Luxury Fever

Why Money Fails to Satisfy in an Era of Excess

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CHAPTER 1

MONEY WELL SPENT?

The propane grill I bought during the 1980s has been on a downhill slide for several years. First to go was its ignition button, the crude mechanical spark generator that normally fires up the gas. Lighting the grill is now a delicate operation. I turn on the gas, wait a few seconds, and then throw a match inside. Throw it in too soon, and it goes out before it reaches the burner below. Wait too long, however, and it sets off a small explosion. A second problem is that the metal baffle atop the burners has rusted through in the middle. This concentrates an enormous amount of heat over a small area near the center of the cooking surface, but very little elsewhere. I am still able to cook reasonably good chicken and small steaks if I quickly rotate pieces in and out of the hot zone. But grilling a big fish filet has become impossible.

My grill’s various deficiencies could surely be repaired, but I have no idea by whom. And even if I did, the cost would almost surely exceed the $89.95 I originally paid for it. And so, reluctantly, I find myself in the market for a new one.

If you have searched this market yourself recently, you know that the menu of available choices is profoundly different from what it was 10 years ago. I vaguely remember models available then with built-in storage cabinets and shelf extensions on either side. But even with these embellishments, the most you could spend was a few hundred dollars. There was nothing—absolutely nothing—like today’s Viking- Frontgate Professional Grill.
Powered by either natural gas or propane, it comes with an infrared rotisserie that can slowly broil two 20-pound turkeys to perfection while you cook hamburgers for 40 guests on its 828-square-inch grilling surface. It has a built-in smoker system that “utilizes its own 5,000-BTU burner and watertight wood chip drawer to season food with rich woody flavor.” Next to its grilling surface sit two ancillary rangetop burners. Unlike the standard burners on your kitchen stove, which generate 7,500 BTUs, these burners generate 15,000 BTUs, a capability that is useful primarily for the flash-stir-frying of some ethnic cuisines and for bringing large cauldrons of water more quickly to a boil. If you have ever longed to throw together a Szechwan pork dish on your backyard patio, or feared getting off to a late start when you have guests about to arrive and 40 ears of corn left to cook, the Viking-Frontgate has the extra power you may need. The entire unit is constructed of gleaming stainless steel, with enamel and brass accents, and with its fold-out workspaces fully extended, it measures more than seven feet across.

The catalog price of the Viking-Frontgate Professional Grill, not including shipping and handling, is $5,000. If that’s more than you want to pay, many cheaper models are available. For instance, the all-stainless Weber-Stephens Summit Grill, which the company touts in four-page spreads in Forbes and Vanity Fair, and which has almost as many bells and whistles as the Viking-Frontgate, sells for only $3,000. And for shoppers who feel they can get by with an 18 by 24 inch grilling surface and only one ancillary rangetop burner, Frontgate offers a model for $1,140 that delivers “professional results at a great value.”

Even Frontgate’s stripped-down model, however, sells for considerably more than most of us would have dreamed possible a mere decade ago. And indeed, most of the 12 million charcoal and gas grills sold annually in the United States still cost less than $700, a category that will surely include my own next grill as well. Yet grills costing more than $2,000 are by no means rare in the current market. On the contrary, they have become by far “the hottest growing sector in the $1.2 billion-a-year industry.”

The evolution of spending patterns in the gas-grill industry is part of a much broader change that has been occurring in recent decades. Popular impressions of what’s been happening may be misleading since only the most spectacular examples tend to capture media attention. In one typical recent piece, for instance, the New York Times interviewed Alan Wilzig, 32, a Jersey City banker, about the lavish, medieval-style castle he and his brother had just built in the Hamptons.

Q: This place cost you nearly $10 million to build. Why build something so opulent?
A: To build. It’s like having the biggest erector set in the world. It takes about the same amount of effort to buy a $200 million bank as it does to buy a $20 billion bank. Same with a house. You might as well buy the biggest one that you can handle responsibly. We built 14,000 square feet in 14 months. What would have been different if we had built an 8,000-square-foot house with half as many fun things to do? . . .
Q: You have an underwater sound system in your swimming pool, indoor and outdoor hot tubs, a tennis court, 80 gilt mirrors and six suits of armor. If you could add one toy or feature to the castle, what would it be?
A: [pauses] Nothing. If we would have thought of it, we would have built it.3

The spending habits of people like the Wilzigs, so remote from what most of us experience, may seem to have little relevance for our own lives. And indeed, the spending of the superrich, though sharply higher than in decades past, still constitutes just a small fraction of total spending. Yet their purchases are far more significant than might appear, for they have been the leading edge of pervasive changes in the spending patterns of middle- and even low-income families. The runaway spending at the top has been a virus, one that’s spawned a luxury fever that, to one degree or another, has all of us in its grip.

Thus, although it is the mansions of the superrich that make the news, the far more newsworthy fact is that the average house built in the United States today is nearly twice as large as its counterpart from the 1950s. And although it is the $250,000 sticker price of the 12-cylinder
Lamborghini Diablo that prompts the finger-wagging of social critics, the more telling observation is that the average price of an automobile sold in the United States now exceeds $22,000, up more than 75 percent from just a decade earlier.

No matter where you stand on the income scale, no matter how little you feel you are influenced by what others do, you cannot have escaped the effects of recent changes in the spending environment. Among other things, they affect the kinds of gifts you must give at weddings and birthdays, and the amounts you must spend for anniversary dinners; the price you must pay for a house in a neighborhood with a good school; the size your vehicle must be if you want your family to be relatively safe from injury; the kinds of sneakers your children will demand; the universities they’ll need to attend if you want them to face good prospects after graduation; the kinds of wine you’ll want to serve to mark special occasions; and the kind of suit you’ll choose to wear to a job interview.

At one level, the recent upgrades in what we buy might seem a benign symptom of the fact that we are more productive, and hence richer, than ever before. Our cars are not only faster and more luxuriously appointed, but also safer and more reliable. And although social critics may lampoon the frills of modern appliances, which of these critics would trade their current appliances for the ones they owned 20 years ago? Although we seem to concede that money does not always buy happiness, most of us remain steadfast in our belief that having more of it would be a good thing. For example, when people were asked what single factor would most improve the quality of their lives, the most frequent answer in one American survey was "more money."4

But there is also a dark side to our current spending patterns. Whereas those at the top of the economic totem pole have done spectacularly well, the median American family has gained virtually no ground at all during the past two decades, and those in the bottom fifth have actually suffered earnings losses of more than 10 percent in real terms. Similar changes have occurred in the United Kingdom, and this pattern has begun spreading elsewhere as well. With static or declining incomes, middle- and low-income families have thus had to finance their higher spending through lower savings and sharply rising debt. In the process, our personal savings rate has fallen steadily and is now significantly lower than that of any other major industrial nation. Personal bankruptcy filings are at an all-time high.

Even among those who can easily afford today’s luxury offerings, there has been a price to pay. All of us—rich and poor alike, but especially the rich—are spending more time at the office and taking shorter vacations; we are spending less time with our families and friends; and we have less time for sleep, exercise, travel, reading, and other activities that help maintain body and soul. Because of the decline in our savings rate, our economic growth rate has slowed, and a rising number of families feel apprehensive about their ability to maintain their living standards during retirement. At a time when our spending on luxury goods is growing four times as fast as overall spending, our highways, bridges, water supply systems, and other parts of our public infrastructure are deteriorating, placing lives in danger. Our parks and streets are becoming dirtier and more congested. Poverty and drug abuse are on the rise, and violent crime, though down from its recent historical peaks in some cities, continues at high levels. A growing percentage of middle- and upper-income families seek refuge behind the walls of gated residential communities.

Is this pattern something we ought to be concerned about? And if so, is there anything we can or should try to do about it? We have long grown accustomed to hearing social critics carp about how much better society as a whole would be if we could somehow manage to spend our money a little differently. And indeed, common sense seems to confirm that at least some of the spending by the superrich could be put to better uses. The barstools aboard the late Aristotle Onassis’s yacht, The Christina, were covered with the buttery soft—and jarringly expensive—foreskin of the sperm whale penis. The vessel’s faucets were of solid gold, and at the flip of a switch its swimming pool could be covered by a retractable, mosaic-tiled dance floor. The Christina was just one salvo in Onassis’s costly battle to outdo rival shipping magnate Stavros Niarchos, whose own yacht, the 375-foot Atlantis, was designed by an architect whose explicit instructions were to make it 50
feet longer than the Onassis vessel. Can anyone truly doubt that it would have been better to build each boat a little smaller, and use the money thus saved to provide school lunches for hungry children?

Yet only the lunatic fringe would empower our government to confiscate money from whoever bureaucrats may feel is spending it unwisely. As conservatives are correct to remind us, the very incentives that led people like Onassis and Niarchos to accumulate such vast wealth have also resulted in millions of new jobs and dramatically improved levels of overall prosperity. If our high and rising living standard rests on the continued willingness of the rich to work hard and take risks, what does it really matter if they sometimes seem to spend their money in frivolous ways?

Telling points all, and ones that critics of our current spending patterns have consistently failed to address. To say that the world we live in isn’t perfect is simply not an interesting claim. The real question is whether there is any practical way to make things better.

My central premise is that the answer to this question is unequivocally yes. There are not only alternative ways of spending our time and money that we would strongly prefer to our current patterns but also simple and practical ways to get there.

The first part of this claim has been made by many others. But whereas social critics in the past have relied mainly on their own intuitions and personal prejudices about how money is best spent, my approach is to examine evidence from the large scientific literature on the determinants of human well-being. A host of careful studies suggest that across-the-board increases in our stocks of material goods produce virtually no measurable gains in our psychological or physical well-being. Bigger houses and faster cars, it seems, don’t make us any happier. But other studies identify a variety of categories in which extra spending would promote longer, healthier, and happier lives for all. For example, we could expect such improvements if we spent more to alleviate traffic congestion, or spent more time with our families and friends, or provided cleaner air and drinking water for our cities.

The more novel and provocative element of my claim is that we can actually achieve such changes without having to compromise other important values. We will not need to empower bureaucratic commissions to make judgments about which specific forms of consumption are wasteful. Nor will we need to engage in detailed, prescriptive regulation of individuals and corporations. Nor will we need to engage in painful acts of self-denial. Nor will we need to risk crippling the incentives that lead talented and industrious people to create new wealth. And nor will we need to curtail any of the economic and social freedoms that we currently enjoy. Rather, I will suggest a simple revision of our existing spending incentives that will make it possible for each of us to pursue our respective visions of the good life more fully and effectively, no matter what (within reason) those visions might be.

On its face, this may seem a preposterous claim. The obvious question it raises is that if better living conditions were so easily achieved, why haven’t we already achieved them? If we would be happier working shorter hours and spending more time with our families, even though that would mean living in smaller houses and buying less expensive cars, why don’t we just do it? The easy answer that interesting 30-hour-a-week jobs aren’t widely available simply won’t do, for even though employers might be happy with the workweek just the way it is, they would surely feel pressure to accommodate if enough of us felt strongly about it.

Over the past several years, the so-called voluntary simplicity movement has spawned dozens of popular self-help books that urge us to scale back, telling us we’ll be happier if we adopt simpler, less hurried lifestyles. The brisk sales of these books suggest that their authors have struck a resonant chord. Their upbeat message is that more comfortable, stress-free living patterns are ours for the taking. All we need do is control our appetites.

Skeptics can be forgiven, however, if they find this a naively optimistic view. After all, people have always been on the lookout for ways to improve their situations. If we would really be happier with simpler lifestyles, it seems a safe bet that we wouldn’t need self-help manuals to discover this. It would simply have been part of our shared cultural wisdom all along.

The fact that we are working more hours and buying more goods
than ever before has led champions of the status quo to conclude that our current spending patterns, for all their apparent shortcomings, must reveal what we truly value most. Sure, it would be nice to have bigger houses and more time for our families; but when forced to choose, we seem to opt overwhelmingly for the former. This is a powerful rejoinder, and social reformers are destined to continue losing their debates with defenders of the status quo until they can come up with a persuasive response to it.

Yet the plain truth, as even the most ardent free-marketeers have known all along, is that the choices of rational, well-informed people simply do not always add up to a whole that meets their approval. One of the clearest examples involves activities that pollute. The fact that millions of motorists voluntarily drive to work in Los Angeles does not mean that they approve of the resulting smog that enshrouds their city. On the contrary, smog tends to be excessive in many cities because any individual who endured the inconvenience of car pooling or riding the bus would end up breathing essentially the same dirty air as if he drove. Making these sacrifices might easily be worth it if everyone else also made them, for then we'd get significantly cleaner air. But individuals can control only their own choices, not the choices of others.

The incentives we confront as individual consumers are often problematic in precisely analogous ways. As a 17-year-old Detroit high-school senior, Terrell Garner saved his earnings from a part-time job for several months to be able to buy an $875 pair of alligator shoes to wear to his senior prom. Many social critics would object that he did so because he was duped by sophisticated marketing tactics. Yet so brisk is the demand for these shoes that the Detroit retailers who sell them see no reason to bother advertising. Garner's choice is more plausibly understood if we assume that he perceived correctly that these shoes would create just the impact he wanted: "Once I stepped in the door [at the prom], it was like 'Pow!'" he said, describing the "shoes' mythical, almost explosive appeal."

This appeal would not exist except for the fact that his shoes stood out relative to the shoes worn by others. Garner had no reason to feel concerned that the combined effect of his and others' purchase deci-

sions made it considerably more expensive for someone to stand out from the crowd. But as he moves on to higher paying jobs, he will discover that the cost of achieving similar impact from a new pair of shoes will rise accordingly. Detroit attorney Thomas Marshall, for example, now owns 10 pairs of alligator shoes, including a pair that cost him $3,000; and Cecil Fielder, the baseball player, reportedly owns several hundred pairs in 26 different colors.

The irony is that if, within each social group, everyone were to spend a little less on shoes, the same people who stand out from the crowd now would continue to do so. And because that outcome would free up resources to spend in other ways, people would have good reasons to prefer it. Each individual, however, can choose only the amount that he himself spends on shoes, not the amounts spent by others. Similarly, Onassis and Niarchos might not have minded if both of their yachts had been a little shorter (since it's hard, after all, to find docks that can accommodate vessels that long); but each could choose only his own yacht's length, not the other's.

Adam Smith's celebrated invisible hand—the claim that society as a whole does best when individuals pursue their own interests in the open marketplace—rests on the assumption that each person's choices have no negative consequences for others. Yet even the most ordinary individual spending choices frequently do have negative consequences for others, just as the presence of a preschooler with the chicken-pox has negative consequences for others. If I buy a 6,000-pound sport-utility vehicle, I increase the likelihood of others dying in a traffic accident; and in the process, I create an incentive for them to buy heavier vehicles than they otherwise would have chosen. If I buy a custom-tailored suit for my job interview, I reduce the likelihood that others will land the same job; and in the process, I create an incentive for them to spend more than they had planned on their own interview suits. When I stay an extra hour at the office each day, I increase my chances for promotion; but in the process, I reduce the promotion prospects of others, and thereby create an incentive for them to work longer hours than they otherwise would have chosen. In situations like these, individual spending decisions are the seeds of a contagious process.
And situations like these are by no means exceptional. H. L. Mencken once defined a wealthy man as one who earns $100 a year more than his wife's sister's husband, and considerable evidence strongly confirms the wisdom of his observation. People who earn $40,000 a year may be happy or sad, but they are far more likely to be satisfied with their material standard of living if their associates earn $35,000 rather than $60,000.

As a young man fresh out of college, I served as a Peace Corps volunteer in rural Nepal. My one-room house had no electricity, no heat, no indoor toilet, no running water. The local diet offered little variety and virtually no meat. Yet, although my living conditions in Nepal were a bit startling at first, the most salient feature of my experience there was how quickly they came to seem normal. Within a matter of weeks, I lost all sense of impoverishment. Indeed, my $40 monthly stipend was more than most others had in my village, and with it I experienced a feeling of prosperity that I have recaptured only in recent years.

At no time during my stay in Nepal was I ever conscious of taking satisfaction from the fact that I had things that others lacked. But even though I felt completely satisfied with my living conditions there, I would experience a crushing sense of poverty if I were to live in the United States or any other prosperous country under those same conditions. Not a day would pass in which I would not be keenly aware of the extent to which my circumstances fell short of community standards. Things I did not feel I needed in Nepal I would feel I needed here.

The poor are not the only ones who experience pressure to spend more when community consumption standards rise. It is natural for people at all income levels to experience new desires in the presence of others who spend more than they do. And even apart from any changes in what we consciously desire, our individual spending decisions are often influenced by the fact that our menu of available choices is so strongly shaped by what others spend. For example, when I tell salesmen that I want to replace my old propane grill with something roughly like it, they respond that the old models have been discontinued, and that, in any event, I really ought to consider a grill with substantially more features.

The real significance of offerings like the $3,000 Viking-Frontgate Professional Grill, for most of us, is that their presence makes buying a $1,000 unit seem almost frugal. As more people buy these upmarket grills, the frame of reference that defines what the rest of us consider an acceptable outdoor grill will inevitably continue to shift. I could easily spend $1,000 on a new grill tomorrow, and few people would notice that I'd done anything strange. More troubling still is the possibility that, with ready opportunities to spend five times that amount and more, I might fail to notice anything strange about spending $1,000 to replace my $90 gas grill.

In short, both the things we feel we need and the things available for us to buy depend largely—beyond some point, almost entirely—on the things that others choose to buy. When people at the top spend more, others just below them will inevitably spend more also, and so on all the way down the economic ladder. And as this happens, simpler versions of products that once served perfectly well often fall by the wayside.

This diagnosis of why our current spending patterns are problematic suggests the possibility, at least in principle, of reducing the speed of the consumption treadmill, thereby freeing up resources that can be put to various uses that would make more of a difference in our lives.
For now, I will say only that this can be accomplished in a simple and painless way. My case for change is purely pragmatic, one based on self-interest alone. It rests not at all on the social critic’s claim that luxury consumption is self-indulgent or decadent, but rather on detailed and persuasive scientific evidence that if we adopt a simple change in the incentives we face, all of us can expect to live longer, healthier, and more satisfying lives.

Yet it would be a mistake not to acknowledge that the case for changing our current consumption patterns entails a moral dimension as well. In our rush to balance federal, state, and local government budgets, we have slashed funding not only for bridge and highway maintenance but also for hospitals that serve the poor, the Head Start program, the school lunch program, drug rehabilitation programs, homeless shelters, and a host of other low-overhead programs that make life more bearable for our neediest citizens. These programs are being cut not because they do not work, not because they destroy incentives, but because we say we cannot afford them.

Yet the balanced-budget agreement of 1997 prescribed not only deep program cuts but also nearly $150 billion in tax cuts, many of them targeted toward middle- and upper-income families. With the federal budget deficit now in temporary remission, free-marketeers in and out of Congress have mounted a concerted effort on behalf of the so-called flat tax, which would further reduce the taxes paid by top earners by more than half. And to what end? So we can spend $10,000 on our outdoor cooking grills instead of $5,000?

The average taxpayer’s annual contribution to Head Start and other programs for needy citizens is small—far less than many upper-middle-class couples spend on wine for a single dinner party. As by far the richest country in human history, we should be doing more, not less, to provide better opportunities for others less fortunate. And as we shall see, the only cost required to take these steps is a small and temporary across-the-board reduction in the rate of growth of material goods consumption by middle- and upper-income families. In the face of this truly negligible cost, our current policies become all the more difficult to defend.

Again, however, my aim is to not to scold but to describe a striking new set of possibilities. In the fact that our current consumption patterns entail a substantial measure of waste lie the seeds of a golden opportunity. By a simple and easily achieved rearrangement of our current consumption incentives, we can effectively enrich ourselves by literally trillions of dollars a year. Seldom in our history have our moral imperatives and our naked self-interest been so closely aligned.