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ECONOMIC SCENE

The Herd Changes Course and Runs Away From S.U.V.'s

By **ROBERT H. FRANK**

THE herd instinct is as powerful in humans as in other animal species.

Anyone who doubts it should rent "What Do You Say to a Naked Lady?", the 1970 film by Allen Funt, the creator of "Candid Camera." The money scene portrays a man responding to a help-wanted ad. He is directed to a waiting room occupied by men who appear to be other job seekers but are actually Mr. Funt's confederates. At no apparent signal, these men stand and begin to disrobe. The hapless job seeker's dismay is evident. Yet, after a few moments, he, too, stands and disrobes. At scene's end, the men are standing naked, apparently waiting for whatever comes next.

Clearly, the herd instinct can lead us astray. For the most part, however, the impulse to emulate others serves us well. After all, without drawing on the wisdom and experience of others, it would be almost impossible to cope with the stream of complex decisions we confront.

Economists increasingly recognize the importance of herd behavior in explaining ordinary purchase decisions. A case in point is the sport utility vehicle. Herd behavior helps us understand not only the explosive rise of this market segment in the 1990's, but also its imminent collapse.

The [Chevrolet Suburban](#) (or, as Dave Barry called it, the Chevrolet Subdivision) has been produced since 1935, but it and other similar vehicles were originally used almost exclusively for commercial purposes. Before the appearance of the Jeep Wagoneer in

1963 and [the Ford](#) Bronco in 1966, the family S.U.V. segment essentially did not exist. As recently as 1975, it accounted for only 2 percent of total vehicle sales.

In the 1990's, however, it became perhaps the biggest success story in automotive history. From a base of only 750,000 units in 1990, annual S.U.V. sales reached almost 3 million by 2000. In 2003, 23 percent of vehicles sold in the United States were S.U.V.'s.

The conventional determinants of consumer demand cannot explain this astonishing trajectory. Cheap fuel was a contributing factor, but clearly not an adequate explanation, because fuel had also been cheap in earlier decades. Similarly, rising average incomes cannot have been decisive, because the pre-S.U.V. decades had experienced even more rapid income growth.

In any case, it is not obvious why wealthier people would want to switch from cars to truck-based S.U.V.'s. Many engineers who helped design these vehicles expressed wonder that they have sold in such numbers. Early ads, coupled with names like Blazer and Pathfinder, stressed the vehicles' off-road capabilities. But as one engineer quipped, the only time most S.U.V.'s actually go off the road is when inebriated owners miss their driveways.

Nor can safety concerns explain the success of S.U.V.'s. As Keith Bradsher, a reporter for [The New York Times](#), explains in his 2002 book, "High and Mighty," their weight confers some advantage in head-on collisions with smaller vehicles (at the expense of occupants of those vehicles), but their poor handling, high propensity to roll over and longer stopping distances make them more dangerous, on balance, than cars.

Nor, finally, is the greater cargo capacity of S.U.V.'s enough to explain their popularity, as minivans and station wagons offer similar capacity without the handling and mileage penalties.

To understand the explosive growth of S.U.V. sales, we must look first to changes in

demand caused by new patterns of income growth and then to how others responded to those changes in demand. Unlike the three post-World War II decades, when incomes grew at about the same rate for people at all income levels, the period since the mid-1970's has seen most income growth accrue to the wealthy. That change helped persuade Land Rover, then a British-owned company, to bring its premium Range Rover to the United States in 1987, at the then astonishingly high base price of \$31,375.

Although Range Rover initially had the luxury S.U.V. market to itself, and top earners could easily afford one, its early sales were modest. A turning point was its appearance in the 1992 Robert Altman film, "The Player." The film's lead character, the studio executive Griffin Mill (played by Tim Robbins), could have bought any vehicle he pleased. His choice? A Range Rover with a fax machine in the dashboard.

An important feature of the herd instinct is that people are more likely to emulate others with higher incomes. Seeing a wealthy studio executive behind the wheel of a Range Rover instantly certified it as a player's ride. As more and more high-income buyers purchased these vehicles, their allure grew. And when other automakers began offering similar vehicles at lower prices, S.U.V. sales took off.

But what the herd instinct giveth, it also taketh away. Even when gasoline was still relatively inexpensive, many urban motorists had begun to question the merits of owning poor-handling off-road vehicles that got only 10 miles a gallon. And with gas now selling for more than \$3 a gallon, the cachet of S.U.V.'s has vanished completely. If driving one was once like having a T-shirt saying, "I'm a player," it is now more like having one saying, "I'm a chump."

And that is a perception that no product can long survive. With unsold inventory languishing on dealer lots, prices of S.U.V.'s have been plummeting. In some markets, [G.M.](#) is offering subsidized gas at \$1.99 a gallon, and Ford is offering \$1,000 worth of free gas, to anyone willing to buy one.

The last of Ford's mammoth Excursions rolled off its Louisville, Ky., assembly line last Sept. 30. And G.M.'s largest S.U.V., the Hummer H1, was discontinued in June of this year.

With the herd now in full stampede, the era of big, gas-guzzling S.U.V.'s may soon be history.

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