

## OPINION

# The art of spending money - and what it reveals about who you really are

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Former General Electric CEO Jack Welch once nearly died of a heart attack. Years later he was asked what went through his mind while he was being rushed to the hospital in what could have been his last moments alive.

“Damn it, I didn’t spend enough money,” was Welch’s response.

The interviewer, Stuart Varney, was puzzled, and asked why in the world that would go through his mind.

“We all are products of our background,” Welch said. “I didn’t have two nickels to rub together [when I was young], so I’m relatively cheap. I always bought cheap wine.”

After the heart attack Welch said he “swore to God I’d never buy a bottle of wine for less than a hundred dollars. That was absolutely one of the takeaways from that experience.”

“Is that it?” Varney asks, stunned.

“That’s about it,” says Welch.

Money is so complicated. There’s a human element that can defy logic – it’s personal, it’s messy, it’s emotional.

Behavioral finance is now well documented. But most of the attention goes to how people invest. Welch's story shows how much deeper the psychology of money can go. How you spend money can reveal an existential struggle of what you find valuable in life, who you want to spend time with, why you chose your career, and the kind of attention you want from other people.

There is a science to spending money – how to find a bargain, how to make a budget, things like that.

But there's also an art to spending. A part that can't be quantified and varies person to person.

In my book I called money “the greatest show on earth” because of its ability to reveal things about people's character and values. How people invest their money tends to be hidden from view. But how they spend is far more visible, so what it shows about who you are can be even more insightful.

Everyone's different, which is part of what makes this topic fascinating. There are no black-and-white rules.

But here are a few things I've noticed about the art of spending money.

### **1. Your family background and past experiences heavily influences your spending preferences.**

I love this *Washington Post* headline from June, 1927 – the Roaring '20s, the last hurrah before the Great Depression:

The More You Were Snubbed While Poor, the More You Enjoy Displaying Your Wealth

— Robert Quillen

This is timeless, and explains so much.

After Covid lockdowns there was the concept of “revenge spending” – a furious blast of conspicuous consumption, letting out everything that had been pent up and held back in 2020.

Revenge spending happens at a broad level, too. The most stunning examples I’ve seen of this are wealthy adults who grew up poor – and were heckled, bullied, and teased for being poor as kids. Their revenge spending mentality can become permanent.

If you dig into it, I think you’ll see that a disproportionate share of those with the biggest homes, the fastest cars, and the shiniest jewelry, grew up “snubbed” in some way. Part of their current spending isn’t about getting value out of flashy material goods; it’s about healing a social wound inflicted when they were younger.

Even when “wound” is the wrong word, the desire to show the world that you’ve made it increases if you grew up snubbed out of what you wanted. To someone who grew up in an old-money affluent family, a Lamborghini might be a symbol of gaudy egotism; to those who grew up with nothing, the car might serve as the ultimate symbol that you’ve made it.

A lot of spending is done to fulfill a deep-seated psychological need.

## **2. Entrapped by spending: Rather than using money to build a life, your life is built around money.**

George Vanderbilt spent six years building the 135,000-square-foot Biltmore house – with 40 master bedrooms and a full-time staff of nearly 400 – but allegedly spent little time there because it was “utterly unaddressed to any possible arrangement of life.” The house nevertheless cost so much to maintain it nearly ruined Vanderbilt. Ninety percent of the land was sold off to pay tax debts, and the house was turned into a tourist attraction.

In 1875 an op-ed said socialites “devote themselves to pleasure regardless of expense.” A Vanderbilt heir responded that actually they “devote themselves to expense regardless of pleasure.”

The Vanderbilts are obviously extreme, but that is a common trait among more ordinary people.

*The devotion to expense regardless of pleasure.*

Part of this is the belief that spending money will make you happier. When it doesn't – either because it never will or because you haven't discovered purchases that bring joy – your reaction is that you must not be spending enough, so you double down, again and again.

I've often wondered how many personal bankruptcies and financial troubles were caused by spending that brought no joy to begin with. It must be enormous. And it's a double loss: not only are you in trouble, but you didn't even have fun getting there.

I have an old friend who buried himself in credit card debt to go skiing in Europe and loved every second of it. I can wrap my head around that decision, even if I wouldn't recommend it. He's in control of his finances.

But what about those whose spending is driven by the belief that money is to be spent, regardless of what pleasure it brings? Money has them by the neck; they are held in captivity by its influence.

### **3. Frugality inertia: a lifetime of good savings habits can't be transitioned to a spending phase.**

I think what many people really want from money is the ability to stop thinking about money. To have enough money that they can stop thinking about it and focus on other stuff.

But that ultimate goal can break down when your relationship with money becomes an ingrained part of your personality. You struggle to break away from focusing on money because the focus itself is a big part of who you are.

If you develop an early system of savings and living well below your means – congratulations, you've won. But if you can never break away from that system, and

insist on a heavy savings regimen well into your retirement years ... what is that? Is it still winning?

A lot of financial planners I've talked to say one of their biggest challenges is getting clients to spend money in retirement. Even an appropriate, conservative amount of money. Frugality and savings become such a big part of some people's identity that they can't ever switch gears.

I think for some people that's actually fine. Watching money compound gives them more pleasure than they would get spending it.

But those whose ultimate goal is to stop thinking about money are stuck. Refusing to recognize that you've met your goal can be as bad as never meeting the goal to begin with.

#### **4. An emotional attachment to large purchases, particularly a house.**

My wife and I pride ourselves on making unemotional financial decisions. But a few years ago we were in the market for our first house. We found one online that we liked, and as we headed out for a tour we promised ourselves we wouldn't do anything rash – this was just gathering information.

Then we pulled into the driveway and my wife gasped, "I love it!" I did too. We had an infant son – our first – and there was a kids' tree swing in the front yard. Perfect.

And that was it. Emotion was involved and there was nothing we could do about it.

We have zero regrets – the house really was great. But no one should pretend that you can make life-changing decisions that will massively impact you and your family and treat it like a math problem.

Jason Zweig of *The Wall Street Journal* once wrote about his mom selling her longtime home:

“ I have no emotional attachment to the house; I never liked it physically,” Mom told us. “But everything important that ever happened in our life as a family is here, and I can’t just leave all that behind.

If I said, “How much are the memories with your kids worth?” you’d say it’s impossible to attach a dollar figure. But if I said, “How much is the home where you formed memories with your kids worth?” or “How much does staying in your local town impact your salary?” you could probably spit out a dollar figure with ease.

Understanding the difference between those two helps explain a lot of spending decisions.

## **5. The joy of spending can diminish as income rises because there’s less struggle, sacrifice, and sweat represented in purchases.**

In his 1903 book *The Quest for the Simple Life*, William Dawson writes:

The thing that is least perceived about wealth is that all pleasure in money ends at the point where economy becomes unnecessary. The man who can buy anything he covets, without any consultation with his banker, values nothing that he buys.

Consider how you felt when you got your first paycheck from your first job. If you celebrated with as little as a milkshake from Denny’s you probably had a joyous feeling of, “*I did this. I bought this. With my own money.*” Going from not being able to buy anything to able to buy something is an amazing feeling. The gap between struggle and reward is a big part of what makes people happy.

Contrast that with later in your career, when (hopefully) savings have been built and paychecks have grown. It’s not that spending won’t make you happy – but it won’t be as thrilling and adrenaline-inducing as it was when there was more struggle behind each dollar.

I know a guy with a private chef. He's served 5-star meals three times a day, an arrangement he's enjoyed for years. It's amazing; I'd lie if I said I wasn't jealous. But I also wonder if the joy diminishes over time. He doesn't have to struggle to get these meals – there's no anticipation, no looking forward to a restaurant reservation, no contrasting gap between a “normal” meal and his daily delicacy.

There's a saying that the best meal you'll ever taste is a glass of water when you're thirsty. All forms of spending have that equivalent.

Let me end with a wise quote from, of all people, Richard Nixon:

“ The unhappiest people of the world are those in the international watering places like the South Coast of France, and Newport, and Palm Springs, and Palm Beach. Going to parties every night. Playing golf every afternoon. Drinking too much. Talking too much. Thinking too little. Retired. No purpose. So while there are those that would disagree with this and say “Gee, if I could just be a millionaire! That would be the most wonderful thing.” If I could just not have to work every day, if I could just be out fishing or hunting or playing golf or traveling, that would be the most wonderful life in the world – they don't know life. Because what makes life mean something is purpose. A goal. The battle. The struggle – even if you don't win it.

## **6. Asking \$3 questions when \$30,000 questions are all that matter.**

There's a saying: Save a little bit of money each month, and at the end of the year you'll be surprised at how little you still have.

Author Ramit Sethi says too many people ask \$3 questions (can I afford this latte?) when all that matters to financial success are \$30,000 questions (what college

should I go to?)

Historian Cyril Parkinson coined a thing called Parkinson's Law of Triviality. It states: "The amount of attention a problem gets is the inverse of its importance."

Parkinson described a fictional finance committee with three tasks: approval of a \$10 million nuclear reactor, \$400 for an employee bike shed, and \$20 for employee refreshments in the break room.

The committee approves the \$10 million nuclear reactor immediately, because the number is too big to contextualize, alternatives are too daunting to consider, and no one on the committee is an expert in nuclear power.

The bike shed gets considerably more debate. Committee members argue whether a bike rack would suffice and whether a shed should be wood or aluminum, because they have some experience working with those materials at home.

Employee refreshments take up two-thirds of the debate, because everyone has a strong opinion on what's the best coffee, the best cookies, the best chips, etc.

Many households operate the same.

## **7. Social aspiration spending: Trickle-down consumption patterns from one socioeconomic group to the next.**

Economist Joseph Stiglitz once wrote: "Trickle-down economics may be a chimera but trickle-down behaviorism is very real."

There is no such thing as an objective level of wealth. Everything is relative to something else. People look around and say, "What's that person driving, where are they living, what kind of clothes are they wearing?" Aspirations are calibrated accordingly.

I spoke with Wired magazine founding executive editor Kevin Kelly last week. He brought up an interesting point: If you want to know what lower-income groups will



aspire to spend their money on in the future, look at what higher-income groups exclusively do today.

European vacations were once the exclusive playground of the rich. Then they trickled down.

Same with college. It was once reserved for the highest income groups. Then it spread.

Same with investing. In 1929 – the peak of the Roaring '20s bubble – five percent of Americans owned stocks, virtually all of them the very wealthy. Today, 58% of households own stocks in some form.

Same with two-car households, lawns, walk-in closets, granite countertops, six-burner stoves, jet travel, and even the entire concept of retirement.

Part of the reason these products spread to the masses is that they got cheaper. But the reason they got cheaper is because there was so much demand from the masses – hungered by their aspirations – that pushed companies to innovate new ways of mass production.

People like to mimic others, especially those who appear to be living better lives. Always been like that, always will be.

## **8. An underappreciation of the long-term cost of purchases, with too much emphasis on the initial price.**

It's common to find someone who bought their home in, say, 1974, for something like \$60,000. Today it's worth perhaps \$350,000. The owners no doubt feel they have made the investment of their lives.

But those numbers above equate to an average annual return of 3.75%. Property taxes tend to average roughly 1%, so that brings our real return to 2.75% per year. Maintenance and repairs vary greatly, but spending 1% - 3% of your home's value per year on upkeep should be expected.

Where does that leave our long-term returns? Ah, quite dim.

Price is easy to calculate. It's just whatever you paid initially and sold for eventually.

Cost is harder to figure out. They tend to be a slow drip over time, which are easy to ignore but add up quickly.

Same for cars, boats, and hobbies. You can even say the cost of smoking cigarettes is the price of a pack plus the long-term cost of medical care associated with the habit. One is easy to calculate, the other is very difficult.

### **9. No one is impressed with your possessions as much as you are.**

When you see someone driving a nice car, you rarely think, "Wow, the guy driving that car is cool." Instead, you think, "Wow, if I had that car people would think I'm cool." Subconsciously or not, this is how people think.

There is a paradox here: people tend to want wealth to signal to others that they should be liked and admired. But in reality those other people often bypass admiring you, not because they don't think wealth is admirable, but because they use your wealth as a benchmark for their own desire to be liked and admired.

I wrote a letter to my son the day he was born. It says, in part:

*You might think you want an expensive car, a fancy watch, and a huge house. But I'm telling you, you don't. What you want is respect and admiration from other people, and you think having expensive stuff will bring it. It almost never does – especially from the people you want to respect and admire you.*

Now, I like nice homes and nice cars as much as anyone. The point here is not to shoo you away from nice things.

It's just a recognition that no one is as impressed with your stuff as much as you are. Or even that no one is thinking about you as much as you are. They're busy thinking about themselves!

People generally aspire to be respected and admired by others, and using money to buy fancy things may bring less of it than you imagine. If respect and admiration are your goal, be careful how you seek it. Humility, kindness, and empathy will bring you more respect than horsepower ever will.

## **10. Not knowing what kind of spending will make you happy because you haven't tried enough new and strange forms of spending.**

Evolution is the most powerful force in the world, capable of transforming single-cell organisms into modern humans.

But evolution has no idea what it's doing. There's no guide, no manual, no rulebook. It's not even necessarily good at selecting traits that work.

Its power is that it "tries" trillions upon trillions of different mutations and is ruthless about killing off the ones that don't work. What's left – the winners – stick around.

There's a theory in evolutionary biology called Fisher's Fundamental Theorem of Natural Selection. It's the idea that variance equals strength, because the more diverse a population is the more chances it has to come up with new traits that can be selected for. No one can know what traits will be useful; that's not how evolution works. But if you create a lot of traits, the useful one – whatever it is – will be in there somewhere.

There's an important analogy here about spending money.

A lot of people have no idea what kind of spending will make them happy. What should you buy? Where should you travel? How much should you save? There is no single answer to these questions because everyone's different. People default to what society tells them – *whatever is most expensive will bring the most joy.*

But that's not how it works. You have to try spending money on tons of different oddball things before you find what works for you. For some people it's travel; others can't stand being away from home. For others it's nice restaurants; others don't get the hype and prefer cheap pizza. I know people who think spending money on first-

class plane tickets is a borderline scam. Others would not dare sit behind row four. To each their own.

The more different kinds of spending you test out, the closer you'll likely get to a system that works for you. The trials don't have to be big: a \$10 new food here, a \$75 treat there, slightly nice shoes, etc.

Here's Ramit Sethi again: "*Frugality, quite simply, is about choosing the things you love enough to spend extravagantly on—and then cutting costs mercilessly on the things you don't love.*"

There is no guide on what will make you happy – you have to try a million different things and figure out what fits your personality.

## **11. The social signaling aspect of money, on both things you buy for yourself and charity given to others.**

There's a saying that if you get public recognition for donating money, it's not charity – it's philanthropy. And if you *demand* recognition, it's not even charity – it's a business deal. There's a clear social benefit to you, the giver, in addition to the recipient. I don't mean that in a negative way: Good donations to worthy causes would plunge if donors didn't get recognition.

Most forms of spending have two purposes: To bring some sort of utility to the owner, *and* to signal something to other people.

Homes, cars, clothes, jewelry, obviously fit into that category. But even travel does as well – how many vacation destinations are picked at least in part by what you think will make a good Instagram picture, or just that it *sounds cool*. (My guess is most Bali vacations fall into that category).

Psychologist Jonathan Haidt says people don't communicate on social media; they perform for one another. Spending money is like that, too.

It's not always a bad thing. If you've merely thought about what clothes you'll look best in before you leave in the morning, you've engaged in signaling. And it's not always about looking the best: intentionally dressing casually to a formal meeting sends a powerful message about who holds the power. Before being caught as a sham, Sam Bankman-Fried said he intentionally didn't wear pants to create a mystique.

The thing to recognize is that spending money "on yourself" is often done with the intent of influencing what other people think.

That should spark three questions: Whose opinion are you trying to influence, why, and are those people even paying attention?

## **12. The social hierarchy of spending, positioning you against your peers.**

An old joke is about two hikers who come across a grizzly bear in the woods. One starts to run, and the other yells, "Are you crazy, you can't outrun a bear!" The runner replies: "I don't have to be faster than the bear. I only have to be faster than you."

All success is simply relative to someone else – usually those around you.

That's important for spending money, because for so many people the question of whether you're buying nice things is actually, "are your things nicer *than other peoples' things?*" The question of whether your home is big enough is actually, "is your home bigger than your neighbor's?"

Not only is the urge to one-up your peers, but you may feel the need to continually surpass your own spending. Is this year's vacation more expensive than last year's? Is the next car fancier than the old one?

Money to some people is less of an asset and more of a social liability, indebting them to a status-chasing life that can leave them miserable.

It's a dangerous trap if you don't recognize the game and how it's played. Montesquieu wrote 275 years ago, "If you only wished to be happy, this could be easily accomplished; but we wish to be happier than other people, and this is always difficult, for we believe others to be happier than they are."

### **13. Spending can be a representation of how hard you've worked and how much stress went into earning your paycheck.**

Someone who works 100 hours a week and hates their job may have an urge to spend frivolously in an attempt to compensate for the misery of how their paycheck was earned.

Never have I seen money burn a hole in someone's pocket faster than an investment banker receiving their annual bonus. After 12 months of Excel modeling until 3am, you have an urge to prove to yourself that it was worth it, offsetting what you sacrificed. It's like someone held underwater for a minute – they do not take a calm breath when they surface; they *gasp*.

The opposite can hold true. I can only back this up with anecdotal experiences, but those most capable of delayed gratification are often those who enjoy their work. The pay might be good, but the urge to compensate for your hard work with heavy spending isn't there.

Spending money to make you happy is hard if you're already happy.