Chapter 3 Getting the Most for the Money: The Hedonic Return on Experiential and Material Purchases

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3.1 Introduction

Over the past few decades, behavioral scientists have learned a great deal about what makes people happy. Some things that increase happiness come as no surprise, such as having strong social and romantic relationships (e.g., Diener and Seligman 2002; Myers and Deiner 1995). But others are less obvious, especially those having to do with how people use their money. One of the most surprising findings about the relationship between money and happiness is that people in developed countries like the USA, Japan, and most of Europe have not become much happier despite a massive increase in wealth (Easterlin 1995; cf. Diener et al. 2012). Many explanations have been offered for this result (e.g., Easterlin 1995; Frank 1999; Myers and Deiner 1995), one being that perhaps people are not using their wealth as wisely as they could. Indeed, there are many well-documented examples of people making systematically poor, or at least suboptimal, purchase decisions (see Hsee and Hastie 2006) and researchers have begun to identify a variety of specific ways that people can spend their money more wisely (see Dunn et al. 2011; Dunn and Norton 2013). The basic question from a consumer's standpoint is straightforward: how do I get the biggest hedonic bang for my buck?

There are many answers to this question (see also Chancellor and Lyubomirsky, this book), but we are going to focus on just one. It is a very simple guiding principle that is easy to follow, has potentially positive consequences for the planet (see Brown and Kasser 2005), and has been shown to yield substantial hedonic gains in a large (and growing) number of studies. That is, research shows that people derive

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more enduring satisfaction from experiential purchases—intangible experiences such as vacations, concerts, and nights out with friends—than from material purchases—tangible goods such as jewelry, clothes, furniture, and electronic gadgets (e.g., Carter and Gilovich 2010, 2012; Nicolao et al. 2009; Van Boven and Gilovich 2003). In this chapter, we discuss the evidence behind this claim, elucidate the multiple mechanisms underlying it, and explore some underlying connections that tie the different mechanisms together.

It is worth noting at the outset that experiences and possessions are fuzzy categories. There are plenty of purchases that are not so easily assigned to one category or the other. For instance, to what category does an mp3 player belong? On the one hand, it is a physical object that remains in one's possession for some time. On the other hand, its primary use is to provide a way to listen to music a strictly experiential purpose. Is this fuzziness a problem? When we argue that people would be well advised to spend more money on experiences over material possessions, do these sorts of purchases count? Several considerations are important here. First, a great many categories are fuzzy and yet people find the categorical distinctions useful (e.g., Armstrong et al. 1983; Wittgenstein 1966). People tend to think they are either "awake" or "asleep," but wakefulness is a continuum, not a dichotomy, with different brain wave patterns associated with different levels of sleep/wakefulness. Second, we have surveyed thousands of participants in our efforts to explore the satisfaction people derive from experiential and material purchases, and no subject has ever balked at or expressed confusion about the distinction. Participants in one study, for instance, were asked to recall either a recent material or experiential purchase and to provide a brief description of it (Carter and Gilovich 2010, Study 1). Independent coders were then asked to take those descriptions, without any knowledge of the category the original participants had been asked to draw from, and to rate on a 7-point scale the extent to which the purchases were experiential or material in nature. As can be seen in Fig. 3.1, which depicts the distribution of the ratings color-coded by their original condition assignment, the coders had little trouble categorizing the vast majority of purchases, with only a small number inhabiting the murky region between the two poles. Thus, given minimal instruction, participants could easily recall a purchase that fit-in both their own minds and those of uninformed third parties-the assigned category.

Finally, any ambiguity about the proper assignment of a given purchase can be resolved by noting the intention behind it. Was an mp3 player purchased out of a desire to own the object itself, or because of a desire to listen to music on the go? That is, what is the primary source of the pleasure provided by the purchase? Is it from the fact of ownership, having it available as a possession, or is it from the experiences it affords? A 1957 Gibson Les Paul Special that never leaves its climate-controlled display case would be considered a material possession, since it is the ownership of such a treasure that provides the primary satisfaction. Someone else might consider that same guitar an experience, however, provided that the pleasure it provides comes mainly from plugging it in and making it sing.

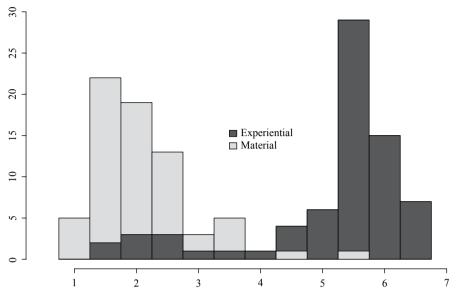


Fig. 3.1 Distribution of independent coders' ratings of participants' purchase descriptions (*1* definitely material, *4* does not fit either category, 7 definitely experiential; data from Carter and Gilovich 2010, Study 1)

3.2 The Hedonic Return on Material and Experiential Investments

At first glance, the claim that people tend to get more satisfaction, and more enduring satisfaction, from experiential purchases than material purchases can seem odd. After all, once an experience has been consumed, it is gone forever. Material goods are much more durable, staying with us until they wear out, break down, or are thrown away or traded in. Although that is certainly true in a material sense, the picture can be quite different psychologically. One of the most robust findings in the well-being literature is that people have a remarkable capacity for adaptation (Brickman et al. 1978; Gilbert et al. 1998; Riis et al. 2005). Initially, the onset of terrible illnesses and disabilities are often traumatic; but with time, people who have suffered such misfortunes end up nearly as satisfied with life as those who been spared such trauma (cf. Diener et al. 2006; Lucas 2005; Lucas et al. 2003). The same is true for positive events. A salary increase, a new car, and a larger house all bring joy, but the joy is often short-lived. With time, we come to believe that we are "just getting by" with the higher salary, that the new car is just a means to run errands or get to work, and that the larger house is just as cluttered as the old one.

Psychologically, then, material goods may not be more enduring than experiences. Although they may continue to be around physically, they tend to get tuned out and disappear from the psychological landscape. As a consequence, people's experiential purchases may, paradoxically, be more enduring. They may live on longer in the stories we tell and the memories we cherish, thereby generating a more enduring sense of satisfaction.

Indeed, quite a few studies, using a variety of methods, have shown that experiential purchases tend to yield more enduring satisfaction than material purchases in the same price range (e.g., Carter and Gilovich 2010, 2012; Van Boven and Gilovich 2003). In the most straightforward demonstration, participants in a broad national sample who were asked to recall a material and an experiential purchase reported that thinking about the experiential purchase made them happier (Van Boven and Gilovich 2003). Thinking about a recent experiential purchase, rather than a recent material purchase, has also been shown to put people in a better mood (Carter 2010; Van Boven and Gilovich 2003).

Supporting the idea that people habituate more readily to material goods, the differential utility people get from their material and experiential purchases tends to be especially pronounced with the passage of time. In one study, participants were asked to think about a significant experiential or material purchase and to rate how much enjoyment it brought them just after it was purchased and how much enjoyment it continues to bring them. There was no difference in participants' ratings of their initial enjoyment, but participants indicated that they got much more current enjoyment from their experiences.

The greater hedonic value that people tend to derive from experiential purchases es is also reflected in satisfaction's flip side, regret. That is, people tend to have very different types of regrets when it comes to experiential and material purchases (Rosenzweig and Gilovich 2012). Although people can have regrets of action or inaction for either type of purchase, the nature of material and experiential purchases is such that action regrets ("buyer's remorse") tend to be more common for material goods and inaction regrets ("missed opportunities") tend to be more common for experiences. Imagine, for example, that Tom Waits is one of your favorite artists. Because he tours so rarely, your opportunities to take in a live show will be few and far between, and every show will be different—a different set list, a different crowd, a different energy, maybe even a different backing band. If you pass on an opportunity to see him perform, choosing to spend the money on something else, you will not ever be able to go back and make a different decision. The relatively unique nature of such experiences makes it more likely that a sense of having missed an opportunity, or a regret of inaction, will be evoked.

Possessions, on the other hand, are not typically so limited. A new television model will be available for some time, with each set mass-produced to be virtually identical and hence entirely interchangeable. If you decide not to buy it one day, you can simply change your mind and go back the next. For material goods, then, the sense of having missed an opportunity is rare, and so regrets of inaction are swamped by the action regrets that result when the product does not perform as well as anticipated, or does not fit with one's other possessions. Support for this differential pattern of regret for material and experiential purchases was obtained from a study in which participants were asked to recall any regrets they had about previous material or experiential purchases. Those asked to recall past material purchases reported significantly more regrets of action and significantly fewer re-

grets of inaction than those asked to recall previous experiential purchases (Rosenzweig and Gilovich 2012). This pattern, furthermore, was traced to the tendency for experiences to be more unique and less interchangeable than material goods. The more interchangeable a purchase was, the more likely participants were to report feeling buyer's remorse; the less interchangeable a potential purchase was, the more likely they were to report regretting a missed opportunity.

The implication of these findings is clear: For every instance of buyer's remorse over a material purchase, that same money might have gone toward an experience that was otherwise missed. There is certainly no guarantee that choosing an experience would have turned out to be an unmitigated delight, but the research indicates that even if it turns out badly, you are less likely to regret having made the purchase.

The research on experiential and material purchases thus leads to a very simple prescription for those looking to maximize the hedonic benefits of their purchases: spend more money on experiences and less on possessions. But putting this simple, easy-to-implement bit of advice aside, the research findings also spark the interesting psychological question of why experiences tend to yield more enduring satisfaction than possessions. What psychological processes, related to satisfaction, regret, and general well-being, do experiences seem to arouse more than possessions? In the following sections, we describe research that explores the mechanisms responsible for the greater hedonic boost provided by experiences over possessions, and discuss what these different mechanisms have in common.

3.3 Why Experiences Are More Satisfying

As with many robust relationships, the tendency for experiences to contribute more to well-being than possessions appears to be multiply determined, with each of the different mechanisms resulting from some of the inherent differences between the two types of purchases. We discuss each of the three most important mechanisms in turn.

3.3.1 Compare and Contrast

By their very nature, material goods are tangible and experiences are more ephemeral. One consequence is that it is often much easier to make direct comparisons between different possible material purchases than between different experiences. As an example, imagine that you have decided to buy a new cell phone. Even if you have narrowed it down to a smartphone from a particular carrier, you still have your work cut out for you. Smartphones come in different sizes, colors, wireless technologies, amounts of onboard storage, and different operating systems. The task is daunting, but because they are tangible objects, you can hold two of them up side by side and compare them directly (see also Hsee et al. 2009). Experiences, in contrast, tend not to lend themselves as easily to such direct comparisons. In many cases, to experience a purchase is to consume it. You might be able to see all of the different options on the dessert cart, but the comparisons are remote and rather hypothetical. Short of taking a bite of each dessert, something most restaurants frown upon, you would be missing the most important dimension of comparison: taste. And even if you could distract the wait staff long enough to pull it off, you still would not be able to compare them simultaneously and independently. Taking two bites at once would make it difficult to tell them apart and would likely diminish the taste of both.

This difference in the ease of comparison has consequences. First, because it is easier to make direct comparisons among different possessions, people are simply more inclined to do so, leading to rather different decision-making strategies when it comes to choosing among a set of possessions or a set of experiences (Carter and Gilovich 2010). When participants in one study were asked how they went about making a recent material purchase, they tended to report having used a maximizing strategy-comparing all of the available options on all possible dimensions and choosing the very best one. This process is time-intensive, and has been shown to have a variety of negative psychological consequences (Schwartz et al. 2002). When participants were asked how they made a recent experiential purchase decision, however, they reported having used more of a satisficing strategy, or choosing the very first option that meets an acceptable standard of quality (Simon 1955). Although satisficing might not yield the best possible option, it is considerably easier, it results in outcomes that consumers remain happy with down the road (Ivengar et al. 2006), and it seems to "fit" well with the nature of experiential purchases. For instance, the rigorous comparisons required for maximizing might be impossible (or force you to endure a stern lecture from the maître-d), so it is often better to simply select the first option that seems appealing. What's more, compared to participants who chose from a set of experiential options (different types of vacations), participants who chose from a set of material options (different types of electronic gadgets) were more likely to continue examining the unchosen options from the same category and remembered more of the various unchosen alternatives (Carter and Gilovich 2010).

Each one of these comparisons, furthermore, creates an opportunity for regret, as unchosen options that were superior on a given dimension are likely to linger in the mind and sow the seeds of dissatisfaction (Carmon et al. 2003). Indeed, when participants in another study were given a material object (a pen) as a prize in an experiment with other superior prizes nearby (also material objects, such as mugs and notebooks), the spontaneous comparisons they made between what they had and what they might have received led them to evaluate the pen less favorably. This did not occur, however, for participants who received an experiential prize (a bag of chips) in the presence of better experiential prizes, such as gourmet chocolate bars (Carter and Gilovich 2010). The opportunity for comparison was the same in both cases, but only participants facing an array of tangible prizes actually made the comparison, and their happiness with the prize they received suffered as a result.

Even when potentially damaging comparative information is made salient to consumers, it has a smaller effect on their enjoyment of experiences than on their enjoyment of possessions. For example, participants who imagined that the price of a recent experiential purchase (e.g., a vacation package, a show in New York city) had just dropped were much less bothered by this information, and indicated that it would impact their satisfaction to a much lesser degree, than participants who imagined that the price had just dropped on a recent material purchase (e.g., a laptop, a wristwatch). The differential impact of comparative information also applies to social comparisons. When participants were asked to imagine that a rival of theirs had recently made some of the same purchases that they had (one experiential and one material), and that in both cases the rival's purchases turned out to be better than the participant's own, they thought the rival's superior material purchase would be much more troubling, and have a greater impact on their own satisfaction, than a rival's superior experiential purchase. Knowing that someone else's vacation was better than yours is by no means pleasant, but it tends not to be as troublesome as knowing that someone else has a better version of the same material good you have just purchased. After all, you have still got your memories of your hike in Yosemite, your weekend in New Orleans, or your chance to see your favorite band-and you would not trade those memories for someone else's even if their hike was more exciting, they stayed at a better hotel, or there were notable guest artists at the concert they saw.

The Color of Money Money, of course, is the ultimate fungible good. It has no value in and of itself; it is value lies in what it can be exchanged for. The more connected a given purchase is to money, then, the more tempting it can be to think about other purchases one might have made instead. It turns out that people associate their material purchases more readily and more closely to money than their experiential purchases—a connection that further encourages the tendency to compare different possessions more than experiences. When participants were asked to sort words related to money, experiences, and possessions into various categories in an Implicit Association Test, the speed of their responses revealed a significantly tighter associative connection between material goods and money than between experiential goods and money (Mann and Gilovich 2013, Study1). In another study, participants listed their top ten experiential purchases from the recent past or their top ten material purchases and then ranked them based on how satisfying they were and how much they cost. The correlation between the two rankings was significantly higher for the material purchases (mean r=.56) than for the experiential purchases (mean r=.26; Mann and Gilovich 2013, Study 3). The phrase, "You get what you pay for," is likely to be generally true for the purchases people make, but it appears to be significantly more true for material purchases. Indeed, the things that determine how much an experience is enjoyable are less connected to the amount of money paid for the experience than is the case for material goods. In support of this idea, participants in one study were asked to list the three most satisfying elements of a set of experiential purchases they had made or a set of material purchases. They then rated how much their satisfaction with each of these elements was influenced by the amount of money they spent on the purchase. Their responses indicated that how much they got out of a material good was related much more strongly to what

they paid than was the case for experiential goods (Mann and Gilovich 2013, Study 2). Because thinking about money has been shown to have a variety of effects that disconnect and isolate the self from others (Liu et al. 2011, 2012; Molinsky et al. 2012; Vohs et al. 2006), which is likely to have negative downstream consequences for well-being, the relatively tight connection between material goods and money is likely to further diminish the satisfaction people derive from their material purchases, over and above the tendency for people to make more invidious comparisons when it comes to their possessions.

Aging and Aging Gracefully Another consequence that follows from the differential tangibility of experiences and possessions is how they age. Most possessions, being physical objects, tend to be seen as increasingly diminished with age. Clothes wear out or fall out of fashion; electronic gadgets break down or become obsolete. Even the best-built machines require maintenance that only becomes more costly over time. The invidious comparisons that undermine the hedonic value of possessions become more pronounced with the passage of time and the toll of frequent use. Every little scratch on a car can be seen in the reflection of the shimmering finish of the new models. Even if your clothes are not worn out, they inevitably go out of style and are easily and readily compared to the sophisticated (and well-stitched) new outfits on display in the department store window. The rarity of material objects that do seem to maintain their value over time, such as finely crafted instruments or antique jewelry (whose worth is quite fragile), only helps to prove the point.

Experiences, being intangible, suffer no such decline. Seeing an ad for a new vacation package will not cause you to think that your previous vacation is now obsolete and in need of "replacing," even if that were possible. Because experiences live on in our memories and our stories, which often get romanticized over time (Mitchell et al. 1997), they tend to increase in value, not diminish. Past experiences that were pursued to enhance well-being tend to elicit nostalgia—powerful yearnings to return to and re-experience the past, not the desire to replace it (Kundera 2002; Wildschut et al. 2006). The fact that experiences live on as cherished memories has another consequence: it causes them to become a bigger part of one's identity.

3.3.2 We Are What We Do

What defines who we are—our essential or "true" self? Although this question has engaged philosophers for centuries, most recent psychological accounts emphasize the role of autobiographical memories in defining the self (e.g., Grice 1941; James 1890; Kihlstrom et al. 2003; Locke 1690/2000; McAdams 2001; Wilson and Ross 2003). We develop self-knowledge (semantic memory) through activities and experiences (episodic memory) that explore and deepen our sense of self. Our memories of these activities and experiences are the building blocks of our self-concept. In contrast, however much we might like our material possessions, they always remain "out there" and are less a part of the self. What's more, because experiences are

intangible, they offer greater leeway than more concrete possessions do for how they are interpreted. That leeway is likely to be exploited to maintain positive (if not entirely accurate) self-views in much the same way that all sources of ambiguity are used to bolster a person's self-image (e.g., Dunning 2005). This ambiguity, for example, helps to explain why people's memories of their experiences tend to become rosier over time (Mitchell et al. 1997), but their memories of their possessions do not.

Recent research supports the contention that experiences are more important in forming, defining, and representing the self-concept (Carter and Gilovich 2012). In one study, participants who were asked to write out their life story were twice as likely to mention experiential purchases they had made than material purchases (e.g., "I love traveling and being with friends and family. I am essentially a compilation of everyone that I have met and everything that I have done."). They were stating, in effect, that their experiences had helped them become the people they are today, but their possessions had not. Similarly, participants in another study were asked to literally map out the centrality to the self of their most important material and experiential purchases. Specifically, they were asked to construct a sort of Venn diagram, with the circles representing individual purchases drawn near or far from a central "self" circle to depict the extent to which the purchase in question was an important part of the self. As predicted, participants plotted their experiential purchases much closer to their "self" than their possessions, even when controlling for the cost of the purchase. In another study, when asked to imagine owning a new 3D television, participants indicated that it would be closer to their sense of self, as represented by overlapping circles in a modified version of the Inclusion of Others in the Self Scale (Aron et al. 1992), when it was described in terms of its experiential qualities than when it was described in terms of its material qualities.

Experiences also constitute a more important part of a person's identity in the eyes of others. In several studies, participants were asked whether knowing about a person's possessions or experiences would give a stranger more insight into that person's "true self" (Carter and Gilovich 2012). In one study, they were asked whether a stranger would know more about them by knowing about their experiential or material purchases; in another, they were asked what they would prefer to know about another person with whom they were about to start a new project for work. In both cases, they indicated by overwhelming margins that knowing about experiences would be more informative than knowing about possessions.

Is the fact that people's identities are more tied to their experiential purchases than to their material purchases related to the fact that people derive more enduring enjoyment from the former? In yet another study, participants were asked to recall either an experiential purchase that they had made at some point in their life or a material purchase that was no longer in their possession (Carter and Gilovich 2012). They were then asked to imagine that they had the power to go back in time and, instead of making that particular purchase, choose something different. Because the experience was just a memory and the material purchase was one they did not currently possess, any such change would have them right back in their current circumstances and all that would change would be the memories of the purchase in

question. Participants were asked several questions about how willing they would be to exchange their current memories for the implied new ones, and how much it would change who they are. If memories of previous experiences are indeed crucial to the self-concept, then swapping out an experiential memory would, in effect, change a part of oneself, something people are disinclined to do (Gilovich 1991). Our participants were no different. In addition to being happier with their experiences than their possessions, replicating the prior work, they reported being much less willing to exchange their experiential memories than their material memories. Importantly, the relevant mediation tests revealed that participants' greater happiness with their experiences stemmed from their tendency to cling to them as cherished parts of the self.

3.3.3 Experiences, Possessions, and Social Capital

It is commonplace for behavioral scientists and other observers of the human condition to utter such statements as "We humans are a very social species" or "Life is about people." To the extent that these statements are true, it should be the case that anything that enhances social connection should enhance well-being. What about experiences versus possessions? Is one type of purchase more likely to foster social connection than the other?

To be sure, both types of purchases can enhance social life. You would be reluctant to invite anyone over for dinner if you did not have a dining room table or if your living room furniture was embarrassing. Having clothes that are wildly out of style might cost you some friends. But it is probably a safe bet that, on average, we connect more with others through our experiences than our possessions. Most experiences directly involve other people. And even if an experience did not involve others, it is also a safe bet that you would be more likely to talk about it at the dinner table or around the water cooler than, say, a new piece of furniture or a new sweater. It is also likely that you would have a more receptive audience if you did so. Support for the latter idea was obtained from a simple study in which two participants were asked to have a get-acquainted conversation, but with a slight twist (Van Boven et al. 2010). Half of the participants were confined to talking about recent material purchases they had made and half were confined to talking about recent experiential purchases. When later asked to evaluate the session, those who had talked about experiential purchases reported liking the conversation more, and liking each other more, than those who had talked about material goods. Experiences provide better grist for the conversational mill and, as a result, they draw people together more than material goods.

The ability of experiences to bind people together more than material goods is also reflected in the sense of commonality we feel when we learn that someone else also, say, climbed Mt. Rainier, dined at Tetsuya's, or saw Santana at the Fillmore. Knowing that someone else has the same sofa, the same overcoat, or the same automobile also enhances perceived kinship, but not as much. In one study that speaks directly to this point, participants were asked to recall a significant experiential or material purchase and then to rate how similar they would feel and how much kinship they would feel toward someone who had made the very same purchase. On both measures, participants indicated that they would feel closer to someone with whom they shared the same experiential purchase (Kumar et al. 2013, Study 1). This effect occurs, furthermore, even when people are outgunned with respect to the purchase in question: Participants in a follow-up study indicated that they would also feel closer to someone who made a similar but "upgraded" experiential purchase that was 20% better on all the relevant dimensions than someone who made a similar but upgraded material purchase (Kumar et al. 2013, Study 2). We seem to be less troubled being one-upped in our experiences than being one-upped when it comes to our possessions.

Does this greater kinship we feel toward those who have shared a similar experience extend to people in general, even those who have not had the same experience? That is, do rewarding experiences, more than rewarding material goods, make us feel more expansive and more connected to others at large? In one study, participants were asked to reflect on a significant material or experiential purchase and then fill out the Social Connectedness Scale (Lee and Robbins 1995). Those who reflected on a recent experiential purchase indicated that they felt more connected to people in general than those who reflected on a recent material purchase (Kumar et al. 2013, Study 3). This feeling of greater kinship with others is then reinforced as it leads people to seek out more social activities. Participants who had been asked to recall a significant experiential purchase expressed more of a desire to engage in social activities over solitary activities compared to participants asked to recall a significant material purchase (Kumar et al. 2013, Study 4). This feeling of connection, furthermore, has notable social consequences. In still another study, participants who had been asked to reflect on a significant material or experiential purchase were then assigned the role of allocator in the dictator game and asked how much of a \$ 10 stake they wanted to keep and how much they wanted to give to another participant. Having thought about an experiential purchase made participants more generous: those who had earlier been asked to reflect on a significant experiential purchase made more generous offers than those who had been asked to reflect on a significant material purchase (Kumar et al. 2013, Study 5).

3.4 The Experiential Nexus

It is clear that the greater satisfaction people derive from their experiential purchases results from three distinct processes—experiences are "consumed" and appreciated more on their own terms and less in comparison to previous experiences or the experiences of others; experiences contribute more than possessions to the sense of self; and experiences connect people to others more readily and deeply than possessions do. Although these processes are distinct, they are not independent. They feed on each other and they often operate in concert to boost satisfaction and well-being. As many scholars have recognized, the self is a fundamentally social construct, with a person's self-image inextricably linked to his or her relations with others (Brewer 1991; Leary et al. 1995; Mead 1913). The tendency for experiences for foster social connection and build social capital more than possessions is therefore likely to cement or enhance the tendency for experiences to contribute more to one's sense of self. And to the extent that the self is a social entity, the desire to actualize the self will lead to increased efforts to develop and nurture social connections. And the fact that experiences are more central to the self also means that they will be thought of as less exchangeable with other possible experiences, making them less subject to diminishment by invidious comparisons to what others have or what might have been obtained on a road not taken. Given the tight interconnections between these three processes, it is clear that the greater satisfaction people derive from experiential rather than material pursuits rests on a very sturdy three-legged stool.

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