Daily diary studies demonstrate that positive changes are weaker than negative changes, and that their effects also evaporate more quickly (e.g., Nezlek and Gable 2001; Sheldon et al. 1996; see also Oishi et al. 2007). In a daily diary study of college students, a bad day lowered well-being on the following day (Sheldon et al. 1996); the effects of a good day, however, did not transfer to the next.

Likewise, pleasure fades, but misery lingers. Humans adapt to positive stimuli more quickly and completely, but to negative stimuli more slowly and partially. For example, lottery winners were no happier from less than 1 month to 18 months after news of their prize than those who had experienced no such windfall (Brickman et al. 1978). During an unprecedented economic expansion in the USA lasting over 50 years, mean happiness levels barely budged (Lane 2000)—if anything, they slightly decreased. In prospective longitudinal investigations, those who marry receive a boost in their happiness, but revert to their baseline after 2 years on average (Lucas et al. 2003; see also Lucas and Clark 2006), and high-level managers who purposely change jobs experience a burst of satisfaction immediately after the move, but bounce back within a year (Boswell et al. 2005). By contrast, studies of negative experiences such as disability, unemployment, widowhood, and divorce indicate that their levels of well-being take a “hit” from the negative occurrence and, on average, never fully rebound (Lucas 2005; Lucas et al. 2003, 2004).

When shopping, people err when they fixate only on thrilling or life-enhancing products. However, the relative strength of bad over good suggests that a product that relieves pain or discomfort could be a more hedonically potent purchase. For example, a troubled couple might try counseling before cruising, or when shoe shopping, a wise consumer might consider bunions first and fashion second. Although less suffering and more pleasure both lead to greater happiness, the pain-relieving path offers the biggest payoff. Thomas Fuller observed that “one cloud is enough to eclipse all the sun.” If clouds do appear, a most satisfying purchase could be an umbrella.

2.4.2 Meet Needs Before Indulging Desires

“Our necessities are few,” wrote George Bernard Shaw, “but our wants are endless.” Because of the finitude of human needs, the meager financial cost of meeting them,

and the misery of doing without, utilitarian products, more than luxurious ones, garner the most happiness for the dollar. Mindful of these reasons, thrifty people prefer products that meet practical needs, rather than superfluous ones (Craig-Lees and Hill 2002).

Studies have enumerated a set of limited but important biological, psychological, and social conditions necessary for optimal human functioning (Hill and Buss 2008; Sheldon et al. 2001; Kenrick et al. 2010; Maslow 1954; Ryan and Deci 2000; Ryff and Keyes 1995). Physically, people need food, water, clothing, shelter, and safety. Psychologically, people need to feel competent, autonomous, and fulfilled. Socially, people need to feel respected and connected with others. Altogether, the fulfillment (or deprivation) of this short list of human needs explains 10–23 % of variation in happiness across countries and cultures (Tay and Diener 2011). Spending money to meet a need offers an immediate benefit to happiness because human needs are neither mysterious nor insatiable. In fact, Kasser (2011) proposes that the degree to which thrifty behavior meets core psychological needs likely explains differences in the outcomes of apparently thrifty practices.

A necessity is generally more effective at boosting well-being because of the subjective strength of bad over good. A utilitarian purchase, by definition, meets a practical need, without which one presumably would be wanting, whereas a luxurious purchase aims for extra (but nonessential) enjoyment. Thus, a utility prevents continual suffering, while a luxury only bestows a momentary pleasure. For example, a polio vaccine prevents paralysis. A Botox shot removes fine lines and wrinkles (ironically, through paralysis). Even if both injections are later taken for granted, by preventing the more negative outcome, the vaccine is of greater objective benefit. Similarly, although a five-course meal at a trendy restaurant makes an enjoyable evening, even rice gruel eliminates the pangs of hunger. The poor spend the highest percentage of their income on basic necessities, needs that are most strongly related to life satisfaction and negative affect (Tay and Diener 2011).

Utilities are also the best bargains. The difference between the lowest and highest price offerings of the same kind of product can be 10–1,000-fold. A bowl of soup can cost pennies (in Africa) or \$ 215 (at a tony restaurant in London). The world's cheapest mass-produced car (from India's Tata Motors) retails for \$ 2,500, while the world's most expensive (the Bugatti Veyron from Germany's Volkswagen) sells for \$ 2.4 million. Despite the differences in cost, feature-for-feature drivers obtain more hedonic benefit from the motor than the moon roof. In sum, buyers benefit more when they direct their dollars to no-frills utilities rather than frivolous purchases.

However, two caveats should be mentioned. First, the distinction between utilities and luxuries is not clear-cut and abounds with ambiguities (Alba and Williams 2013). Luxury cars can commute and economy cars feature stereos. Real-world purchases are subtle gradations of utility and luxury. Also, two people may buy the same product with different motivations: a fisherman buys a boat for labor, but the yuppie for leisure. Complicating matters further is the tendency of people to conflate their needs and desires. Ask a materialist or spendthrift about a recent purchase, and he/she may overstate the utility of his/her acquisitions. Conversely, a tightwad may even forgo necessities to the detriment of his own well-being.

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