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Outlook

Our Climb To Sublime; Hold On. We Don't Need to Go There.

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The propane grill I bought in the mid-1980s has been on a downhill slide for several years. Its 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. Reluctantly, I find myself in the market for a new one.

If you have shopped for a grill yourself recently, you know that the array of choices is profoundly different from 10 years ago. I vaguely remember seeing some models then with built-in storage cabinets and shelf extensions on either side. But even with these frills, the most you could spend was a few hundred dollars. There was nothing--absolutely nothing--like the Viking-Frontgate Professional Grill.

Powered by either natural gas or propane, it comes with an infra-red rotisserie that can slowly broil two 20-pound turkeys to perfection as you cook hamburgers for 40 guests on its 828-square-inch grilling surface. On a side platform are two ancillary range-top burners. Unlike the standard burners on your kitchen stove, which generate 7,500 BTUs, these generate 15,000 BTUs, a capability primarily useful for the flash stir-frying of some ethnic cuisines and for bringing large cauldrons of water to a boil more quickly. With its fold-out work spaces fully extended, it measures more than seven feet across.

The Frontgate catalog's price for the Viking grill, not including shipping and handling, is $5,000. Of course, many cheaper models are available. For chefs who feel they can get by with an 18-inch by 24-inch grilling surface and only one ancillary burner, Frontgate offers a $1,140 Viking model that delivers "professional results at a great value." But even that stripped-down model costs considerably more than most of us would have dreamed of spending a mere decade ago.

The real significance of the $5,000 grill, for most of us, is that its presence makes buying a $1,000 unit seem almost frugal. As more people buy these up-market grills, the frame of reference that defines what the rest of us consider an acceptable price will inevitably continue to shift. In this age of prosperity, I could easily spend $1,000 on a new grill tomorrow and few people would think I had done anything strange. But far more unsettling is the possibility that it wouldn't occur to me that there was anything strange about spending $1,000 to replace a $90 gas grill.

The evolution of spending patterns in the gas-grill industry is part of a much broader change that has taken place in recent decades. We are in the grip of a luxury fever that rivals the spectacular excesses of the Gilded Age of a century ago. But unlike that earlier period, which was dominated by a small number of families with enormous wealth, our current consumption boom involves a vastly larger number of people all along the economic spectrum.

Although it is the mansions of the super-rich that attract attention--homes of 15,000, 20,000, even 40,000 square feet--the far more newsworthy fact is that the area of the average house built in the United States is now more than roughly twice what it was in the '70s. And although it is the $250,000 sticker price of the sleek 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 escape the effects of this spending spree. Among other things, it affects how much you spend for birthday gifts; the price you must pay to live in a neighborhood with a good school; the kinds of sneakers your children demand; the cost of the universities you want them to attend; the price of the suit you'll choose to wear to an interview for a better job.

It is this cascading effect that is new and troubling. The real question is whether anything practical can be done about it. My case for change (more on which later) rests not at all on the social critic's claim that luxury consumption is self-indulgent or decadent, but on detailed and persuasive scientific evidence that if we can alter some of the incentives that are fueling consumption, all of us can expect to live more satisfying lives.

No government report charts the luxury boom. To get a feel, we must compose a picture from assorted bits and pieces: Sales of wristwatches that sell for at least $2,000 rose 13 percent in 1997, to $1.1 billion. Luxury cars (those costing more than $30,000 in 1996 dollars) accounted for about 12 percent of all vehicles sold in the United States in 1996, up from 7 percent a decade earlier. Total wine consumption in the United States is down slightly from its 1986 peak, but sales of ultra-premium wines have grown by 23 percent a year since 1980.

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. But there is a dark side to our current spending patterns: Whereas those at the top of the economic heap have done spectacularly well, the median American family has gained virtually no ground at all during the past two decades, and the earnings of those in the bottom fifth have actually declined more than 10 percent in purchasing power.

Middle- and low-income families have thus had to finance their higher spending by a lower rate of savings and sharply rising debt. In the process, our personal savings rate, which has always been much smaller than that of any other industrial nation, has steadily fallen. One in 70 American families filed for bankruptcy last year.

Even for those who can easily afford today's luxury offerings, there has been a price to pay. All of us, rich and poor alike, 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.

Meanwhile, our highways, bridges, water supply systems and other parts of our public infrastructure are deteriorating. Our parks and streets are becoming more congested. Poverty and drug abuse continue to plague many of our cities. A growing percentage of middle- and upper-income families seek refuge behind the walls of gated residential communities. Citing budget deficits, many community libraries have cut back their hours.

A century hence, those who read the history of our time will be puzzled by some of our choices during this time of economic boom--and by our arguments for slashing government budgets and refusing to finance so many useful projects. When our spending on luxury goods is growing four times as fast as overall spending and national income is now more than $8 trillion a year--an average of almost $30,000 for every man, woman and child--it is peculiar to say we "can't afford" to repair our crumbling infrastructure or spend more time with friends and family. Simply by reducing the rate of growth in luxury consumption, we could afford to do all these things and more.

Social critics in the past have relied mainly on their own personal prejudices about how we might best spend our money. But there is a large body of scientific literature that suggests our recent spending patterns have not served us well. Careful studies show, for example, that when everyone acquires bigger houses and more expensive automobiles, the new higher standards quickly become the norm--with the result that these expenditures yield little lasting satisfaction.

Other evidence suggests, however, that the same resources could have been used in ways that would bring permanent increases in health and happiness. The time required to earn the money to pay for a larger house, for instance, could be freed up for family and friends, or for exercise, or for longer vacations. For want of a better term, we may call this kind of spending "inconspicuous consumption."

People who spend more on inconspicuous consumption are far more likely to describe themselves as happy. They are less likely to become involved in disputes at work. They are less likely to seek psychological counseling or to attempt suicide. And they are less likely to become ill or die in any given year.

If we would be happier and healthier 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? A plausible explanation is at hand once we recognize that our evaluations of virtually everything--from the weather to our material standards of living--is highly dependent on context.

If you ask people in Havana on a 60-degree day in November whether it's cold outside, they'll think you're asking a stupid question. Of course it's cold! But ask the same question in Montreal on a 60-degree day in March, and people there will also wonder about your intelligence. And yet their answer would be precisely the opposite of what people in Havana said.

A similar logic governs the evaluation of material living standards. Is a 12-foot by 12-foot master bedroom big enough? My wife and I--upper-middle-class American professionals whose current bedroom is that size--have decided it isn't. That's why a contractor's crew will arrive tomorrow morning to start on an expansion.

If we lived in Tokyo, however, it never would have occurred to us to bear this expense and inconvenience. There, a bedroom like ours would have seemed an embarrassingly large space in which to sleep, and any discussions we had with contractors would have been more likely to involve partitioning it than expanding it.

Adam Smith's celebrated "invisible hand"--the economic theory that society as a whole does best when people selfishly pursue their own interests in the open marketplace--works only when each person's choices have no negative consequences for others. But when context matters, even the most ordinary individual spending choices affect others.

If I buy a 6,000-pound sport utility vehicle, I increase the likelihood that others driving a lighter car will die in a traffic accident; in the process, I create an incentive for them to buy a heavier vehicle than they otherwise would have chosen. If I buy a custom-tailored suit for a job interview, I reduce the likelihood that others will land the same job; in the process, I create an incentive for them to spend more on their own suits. When I stay an extra hour at the office each day, I increase my chances for promotion; 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. And by deciding to build a larger bedroom, I increase, however slightly, the odds that my neighbors will do likewise. In these ways, our individual spending decisions are the seeds that have spawned our current luxury fever .

Our problem, in short, is the incentives that guide individual spending decisions are much like those that generate military arms races. Spending less would be better, but only if everyone did it.

Continued carping by social critics has not, and will not, make this happen. Indeed, our history of trying to curb conspicuous consumption has been, largely, a failed one--because we have failed to account properly for the role of context and incentives in economic decisions. If we want to get off the consumption treadmill, we must alter the incentives that have led us to spend so much in the first place.

We can do this in a powerful yet unintrusive way by scrapping our current income tax in favor of a more steeply progressive consumption tax. Such a tax would be straightforward to administer: Each family would pay tax not on its income, but on its total spending--as measured by the simple difference between its annual income and its annual savings.

Because the rich are able to save and invest so much more than the poor, fairness would require that tax rates on the highest spenders be significantly higher than the current top tax rates on incomes. But even if tax rates were set to raise no more total revenue than under the current system, a consumption tax would have a profound effect on specific purchase decisions.

Consider the choice between a Porsche 911 Turbo ($105,000) and a Ferrari 456 GT ($207,000). The Ferrari buyer is currently willing to spend $102,000 more for his top-of-the-line purchase. But with a top rate on taxable consumption of, say, 70 percent, the effective premium to buy the Ferrari would be more than $173,000.

Because the consumption tax offers an exemption for savings, the Ferrari buyer would have a strong incentive to invest a little more in the stock market and a little less on his car. If he buys the Porsche, his outlay--including the tax--will be $178,000. In return, he gets a car that performs just as well as the Ferrari and, assuming others have responded similarly, just as rare. The tax preserves the aficionado's ability to indulge his passion for sports cars while increasing his savings.

This change in incentives, if phased in gradually, would sharply curb the recent explosive growth of spending on luxury goods. The irony is that it would do so without any sacrifice in satisfaction by luxury goods buyers--since what counts is not absolute spending on these goods but relative spending. As the biggest spenders began to save more, the consumption standards that the rest of us feel compelled to meet would relax as well, freeing up resources that could be put to far better uses.

A cautious reading of the evidence suggests that we could spend roughly one-third less on consumption--roughly $2 trillion per year--and suffer no significant reduction in satisfaction. Savings of that magnitude could help pay for restoring our infrastructure, for cleaner air and water, and a variety of other things.

Moreover, the consumption tax would not erode our cherished political freedoms. On the contrary, by increasing the extent to which private interests coincide with social interests, it would actually help breathe new life into Adam Smith's invisible hand, thereby increasing the extent to which we can rely on private markets to allocate goods and services efficiently.

If the progressive consumption tax is such a great idea, why don't we already have one? In a tax-phobic country such as ours, this tax would be a difficult platform for a politician to run on, even though it would in fact yield gains for everyone. But even if current distractions were to end, and advocates of the progressive consumption tax did step forward, we would need months--perhaps years--of focused debate to build consensus for changing the system. In the meantime, the luxury spending boom will continue apace.

Robert Frank, a Cornell University economist, is co-author of "The Winner-Take-All Society" (Free Press). This article is based on his new book, " Luxury Fever : Why Money Fails to Satisfy in an Era of Excess."
(Free Press).

It's All Relative?

Meet Homo economicus, that super-rational being who likes money and wants as much as possible. In a world populated by this species, no one cares about anyone else's income; economic decisions are based on the belief that absolute income is all that matters.

Researchers have found, however, that many Homo sapiens don't behave that way. They care about their relative position on the income scale, as Cornell economist Robert Frank demonstrates in his new study on consumption spending, " Luxury Fever ." He cites this telling example, drawn in part from the research of economists Sara J. Solnick and David Hemenway:

You are offered a choice between two hypothetical worlds: one in which you would have an annual income of $100,000 for the rest of your life while others earned only $90,000, and another in which your income would be $110,000 while others took in $200,000? Which would you choose?

Homo economicus, that absolutist, would opt for the larger amount of $110,000. But in the real world, most people are apparently willing to take the lesser income--as long as they have more than everyone else.

Is one a better choice than the other? That's not Frank's point. Rather, his contention is that economists do not recognize the importance of relative income, and how a powerful force it is in determining the economic choices that people make.