

Spending on Happiness

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Can money buy you happiness? Yes—so long as you spend the money on someone else. According to new research, giving other people even as little as \$5 can lead to increased well-being for the giver.

That's the insight into the secret of happiness by Harvard Business School professor Michael Norton and two colleagues from the University of British Columbia, Elizabeth Dunn and Lara Aknin. Their article, "Spending Money on Others Promotes Happiness," appeared in the March 21, 2008 issue of *Science*.

"Intentional activities—practices in which people actively and fully choose to engage—may represent a promising route to lasting happiness. Supporting this premise, our work demonstrates that how people choose to spend their money is at least as important as how much money they make," the researchers explain.

"Our findings suggest that very minor alterations in spending allocations—as little as \$5 in our final study—may be sufficient to produce non-trivial gains in happiness on a given day."

Norton and colleagues found these results to hold in three different studies: a nationally representative survey, a field study of windfall spending, and an exploration in which participants were randomly assigned to spend money on others rather than themselves.

We asked Norton to elaborate in an email interview, an invitation to which he cheerfully agreed.

Sarah Jane Gilbert: *What prompted you to conduct this research into the connection between money and happiness?*

Michael Norton: One of the most puzzling paradoxes in social science is that though people spend so much of their time trying to make more money, having more money doesn't seem to make them that much happier. My colleagues Liz Dunn and Lara Aknin—both at the University of British Columbia—and I wondered if the issue was not that money couldn't buy happiness but that people simply weren't spending it in the right way to make themselves happier. Liz had the great idea to explore whether, if we encouraged people to spend money in different ways, we could uncover the domains in which money might lead to happiness. We conducted a number of studies—from national surveys to a field study in which we examined how the manner in which employees at a Boston-based company spent a profit-sharing bonus impacted their long-term happiness—in which we showed that money can buy happiness, when people spend that money prosocially on others (giving gifts to friends, donating to charities) rather than on themselves (buying flat-screen televisions).

Q: *What are the psychological factors involved when it comes to individuals and feelings they encounter when giving away their money? Does it matter how wealthy you are?*

A: We found that it was the relative percentage of their money that people spend on others—rather than the absolute amount—that predicted their happiness. In the bonus study described above, for example, the size of the bonus that people received had no impact on their long-term happiness. It was the percentage of

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Executive Summary

Money can't buy you love but it can buy happiness — as long as it's money for someone else. New research by Harvard Business School professor Michael I. Norton and colleagues Elizabeth W. Dunn and Lara B. Aknin, described in the journal *Science*, looks into how and why spending money on others promotes happiness.

- How much money people earn is less important for their happiness than how they choose to spend it.
- Although people believe that having money leads to happiness, research suggests they are happier if at least some of the money is given to others.
- Companies might want to think creatively about how to encourage employees to spend their bonuses. Likewise, organizations could look at alternate ways to participate in charitable giving.

that bonus they spent on others that increased their well-being. In another study, we showed that spending as little as \$5 over the course of a day on another person led to demonstrable increases in happiness. In other words, people needn't be wealthy and donate hundreds of thousands of dollars to charity to experience the benefits of prosocial spending; small changes—a few dollars reallocated from oneself to another—can make a difference.

Q: *So many of us equate having money with happiness. How does this relate to your findings that showed giving it to others is what promotes happiness?*

A: Although a large body of research does show that people become happier as they move from being very poor to lower middle class, after this point the impact of income on happiness is much weaker. Think of someone who makes \$100,000 one year and \$110,000 the next—do we really expect this additional income to suddenly make this person fulfilled, without a care in the world? (You can also think about whether such changes in your own income really make you happier with your life on a day-to-day basis: Being informed about a raise certainly makes us happy, but the \$10,000 doesn't make our siblings or in-laws any less difficult to deal with over the course of the following year. ...) Although people believe that having money leads to happiness, our research suggests that this is only the case if at least some of that money is given to others.

Q: *If we were aware that giving equates to happiness, would we be more likely to spend money on others instead of on ourselves?*

A: We were actually most worried about the opposite problem, whether knowing about the effect of prosocial spending might erase it, if people engaged in prosocial spending in a calculated manner in order to “get happy.” We conducted a survey in conjunction with the *New York Times* “TierneyLab” in which readers who had just learned about our findings were invited to complete a brief survey in which they reported their happiness, as well as how much money they had spent on others and on themselves so far that day. Consistent with our previous research, we found that spending more on others was associated with greater happiness among this sample of approximately 1,000 *New York Times* readers, even though the respondents had been exposed to our previous findings.

Q: *What are you working on next?*

A: We are now actively looking to work with more companies that are willing to be creative with how they encourage their employees to spend their bonuses, and companies that are willing to be creative in how they engage in charitable giving. For instance, many companies donate a lump sum to charities each year. Our research suggests that companies might think about splitting that money up among their employees and empowering them to choose the recipient of those donations. We refer to such initiatives as creating a “prosocial workplace,” which we believe has benefits both for companies, in the form of happier employees, and for society, through increases in charitable giving.