



Laughing at the Joneses

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In the first years of the 20th century, cartoonist Arthur R. Momand surveyed his Long Island neighbors and made an observation. Many seemed to be living beyond their means in an effort to acquire what others had, jumping into a never-ending cycle of spending that gained steam as Americans started deeming single-family homes, cars and other consumer goods as necessities. In his late 20s, Momand created a comic strip to lampoon this tendency. For several decades the strip ran in newspapers across the country, and American readers followed the domestic exploits of the McGinnis family and their unseen but oft-referenced neighbors. The title of the strip? Keeping up with the Joneses.

The phrase lasted longer than the cartoon, drifting well into the modern world where we try to keep up with the Kardashians or, in extreme cases, the Gateses. It means different things to different people, but when you picture the Joneses, they aren't living in a modest bungalow and biking to work. No, they own a stately home with a manicured lawn surrounded by a wrought-iron fence. Their long driveway loops in front of the house so they can display some sleek black or silver luxury car—a good whose value stems partly from the fact that some versions signify more status than others. Human beings, it seems, are wired to seek and defer to status. This is particularly true when it comes to things other people can see. Who knows if your marriage is better than anyone else's? Who knows if your potluck dinner with friends was more enjoyable than someone else's picnic? These things are not easily compared, but one house is clearly

bigger than another, one car more expensive, one flat-screen larger and more high-def. Our tendency is always to spend more on these visible markers than on nonpositional goods. Conspicuous consumption is just human nature.

And so, in 2009, the average American household spent just over 50 percent of their total expenditures on housing and transportation. One can certainly imagine that lower-income families would need to spend a high percentage of their money simply to afford basic shelter and bus fare. But what's most fascinating about these numbers is that, when you separate out households by income quintiles, both the richest 20 percent and the poorest 20 percent spend just about the same proportion on these categories. We are all hovering around the 50 percent mark.

Why is that? To be sure, people in the top 20 percent pay more in taxes and save more, so they spend a lower percentage of overall income. Still, it's a bit of a head-scratcher why 50 percent is the right amount of one's outgoing cash to put toward housing and transportation, no matter what one earns. We are talking roughly \$9,000 vs. \$40,000 for the bottom and top income quintiles, which are very different numbers to have arrived at this magical percentage. It's also curious when you think of all the things money can buy beyond houses and cars that people in the top income brackets could devote more money to if they wished. Education. Art. Charity. Travel. Spa visits.

Yet somehow 50 percent sounds about right to people. But here's a question to ask yourself: if you are in the top half of the income distribution, where more flexibility is possible, how would your life change if you decided to spend 40 percent of your budget on housing and cars and devoted that additional 10 percent to something else? Let's say you're already saving religiously. What if you spent 30 percent of your budget on these necessities and 20 percent on other things? What kinds of choices would that enable?

There are many reasons families spend what they do, but I still think, as we look at the intersection of money and happiness, it's worth reexamining our relationships with our houses and our cars. The simplest reason is that these are our biggest expenses. Many frugality tomes and television segments center on food, entertainment and clothing, because these are perceived as costs that can quickly be changed. This is true, but the problem is that these items make up relatively small percentages of people's budgets and are often not worth the forgone happiness to change. Spending less on housing and transportation, on the other hand, can make big life changes possible.

So if you're serious about using cash for things that bring you the most pleasure, or if you do want or need to cut back a lot, why not look at what these large outlays are doing for you? Maybe they are achieving worthwhile goals. Many people consider houses to be assets, which is why spending a high percentage of one's income on a home seems justifiable. But maybe they are not.

The last few years have certainly shown the downside of thinking that more house is always better, even if you have to stretch to afford it. Regardless, it's silly to talk about personal finance without talking about where you live and what you drive. In the context of achieving happiness, there is also some intriguing research suggesting that big, infrequent purchases (such as houses and cars) don't do much for overall happiness, whereas spending a lower percentage of your income on these items might free up cash for categories that will give you a more pleasant life. There are also plenty of people who have discovered this truth and, rather than trying to keep up with the Joneses or submitting to their tyranny, are getting a good laugh at them.

When I started researching the intersection of money and happiness a few ago, the issues surrounding what we spend on houses, cars, and yards were largely academic to me. Then, in the course of writing my book, *All the Money in the World: What the Happiest People Know About Getting and Spending*, I went from being a New York City apartment dweller and subway rider to the owner of a suburban house with a yard, the possessor of a mortgage, and the driver of a car. And so, while faxing signed forms back to the mortgage company and later running around my new and more rustic neighborhood in Pennsylvania, I spent a lot of time pondering why we make the financial choices we do.

Our decision to become suburban homeowners had been percolating for a while. Like many urban couples in the breeding stage of our lives, my husband and I had grown weary of some of New York City's challenges. In our last Manhattan apartment, our two boys shared a bedroom, which is common in expensive urban areas but strikes many non-New Yorkers we know as strange, given what we were paying in rent. My office was a chunk of our bedroom. Eventually, our 1,500 square feet began to feel tight. And so, as often happens, potential ownership of a detached single-family home beckoned.

But why, exactly, was it beckoning? This question, at least until recently, hasn't been asked too much. Home ownership is widely touted as the American Dream, an "axiomatic good," as *Time* magazine put it in the fall of 2010.

It remains wildly popular, deemed worthy of scrimping. The 30-35 percent of our budgets we now spend on housing compares with just shy of 15 percent in 1960. The most popular reasons for home ownership, according to Fannie Mae surveys, are access to good schools and safety for one's family. There is some research, often touted by real estate agents, supporting the idea that home ownership is a good thing, though some of this seems to be more correlation than causation. Home owners may be more involved in their communities, not because they're better people than renters but because they move less frequently. One reason they move less frequently? The high transaction costs of paying a Realtor when you sell a house.

Still, there are likely some real benefits. When you own something, you take better care of it. A home can be used as collateral for a loan and as a way to build wealth. Perhaps because of these benefits, the US government grants home ownership lavish subsidies. Home ownership is, culturally, a sign of responsibility, even though it's also, usually, a sign of debt. Tell people you're saving up for a down payment on a house and they'll nod; say you're saving up to put \$40,000 down on a \$200,000 stock portfolio, and they'd think you were nuts. Actually, they'd probably call the Securities and Exchange Commission (SEC), since securities rules require you to put more money down when you're initially buying on margin. Think about that. During the height of the housing boom, people were putting far less than 10 percent down on houses, but other investments have stricter rules, even though a stock portfolio can be liquidated in bits and pieces—thus letting you hedge your bets—and a home cannot. If you hit tough times, you can't just sell your bathroom.

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Whether or not we think all this through, big chunks of us—some two-thirds of Americans—buy. I am now, for the first time, part of that percentage. In early March 2011, after my husband and I learned we were expecting our third child, we decided to move to the suburbs of Philadelphia (where his work had migrated). We met with a real estate agent on the Main Line and tromped from house to house, where I promptly became enamored of just how much square footage I could get for the after-tax equivalent of my New York City rent. I began to see why people buy baby monitors: in 1,500 square feet, when the baby cries, you hear him. During one open house, I lost my three-year-old in many thousands of square feet of residential expanse. But after years of living on top of one another and having other family members deposit their toys and dirty underwear next to my desk, I was ready to spread out a little.

Multiply my sentiments by millions of other young families, and you can see why ever-bigger houses have conquered the real estate market as SUVs have conquered the road. “I think it comes from the history of this country—moving out west into this great uncharted territory,” says Sarah Susanka, a Raleigh, North Carolina-based architect. “Somehow in this country we have the notion that more space is freedom. It’s associated in our minds with expansiveness and opportunity.”

More opportunity certainly sounds better than less opportunity, and so, while new single-family homes in the early 1970s hovered around 1,600 square feet, this ballooned to 2,521 by the top of the housing boom. On the high end of the market, 10,000-square-foot homes are not unusual.

The median price rose from \$23,400 in 1970 to \$247,900 in 2007, faster than inflation and faster than wages—a bit of alchemy made possible by bargain-basement interest rates. When interest rates are low, the incentives to raise your monthly payment a wee bit are strong. If you make \$45,000 a year, and want to spend 25% on housing (including property taxes and insurance), you can borrow only around \$129,000. If you are willing to spend 33 percent of your income, you can borrow \$181,582. This is quite a bit more house for an extra \$300 a month, with the existence of 30-year mortgages pushing buyers toward spending those extra dollars on the margin. All the way up the line. The difference between a \$1.25 million house (with a \$1 million mortgage) and a \$2 million house (\$1.6 million mortgage) can be \$4000 a month. That sounds like a lot, except most people buying these houses would have just made a downpayment of \$250,000 to \$400,000. Within that context, \$4000 seems like nothing.

A big house, of course, means a big lawn. As we pondered our move to the 'burbs, we started judging homes based on the amount of sod in the backyard, because another axiom of American living is that a growing family needs some grass. but lawns, too, are a relatively new phenomenon—something growing families did without for much of human history. Historians aren't sure why lawns became as closely tied to the American Dream as home ownership itself. Perhaps early suburban sorts wished to mimic the look of British castle grounds, minus the sheep responsible for the close cropping. The fad spread, and now millions of acres of the United States are covered with grasses that wouldn't grow well here if left to their own devices.

As people require bigger homes, they've generally moved, by extension, farther away from the places they need to go. Our suburban move was the exception, since it brought my husband closer to his office and clients. But this is not usually the way it works. The average commute is now hovering at about 50 minutes per day (25 each way). People with train commutes tend to like them. People with car commutes, not so much. Driving itself is not unpleasant, but driving when other people are driving means battling traffic. We naturally adapt to most things that produce a steady state of unpleasantness or pleasantness. The push and pull of traffic, on the other hand, means every day is a new hell. Perhaps to ease the pain, we seek out more comfort in our cars—more space for hauling supplies in the back, more cup-holders, and movie screens for the kiddies.

The ironic thing about the big suburban house, the lawn and the cars they require is that the daily activities these widely desired goods thrust upon us are pretty low on the human enjoyment scale. According to a 1-10 scale of human happiness produced from the 1985 Americans' Use of Time Project, while gardening is quite pleasant, yard work scored a 5.0—not far above going to the dentist (4.7). Cleaning the house scored a 4.9, and commuting landed at 6.3. These are all below playing sports, experiencing art or music, watching TV, exercising, and playing with kids. In one 2004 study of Texas working women, commuting and housework ranked near the bottom of the happiness scale for these women's days.

So if housework, yard work, and commuting all make us miserable, or are at least far enough down the happiness scale that we could envision better ways to spend our time, why do we pursue big, expensive houses with grassy yards that require rush hour driving? Some explanations center on policy choices, such as a bias against mixed-use development, heavy federal subsidies for road building, and educational choices that have made urban schools unattractive to middle class parents. There is certainly something to each of these explanations, but not everything. I put a lot of stock in the “axiomatic good” theory. Everyone wants it, so therefore it must make us happy.

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It's important to keep in mind, though, that happiness is always a battle against adaptation—that is, getting used to things, so they no longer bring us the happiness they once did. In a 2010 paper surveying dozens of experiments, professors Elizabeth Dunn, Daniel Gilbert, and Timothy Wilson identified several recurring themes of how money can encourage happiness—and how it can not. One key theme? “As long as money is limited by its failure to grow on trees, we may be better off devoting our finite resources to purchasing frequent doses of lovely things rather than infrequent doses of lovelier things,” they write. “Indeed, across many different domains, happiness is more strongly associated with the frequency than the intensity of people’s positive affective experiences.” Good sex three times a week is better than mind-blowing sex three times a year. Variability also forestalls adaptation, and small, repeated pleasurable experiences are more likely to be variable than big infrequently purchased objects. Lunch with friends is always different. A dining room table is exactly the same as it was last year. A car at least has the virtue of being able to bring you to new and exciting places—one reason that one study of older Americans found that vehicle spending was associated with happiness—but any functioning car can do that. A house doesn’t change much and soon becomes the expected norm.

None of this means that spending money on houses and cars is wrong. We all want pleasant transportation and pleasant living quarters. I know I do. The problem is when we overspend on the house and the cars, beyond what would satisfy us for comfort, functionality, and safety,

to the point where we don't have money for other pleasures. The difference between spending 33 percent of one's income on housing and 25 percent is 8 percent to spend on other things. That's \$4,000 on \$50,000 and \$8,000 on \$100,000, which, in the context of buying happiness, can cover a reasonable number of dinners out, movie tickets, weekend trips, or even a cleaning service to free up time to enjoy all these experiences. Or consider this: if you need to save more, and earning more isn't an option, cutting out those dinners, movies, and weekend trips requires daily doses of self-discipline. This is a virtue that, alas, most of us have in short supply. Whereas buying a cheaper house (or car) requires only one episode of self-discipline. After that, you're good for years.

And then there is the matter of freedom. Spending half your budget on housing and transportation locks you into that level of income. What if you want to take a career risk, go back to school, or just take a sabbatical? A rainy day fund can cover a while, but bigger house and car payments deplete such a fund faster than smaller ones.

As part of our cultural reckoning, though, we are reexamining all our financial commitments and goals. How much happiness could you buy if you spent 40 percent of your budget on housing and cars, and 10 percent on little pleasures? How much freedom could you buy if you spent 30 percent of your budget on these things, and banked the rest? Or even 20 percent, or lower?

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That’s what Sherrie Tingley is doing.

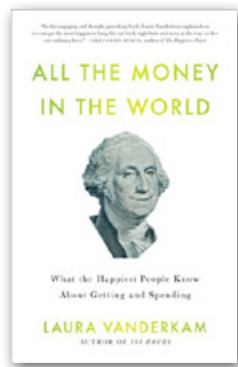
Tingley and her husband are both in their 50s. They used to live in a suburban home outside Ottawa, but the 40-minute car commute to downtown was a big drain on their happiness. “It didn’t feel like we had a life,” she says. Hanging around downtown after work meant a late night, and there wasn’t much to do where they lived. So in 2000, they purchased a duplex in a transitional neighborhood close to downtown for \$116,000 with an \$87,000 mortgage. With a combined six-figure income, they could have afforded a lot more than that, but they wanted to be able to manage on either of their salaries, in case one person lost a job or wanted to do something else. They lived in the top half (about 750 square feet) and rented out the bottom. As their incomes went up, they devoted the extra money to the mortgage and paid it off in five years.

Then they started saving up for a renovation and converted the two units into one single 1,400 square foot house, which Tingley claims now feels almost too big. They ripped up their grass. “We see no use for a lawn,” she says. “They’re stupid unless you’re lawn bowling.” The trees and patio that took the lawn’s place provide a nice relaxing spot for hanging out during the time they’re not stuck in traffic.

Indeed, around this time, they started walking to work together, turning their commute into a daily date. They enjoyed it so much that “we started questioning if we really needed the expense of having a car and decided that at the next major repair we would get rid of it,” she reports. They bought bikes and a carrier for hauling things, and sold the car in August 2008.

Now on weekends they bike to the grocery store together. “Once in a while we run an errand by bus and it feels like an adventure,” she says. “Financially, we are saving a bundle of money.” Last year they spent a total of \$600 on car rentals for trips out of town. Plus, “I realized that a lot of the shopping we did before was a waste of time,” Tingley says. With few housing and car expenses, life maintenance runs them \$2,000 a month—much of which is spent on fun line items like eating out, travel, and entertainment. Tingley is on track to save \$70,000 per year. She’s putting that in her “freedom fund” to buy the ability to do whatever she wants soon. “I don’t want to be the Joneses,” she says. **There’s no point trying to keep up when you’re thrilled with what you’ve got.** 🏡

Info



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