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ECONOMIC SCENE

The More We Make, the Better We Want

By **ROBERT H. FRANK**

Productivity growth has raised living standards in the United States more than 40-fold since 1790. In his 1930 essay, “Economic Possibilities for Our Grandchildren,” John Maynard Keynes speculated about how the continuation of such spectacular productivity growth might transform our lives. Like many other distinguished thinkers, both before him and after, he predicted that people would have great difficulty filling their days once it became unnecessary to spend more than a token amount of time working.

This concern seems comical in retrospect. Productivity’s upward trajectory has become even steeper in the decades since 1930, yet people are working just as hard as ever.

How could Keynes, the most influential economist of the 20th century, have made such an absurd prediction? It would be one thing if he had merely overlooked the possibility of boundless human desire. Yet he explicitly considered this possibility, only to dismiss it.

Thus, he wrote that human needs fall into two classes: basic, or absolute, needs, which are independent of what others have, and relative needs, which we feel “only if their satisfaction lifts us above, makes us feel superior to, our fellows.”

Keynes granted that although needs rooted in a desire for superiority might indeed be insatiable, this was not true of absolute needs. And seeing absolute needs as more important by far, he concluded, “A point may soon be reached, much sooner perhaps than we are all aware of, when these needs are satisfied in the sense that we prefer to devote our further energies to noneconomic purposes.”

Keynes was surely correct that only a small fraction of total spending is prompted by the desire to flaunt one’s superiority. He was profoundly mistaken, however, in seeing this desire as the only source of insatiable demands.

Decisions to spend are also driven by perceptions of quality, the desire for which knows no bounds. But quality is an inherently relative concept. The same car that would have been deemed as having brisk acceleration and sure handling by drivers in Keynes’s day, for example, would be much less charitably evaluated by today’s drivers — even those with no desire to outdo their neighbors.

An economist’s formal mathematical model of the demand for automobile quality would incorporate an explicit comparison of a car’s features with the corresponding features of

other cars in the same local environment. Cars whose features scored positively in such comparisons would be seen as having high quality, for which consumers would be willing to pay a premium. In purely mathematical terms, such a model would be essentially identical to one based on a desire not to own quality for its own sake, but rather to outdo others.

Yet the subjective impressions conveyed by these two descriptions could hardly be more different. To demand quality for its own sake is to be a discerning buyer. But to flaunt one's superiority is to be a boor, a social moron. Such people exist, but that most of us manage to avoid them most of the time suggests that they are rare.

Perceptions of quality influence the demand for virtually every good, including even basic goods like food. When a couple goes out for an anniversary dinner, for example, the thought of feeling superior to others probably never enters their minds. Their goal is just to share a memorable meal. But a memorable meal is a quintessentially relative concept. It is one that stands out from other meals.

The standards that define a memorable meal are thus elastic. When my wife and I were living in Paris a few years ago, we went out to dinner with well-to-do friends who were visiting from the United States. The restaurant we chose had a good reputation and, by our standards, was not cheap. But although my wife and I enjoyed our meals enormously, our friends found theirs disappointing. I'm confident they were not trying to impress us or make us feel inferior. By virtue of their substantially higher income, they had simply grown accustomed to a higher standard of cuisine.

There are no obvious limits to the escalation of quality standards. For example, dinner for two at Sketch in London can easily top \$500, even if you choose the least expensive offering on the wine list. No one had to spend that much to enjoy a memorable meal in Keynes's day. But if productivity keeps growing, it is just a matter of time before the price of a special meal becomes twice that amount. For as we approach the frontiers of existing quality standards, even minor improvements can be enormously expensive.

Until recently, for example, the Porsche 911 Turbo was considered perhaps the best all-around sports car on the market. Priced at over \$120,000, it handles impeccably and has blistering acceleration.

But in 2004, [Porsche](#) raised the bar by introducing its Carrera GT, which handles slightly better than the Turbo and beats its 0-to-60 time by two-tenths of a second. People who really care about cars find these small improvements genuinely exciting. To get them, however, they must pay almost four times the price of the Turbo.

By placing the desire to outdo others at the heart of his description of insatiable demands, Keynes relegated such demands to the periphery. But the desire for higher quality has no natural limits. Keynes and others were wrong to have imagined that a two-hour work week might someday enable us to buy everything we want. That hasn't happened and

never will.

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