

# THE CHRONICLE OF HIGHER EDUCATION

## Research

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### 'Luxury Fever: Why Money Fails to Satisfy in an Era of Excess'

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It may be appalling to learn that some people will pay \$17,500 for a relatively low-end Patek Philippe watch. And it's hard to feel sympathy for those who must wait patiently on back order for a Kelly handbag from Hermes, a mere \$14,000. But if you think the foibles of the rich, while amusing, are wildly irrelevant, Robert H. Frank says think again.

In *Luxury Fever: Why Money Fails to Satisfy in an Era of Excess* (Free Press; 326 pages; \$25), he claims we are in an age of pervasive overspending in which the purchasing habits of the super rich are simply the "leading edge" of widespread changes in the spending patterns of middle- and even low-income families.

Luxury spending by Americans is growing more than four times as rapidly as spending over all, says Mr. Frank, a professor of economics, ethics, and public policy at Cornell University. All this, even though the median wage earner has essentially the same income in real terms now as in 1979 and the incomes of the bottom fifth of Americans have declined more than 10 per cent since then. Americans save less than their counterparts in other industrial countries, and personal bankruptcies continue to climb.

While most people, of course, do not go bankrupt, Mr. Frank argues that as individuals and as a society, Americans are

paying a high price for runaway consumption as they work more hours and neglect social needs.

It might all be worth it, for individuals at least, if such conspicuous consumption brought equally conspicuous increases in people's satisfaction. But it doesn't work that way, argues Mr. Frank, and in the heart of the book he offers an evolutionary explanation. Human beings are hard-wired, he says, to be concerned about their relative economic position. To cite one example, Mr. Frank describes a survey in which people chose between a world in which they would earn \$50,000 a year while others earned only \$25,000, and one in which they would earn \$100,000 while others earned \$250,000. A majority chose a higher relative income over a higher absolute income. Concerns over relative position lead to personal versions of international arms races, he argues, with devastating impacts on society. And just as with arms races, it is difficult for anyone unilaterally to opt out.

Mr. Frank advocates a steeply progressive consumption tax and a total tax shelter for savings. Those steps would build resources for society, he says, while preserving the individual's ultimate freedom to purchase that Hermes handbag.

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