

Editorial Desk; Section A
Timmy's Range Rover
By Robert H. Frank

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ITHACA, N.Y. -- So, what are people with real money buying for their 10-year-olds this Christmas? Put this question to a "personal shopper" at F.A.O. Schwarz and she'll promptly escort you to a glass-walled inner sanctum on the second floor. There, on display or in a limited-edition catalogue, you'll see life-size reproductions of Darth Vader and other "Star Wars" characters for \$5,000 and up, a castle bed with loft for \$30,000 and a hand-carved carousel from Germany for \$75,000.

But by far the hottest item this season is a Range Rover a quarter the size of the real thing. With leather upholstery and an AM-FM cassette stereo, it is powered by a 5-horsepower gasoline engine and has a top speed of 20 miles per hour.

They're selling fast, but you can still take immediate delivery for \$18,500 -- slightly more than the sticker price of a Honda Accord.

Value-conscious shoppers might find that a bit much to pay for a toy car with a lawn mower engine. But they would be missing the point. Forget Furby, this is a serious toy! Even an investment banker's 10-year-old would be thrilled to get one.

Over-the-top spending for kids isn't new. Nor is the junior Rover the most egregious instance. We read, for example, of Manhattan bar mitzvahs that cost \$250,000, not counting the optional \$20,000 six-minute Grucci fireworks display.

But the most expensive gifts for children now have much higher price tags than they used to, which is also true of the gifts exchanged by their upmarket parents. When a recent Neiman Marcus Christmas catalogue offered the new Jaguar convertible at \$80,000, the entire 70-vehicle inventory was snapped up within hours.

America's new luxury fever is driven by a sharply increased concentration of income and wealth. By one measure, the top 1 percent of earners have captured almost 80 percent of all earnings growth since 1979. If trends continue as expected and are reinforced by enactment of flat-tax proposals that would cut rates on top earners by half, the hottest selling toy car will soon be not the junior Rover, but F.A.O. Schwarz's miniature Ferrari, which currently sells for \$40,000.

Obviously, adults have the right to spend their incomes however they please. Yet few

would insist that these purchases constitute the most fruitful use of this money. Indeed, persuasive scientific evidence suggests that when everyone gets more expensive and elaborate toys, no one is any happier than before.

So why do parents buy such things? The problem is that gift giving is like an arms race: spending less would be better, but only if everybody did it.

The moral outrage of social critics won't make that happen. But a one-line amendment to the Federal tax code could. Switching from our current progressive income tax to a more steeply progressive consumption tax would provide powerful incentives to save and invest money that would otherwise be spent on high-end toys.

Such a tax would be easy to administer. A family would pay tax on its total consumption, defined simply as the difference between what it earned (as currently reported to the Internal Revenue Service) and what it saved. The tax rate on the highest spenders would have to be higher than it is now, to allow for the fact that the rich save much more than others. Everyone's tax burden would be roughly the same as before.

But each family's incentive to buy high-end toys would be changed profoundly. If the additional consumption of top spenders were taxed at a rate of, say, 70 percent, the junior Rover's effective price would jump almost \$13,000. (The check to F.A.O. Schwarz would remain the same, but parents who bought the car would pay almost \$13,000 more in tax at the end of the year than if they had saved the money instead.)

Just as high real-estate prices have induced Manhattan's wealthy to choose smaller dwellings than their counterparts in other cities, this change would lead many to choose less expensive toys and shelter the savings in tax-free mutual funds. As more families followed that course, the standard that defines an acceptable toy would shift. Before long, less expensive toys would acquire the same cachet as the more expensive models they had displaced.

This pattern would be repeated all the way down the income ladder -- a welcome development at a time when 1 in 70 American families files for bankruptcy each year. Best of all, it would exact no price in enjoyment, since what counts is not absolute spending on toys, but relative spending.

Of course, a steeply progressive consumption tax would also affect other purchase decisions. Many parents might forgo their own \$80,000 Range Rovers, choosing \$50,000 BMW's instead. Here, too, we could expect similar savings in other income classes.

Before we saw Tim Robbins driving a Range Rover in Robert Altman's film "The Player" in 1992, only a handful of us had any idea what a Rover even was, much less that we needed one to signal our economic success. A return to that innocent condition would not injure us, and the money thus saved could be put to far more urgent uses. Once our savings rates got healthier, we might even consider -- dare I say it -- a slight increase in total tax revenue for things that really matter. Just a few painless retrenchments would

repair the leaky roofs and broken toilets in the overcrowded, understaffed elementary schools five miles north of the F.A.O. Schwarz showroom.

Not to worry, though, Timmy. None of this will happen any time soon.

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