Part of a TV program—Interview with Robert Frank

Tom Morton

Robert H. Frank

Tom Morton: Americans are in the grip of Luxury Fever, according the economist Robert Frank, Luxury Fever is making America sick. Later on, Robert Frank will tell us how a new tax, a progressive consumption tax, could **rein in our lust for luxury** and make us all a lot happier. It's a proposal which has the support of none other than Milton Friedman. But before we get to the treatment, let's look at the **symptoms**. Here's Robert Frank

Robert Frank: The new pattern in this economy is that most of the income and wealth gains are going to people at the top. People at the top have a lot more money than they used to, and they didn't have many pressing needs to begin with, so naturally when they get more money the kinds of things they'll spend it on will be in the eyes of most middle class people, luxuries of one sort or another. So if we look at watches, for example, the overall rate of growth of sales of watches is about zero in this country; we don't buy any more watches than we ever did, but if you look at watches costing more than $2,000 a piece, there the rate of growth and sales is about 13% a year. And it's the same in category after category. So in cars, in 1997 we actually saw our car sales decline a few percentage points here in the US, but sales of luxury cars were up sharply. **Porsche** that year sold 79% more cars than it had a year earlier; **Mercedes**, 35% more. So in most product categories we've seen very brisk growth and demand at the top entries, no sharp increase in sales growth overall though.

Tom Morton: Robert Frank's central point here is that the spending habits of the very rich have a kind of **knock-on effect** on the rest of us who are a bit more affluence-challenged. We measure our wealth and our wellbeing relative to others.

As Karl Marx put it, 'A house may be large or small; as long as the surrounding houses are equally small, it satisfies all of our social demands for a dwelling. But if a palace rises beside the little house, **the little house shrinks into a hut.**'

Robert Frank: A person who finds himself living in a house that's half as big as the houses of everyone he knows, is not behaving in an unexpected way if suddenly he feels he needs a bigger house. Now it may be that most of the people in the world live in smaller houses than his, but we're not creatures that compare ourselves to people the world round, we compare ourselves to people in our local environments, and if you've got by far the smallest houses, or the oldest, shabbiest car among the circle of

friends with whom you associate, it's just natural that **that will kindle some feeling of anxiety in you,** and it's just natural that you'll take some steps that are available to you to try and **redress the imbalance** in any way you can.
Tom Morton: **Bill Gates' pad** on the shores of Lake Washington, near Seattle, covers 45,000 square feet, that's 450 squares, and cost about $100-million to build. Houses like Bill's are known in the US as **'trophy homes'**.
And if you can't afford a trophy home, you can settle for **an off-the-plan chateau** of 4,000 to 6,000 square feet, playfully referred to by their owners as 'McMansions'.
The average house built in the US today is twice as big as it was in the '50s. It has twice as many bathrooms as it did in the 1970s. And as Bob Frank points out, the trend to bigger, better and **plusher**, has **accelerated** in the '90s.
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