Luxury Fever: Why Money Fails to Satisfy In An Era of Excess

Robert H. Frank
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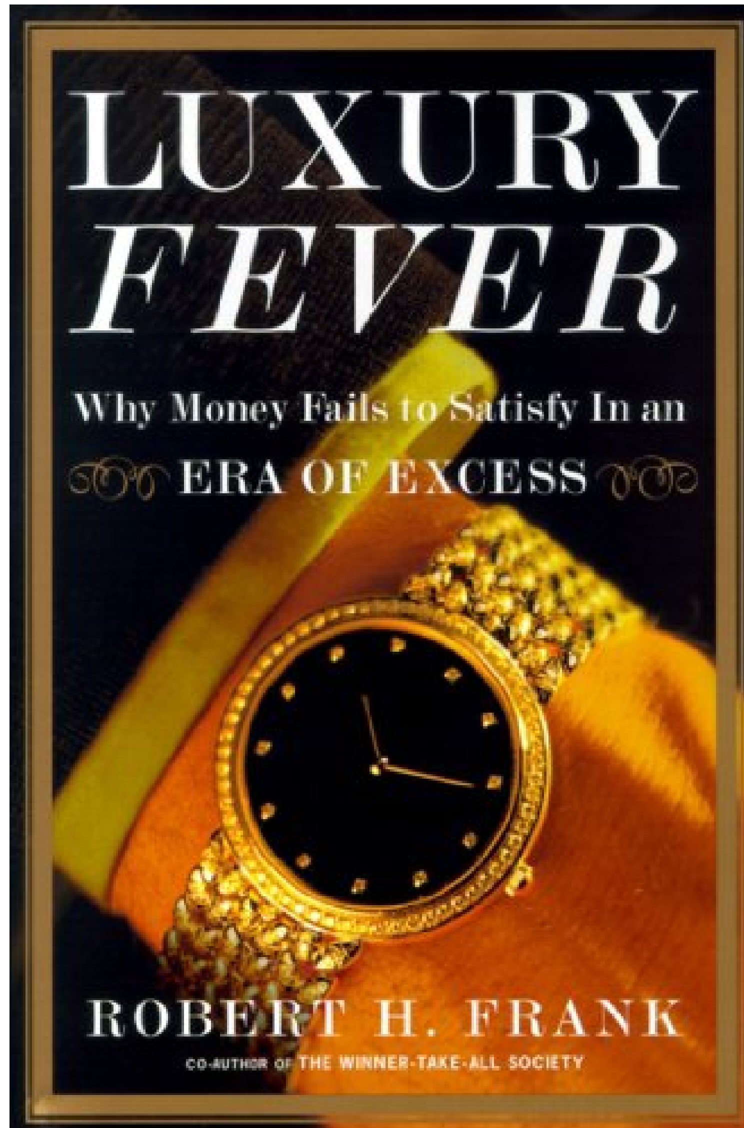

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Robert H. Frank : Luxury Fever: Why Money Fails to Satisfy In An Era of Excess before purchasing it in order to gage whether or not it would be worth my time, and all praised Luxury Fever: Why Money Fails to Satisfy In An Era of Excess:

4 of 4 people found the following review helpful. Buying this book is money well spentBy Coert VisserThis fascinating book describes how a new virus, the luxury fever has Americans seemingly inescapably in its grip: people spend a larger and larger proportion of our money on luxury goods. And, because for most people incomes have remained static or have even declined (in the US and the UK), this extra spending was financed by lower savings and higher debts, making the economy weaker and more vulnerable. Further, most people work longer and tend to spend

less time on important activities such as vacations, being with family, sleeping exercising, etc. To make things worse: Americans spend less on vital public services which leads to a deteriorating infrastructure, to higher crime, to dirty streets and parks, to water pollution, to a deteriorating education system, etc. And what about health? 40 million Americans currently lack health insurance.... This book explains how there is a competition 1) between different forms of private spending (do we buy luxury or do we spend our money differently?) and 2) between private and public spending. To expand on the latter point: a growing share of the US national income is spent on consumption and spending on vital publics services is increasingly threatened. Frank explains (on the basis of well-being research and the adaptation-level theory) that the main reason we buy luxury goods is to demonstrate to others that we can afford to thereby trying to distinguish ourselves from them. In doing so we try to achieve happiness by improving our relative status. The irony is, however, this absolutely doesn't work! The satisfaction we get from luxury spending, which Frank calls conspicuous spending, depends largely on context. The satisfaction we get from luxury spending lasts only shortly. Two examples: 1) If we buy an expensive car, this distinguishes us from our neighbour and we feel happy. If, however, next month our neighbour buys an even fancier one, our satisfaction will be largely gone. You can see how this leads to an escalation, an arms race, with no winners. 2) The satisfaction we get from luxury goods tends to decline steeply over time. We tend to get used quickly to what we have and the favourable features of the luxury good tend to fade into the background rapidly: we no longer notice the fancy features of our expensive car and our satisfaction diminishes. Bottom line: this increasing conspicuous spending does more harm than good. We have to discourage conspicuous consumption in favour of inconspicuous consumption. Frank explains that no individual or family alone can solve this problem. It has to be solved at a higher level. He proposes a simple but effective measure to discourage conspicuous consumption, a progressive consumption tax levied on consumption rather than income. Frank claims this tax can stimulate radical changes in the ways we lead our lives. Contrary to the believe of many, he convincingly argues, this progressive consumption tax would not cripple the economy but invigorate it. A fascinating book also highly relevant for European countries I think.0 of 3 people found the following review helpful. ExcellentBy Brian GlubishHow many more words must I write to be polite? Seriously, if one is satisfiedstop with the word requirements!5 of 6 people found the following review helpful. The book's arguments are weak along with the purported solutionBy YodaThe argument the author makes, in a nutshell, is that there has been more and more spending related to conspicuous consumption since the end of World War II and this has led to a veritable "arms race" among consumers that has led to many negatives externalities such as increased hours at work along with problems related to this (i.e., stress related ailments and medical expenditures) and a decreased willingness and ability of the public to pay for public services. A major cause of this spending pattern has been, the author purports, that growing concentration in the incomes of the very wealthy who do spend considerably on upper end products which, in turn, leads to their lesser peers imitating them. The author proposes, as a solution to this problem, the replacement of the current Federal income tax regime with a progressive consumption based tax.With respect to the conspicuous consumption, the author does seem to show some facts supporting his argument that the prices in the upper end of the consumer market spectrum (i.e., luxury cars and watches as opposed to those geared to the middle and lower ends) have been increasing at an incredible rate. For example, between the early 1980s and the early 1990s the price of very high end automobiles and watches has approximately doubled. He also claims, with less evidence however, that spending on upper end consumer products has been increasing relative to that of the rest of the market. Unfortunately he does not provide very much in the way of empirical evidence to support this specifically. For example, no market research data is provided showing how consumer spending has been split between the upper end and middle and lower ends. He provides considerable evidence showing that consumers have been saving less, working longer hours, etc. (this data is quite strong). This evidence, per se, does not support the contention that spending has been increasing at the upper end of the price spectrum than the lower. It could be that consumers, instead, have been being squeezed by lower real wages, higher prices for low and mid-range non-luxury products (i.e., gas, housing, etc.) and have hence had to increase their work hours.The author contends that the posited explosion in spending on upper-spectrum products has been caused by the massive increase in the incomes (and hence spending on upper end products) of the wealthy (the author does provide very strong evidence indicating that the incomes of those in the upper 10% have been increasing considerably). Again, the author provides little direct evidence that the non-wealthy have been imitating the spending of the super wealthy.The author believes that the solution to the explosion of "conspicuous consumption" is to replace the current progressive income based federal income tax system with a progressive consumption tax. The logic is that if consumption is taxed more than savings there would be an incentive to decrease consumption vis-agrave;-vis savings and hence there would be less conspicuous consumption. There are a number of problems with this argument. The first is that even though there would be an incentive, there is no evidence provided that "conspicuous spending" per se (instead of all consumption) would decrease significantly. In addition, even a progressive consumption based income tax would fall much more heavily on the non-wealthy than the wealthy as the wealthy tend to save a much larger percentage of their incomes. A third problem is that the progressive consumption tax can be circumvented more easily than an income tax. For example, money could be channeled through financial instruments that appear like "savings" but can easily be converted into spending based instruments. For example, "consumption"

can be decreased by investing in CDs or bonds but then loans can be taken out on those same CDs or bonds (using them as collateral) that can still enable high consumption patterns to persist.For the above reasons, the book is quite weak. Not only is there not strong evidence provided to support the author's contention that "conspicuous consumption" has been increasing relative to non-conspicuous spending, but the "solution" seems unable to provide a significant capability to decrease that "conspicuous consumption" and hence the negative externalities stemming from it (i.e., more work hours, etc.).

A new luxury fever has America in its grip. Independent of stock prices, recessions, and inflation rates, the past two decades have witnessed a spectacular and uninterrupted rise in luxury consumption. Ordinary, functional goods are no longer acceptable. Our cars have gotten larger, heavier, and far more expensive. Mansions larger than 30,000 square feet no longer seem extravagant. Wristwatches for the super-rich cost tens of thousands of dollars. We are living in an era of excess. Consider: The average house built in the United States today is nearly twice as large as its counterpart from the 1950s. Even as houses have gotten more expensive and farther from the workplace, there has been a sharp increase in second-home ownership. The average price of an automobile sold in the United States now exceeds $22,000, up more than 75 percent from a decade ago. Total U.S. spending on luxury goods increased 21 percent between 1995 and 1996 (typical of recent years), while overall merchandise sales increased only 5 percent. Robert Frank caused a national debate in 1995 when he and co-author Philip Cook described the poisonous spread of "winner-take-all" markets. Now he takes a thought-provoking look at the flip side of spreading inequality: as the super-rich set the pace, everyone else spends furiously in a competitive echo of wastefulness. The costs are enormous: We spend more time at work, leaving less time for family and friends, less time for exercise. Most of us have been forced to save less and spend and borrow much more. The annual rate at which American families file for personal bankruptcy has grown to one in seventy. Budgetary pressures have reduced our willingness to fund even essential public services: Our food and water are increasingly contaminated. Potholes proliferate, and traffic delays double every ten years. Frank offers the first comprehensive and accessible summary of scientific evidence that our spending choices are not making us as happy and healthy as they could. Furthermore, he argues that human frailty is not at fault. The good news is that we can do something about it. We can make it harder for the super-rich to overspend, and capture our own competitive energy for the public good. Luxury Fever boldly offers a way to curb the excess and restore the true value of money.

.com Luxury Fever: Why Money Fails to Satisfy in an Era of Excess is a serious examination of the long-term costs associated with our society's ever-accelerating spiral of conspicuous consumption, followed by a far-reaching remedy that will intrigue anyone concerned with related fiscal issues. Robert Frank, a Cornell University professor of economics, ethics, and public policy, who previously coauthored The Winner-Take-All Society, believes neither foolishness nor greed is really responsible for our relentless desire to own flashier household appliances, bigger sport-utility vehicles, and fancier suburban houses; rather, he contends, it is the ongoing behavior of our peers which ultimately determines how much we spend and how we spend it. Frank goes on to claim, however, that this knowledge alone may actually point us toward an alternative that is both acceptable and practical. "By a simple and easily achieved rearrangement of our current consumption incentives," he writes, "we can effectively enrich ourselves by literally trillions of dollars a year." He then goes on to discuss the recent boom in luxury spending, its potential implications for those at all income levels, his suggestions for altering current consumption patterns, and the reasons that redirecting these funds could benefit everyone. --Howard RothmanFrom Publishers WeeklyFrank, a professor of economics at Cornell and the author of The Winner-Take-All Society, castigates Americans for wasteful spending and offers reasonable, if unexciting, policy proposals to remedy the problem. Our homes, cars and even our watches are flashier than ever. But although the rich have the money to indulge their whims, the rest of us finance our spending sprees either by decreased personal savings or by increased debt: Frank reports that total household debt grew from 56% of disposable income in 1983 to an astonishing 81% by the beginning of 1995. Most economists accept that conspicuous consumption merely reflects Adam Smith's dictum that the sum of individuals seeking their own interest adds up to the greatest good for all. But Frank argues that our notions of self-interest are skewed, that all this getting and spending doesn't even make us happy (if your neighbor didn't buy the new Lexus, you wouldn't feel the need for the newer Beemer, and you'd both work less and spend more time with the kids). The problem, Frank believes, is that American society has a glut of individual incentives and a dearth of group incentives. To protect us from our greedier selves, Frank lobbies for a tax exemption for savings and a progressive consumption tax. If Americans spent less on luxury items, he writes, there would be more money available "to restore our long neglected public infrastructure and repair our tattered social safety net." Frank's diagnosis of American luxury fever is hard to dispute, but his remedies, sensible in the abstract, take insufficient account of the political and cultural obstacles that need to be overcome to implement them. Copyright 1998 Reed Business Information, Inc. George Akerlof The Brookings Institution Robert Frank has written a fabulous book. By casting a questioning eye on the amusing spending patterns of the rich, it suggests that the expenditures of the rest of us, who are less well endowed, are similarly, although less extravagantly, skewed. As a result, judicious tightening of the belt, here and there, could result in only very small losses in welfare,

but could also free up resources for easier and better lives, for our own selves as well as for others. This highly original work is one of the most important contributions to economics in recent years.