

# Thy Neighbor's Stash

A Cornell economist explains how we measure our worth in relative terms, and why that's becoming a problem.

## FALLING BEHIND

How Rising Inequality Harms the Middle Class.  
By Robert H. Frank.  
Illustrated. 148 pp.  
University of California Press.  
Cloth, \$50; paper, \$19.95.

## THE ECONOMIC NATURALIST

In Search of Explanations for Everyday Enigmas.  
By Robert H. Frank.  
Illustrated. 226 pp. Basic Books. \$26.

By DANIEL GROSS

ROBERT H. FRANK, a professor of economics at Cornell University, is an anthropologist of the ultra-rich. His prior books "Luxury Fever" and "The Winner-Take-All Society" have explored how the earning and consuming patterns of the very wealthy affect society at large. (He's no relation to fellow pluto-anthropologist Robert Frank of The Wall Street Journal, author of the recent book "Richistan.")

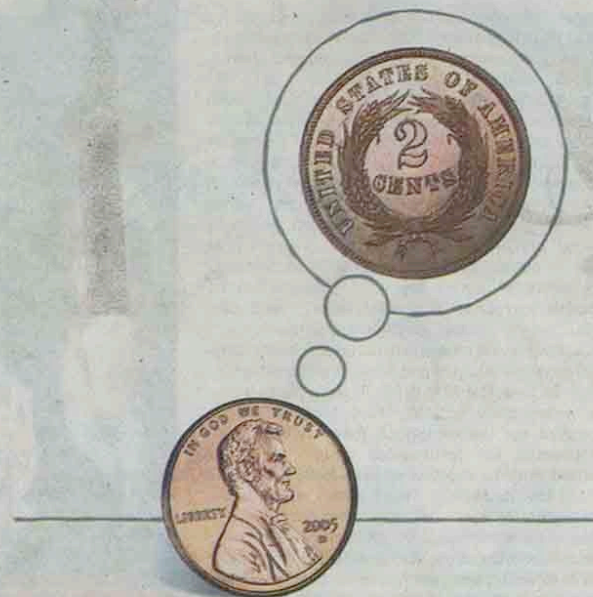
In his new book "Falling Behind: How Rising Inequality Harms the Middle Class," Professor Frank deftly updates the argument for our current gilded age. The rise of an overclass, he convincingly argues, is indirectly affecting the quality of life of the rest of the population — and not in a good way.

Knowing that Steve Schwarzman of the Blackstone Group made almost \$400 million last year, or that he spent \$3 million last February on his 60th-birthday party (entertainment: Rod Stewart, Marvin Hamlisch, Martin Short, Patti LaBelle), doesn't simply make the typical American green with envy, and hence unhappy. Rather, Frank argues, the problem is that extreme consumption — at which Schwarzman excels — helps shape norms for the whole society, not just his fellow plutocrats. "The mere presence of ... larger mansions, for example, may shift some people's perceptions about how big a house one can build without seeming overly ostentatious," Frank writes.

That shifting perception combines with the powerful driving force of "relative deprivation." When asked whether they'd rather have a 4,000-square-foot house in a neighborhood of 6,000-square-foot McMansions, or a 3,000-square-foot home in a zone of 2,000-square-foot bungalows, most people opt to lord it over their neighbors. Indirectly, then, Bill Gates's construction of a 40,000-square-foot house has caused the middle manager in Tacoma to take out a no-money-down mortgage for his 3,500-square-foot faux colonial.

Frank urges fellow economists to look at numbers and data in relative terms, not absolute ones. A Web surfer with a 56K modem today knows, intuitively, that he is better off than he was 20 years ago, when he had to rely on a 1,200-baud modem. But when everybody else has broadband, that 56K makes you feel like a cyberloser. The desire to avoid such relative deprivation drives consumption in a range of goods, especially those that Frank calls "positional goods" — things like housing and cars, in which differences in quality and size are

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readily visible. In buying bigger homes, faster computers and more powerful backyard grills, people are driven by the desire to be a part of a community and to keep up with the Joneses. If you happen to live on Park Avenue, it means buying a Monet and a 10,000-square-foot co-op to keep up with the Schwarzmans. Like politics, all relative deprivation is local.

What does this societywide arms race for goods have to do with income inequality? Frank trots out sobering data. Between 1949 and 1979, the rising tide of the American economy lifted all boats more or less equally. In fact, the incomes of the bottom 80 percent grew more rapidly than the incomes of the top 1 percent, and those of the bottom 20 percent grew most rapidly of all. But since 1979, gains have flowed disproportionately to top earners. In an economy where the wealthy set the norms for consumption and people at every rung strain to maintain the consumption of those just above them, that spells trouble. In today's arms race, the top 1 percent are armed to the teeth and everybody else is scavenging for ammunition. Between 1980 and 2001, Frank notes, the median size of new homes in the United States rose from 1,600 to 2,100 square feet, "despite the fact that the median family's real income had changed little in the intervening years." The end result? Frank methodically presents data showing that the typical American now works more, saves less, commutes longer and borrows more to maintain what he or she views as an appropriate standard of living.

Oh, and it's getting worse. Frank notes that "many of the forces that have been causing inequality to grow seem to be gathering steam." Because the gains have been so lopsided — the richest 1 percent have seen their share of national income rise from 8.2 percent in 1980 to 17.4 percent in 2005 — even the merely rich are having to overextend themselves just to keep up. "As incomes continue to grow at the top and stagnate elsewhere, we will see even more of our national income devoted to luxury goods,

Everybody wants to keep up with the Joneses. If you live on Park Avenue these days, that means buying a Monet.

the main effect of which will be to raise the bar that defines what counts as luxury." One can already imagine the enormous mounds of osetra caviar being harvested for Steve Schwarzman's 65th-birthday party. Frank's elegant solution? A progressive consumption tax that would discourage those at the top from spending more, thus lowering the bar.

Frank is the rare economist with a gift for irony. And economic ironies abound in "The Economic Naturalist," a collection of nuggets culled from an assignment Frank gives to introductory economics students at Cornell: in 500 words or less, "pose and answer an interesting question about some pattern of events or behavior that you personally have observed." Frank sees this homework as part of an effort to bring more narrative into the teaching of economics and to make intimidated students realize they may already possess a rudimentary grasp of the dismal science.

Of course, it's also a brilliant economic model. Kids pay tuition to take his courses, he's paid to teach them, and then they provide material for a charming book. In "The Economic Naturalist," Frank's students, with a writing assist from their professor, explain why a \$20,000 car rents for \$40 a day but a \$500 tuxedo rents for \$90 a day. (Among other things, it has to do with the need for tuxedo shops to maintain a large inventory of different sizes.) Or why fast-food restaurants promise a free meal if customers don't get a receipt. (It's to deter theft by cashiers.)

By design, the answers are more intuitive than empirical. And the reasoning often strays beyond economics. Why do women's clothes button from the left and men's from the right? Because when buttons first appeared on clothes for the rich in the 17th century, men dressed themselves while women were dressed by servants. There are dozens more examples in this book, which can be returned to again and again like one of those all-you-can-eat buffets. (I looked in vain for an answer as to why restaurants charge less for all-you-can-eat buffets than for à la carte meals served at the same time.) Occasionally, however, Frank succumbs to excessive calculation. You don't need a degree in economics to know that bars give away peanuts and sell water because peanuts are very salty and make people thirsty.

THE consumption arms race that Frank plumbs in "Falling Behind" reappears in "The Economic Naturalist." "If women could decide collectively what kind of shoes to wear, all might agree to forgo high heels," he writes. "But because any individual can gain advantage by wearing them, such an agreement might be hard to maintain." And why do Frank's humanities colleagues across Cornell's idyllic quad, who are supposed to be good at writing, use so much jargon? It's an arms race of erudition.

Taken together, these books, which richly deserve a broad audience, show how an academic economist with wide interests, a gift for anecdote and an open mind can be a highly effective teacher and citizen. "Falling Behind" is a compact example of a professional economist brilliantly deploying the tools of social science to illuminate the human condition. "The Economic Naturalist" leaves the reader impressed with the insights of amateurs. □