

October 15, 2000, Sunday, Late Edition - Final

SECTION: Section 6; Page 62; Column 1; Magazine Desk

LENGTH: 1822 words

HEADLINE: Why Living in a Rich Society Makes Us Feel Poor

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BODY:

Most of us are taught from an early age not to worry about how others' possessions compare with our own, and we seem to recognize the soundness of this advice. There will always be people with more, and becoming preoccupied with that is a recipe for misery. So if asked whether we fret about the size of our neighbors' house or about the cars they drive, most of us would insist we do not.

Put the question another way, however, and we seem a little less certain. Consider a choice between these two worlds:

World A: You earn \$110,000 per year, others earn \$200,000.

World B: You earn \$100,000 per year, others earn \$85,000.

The income figures represent real purchasing power. Your income in World A would command a house 10 percent larger than the one you could afford in World B, 10 percent more restaurant dinners and so on. By choosing World B, you'd give up a small amount of absolute income in return for a large increase in relative income.

So which would you pick? A majority of Americans, it turns out, choose World B.

Why would we accept the lower pay? One possibility, of course, is that we envy our neighbors' possessions more than we feel comfortable admitting. But there's an alternative explanation, one that works even if we're really not much concerned about keeping up with the Joneses.

This alternative account rests on the idea that to function effectively in complex social environments, we need ways to evaluate how we're doing and make judgments about how best to adapt to changing environments. Such judgments almost always depend heavily on how we're doing relative to others in the same local environment. Suppose your daughter just got a D on her first exam at Stanford. She could console herself with the notion that her performance would have earned a much higher grade had she gone to a junior college close to home, but she probably won't see it that way. She's likely to be upset. The low grade tells her something important. She needs to work harder, and being upset will prod her to do so.

Similar contextual forces mold our assessment of the things we own. For example, as Adam Smith observed in "The Wealth of Nations," local standards define how much people must spend on clothing if they are to appear in public "without shame." In 18th-century Scotland, he wrote, even the lowliest workers needed shirts made of linen, since the inability to afford a shirt of that quality generally signified indolence, incompetence or worse.

Linen has gone out of fashion since Smith's day, but his insight remains valid. And the stakes now are greater than ever. In the midst of the longest sustained economic boom in history, many American families are experiencing an unprecedented sense of impoverishment. They feel poorer not just because of the growing earnings gap between the rich and others, but also because of a newer phenomenon: in this media-dominated age, we're far more aware than we've ever been of the wealth that surrounds us. This new economic climate has profoundly changed how we live and how we spend our money.

I have a friend in California who could almost be mistaken for a typical American. She lives with her husband and young daughter, and she wants a bigger house, because their current one lacks a basement and they want more storage space. She worries about the quality of public schools and wouldn't mind paying higher taxes if something could be done to improve them. And like millions of others, she considers herself a frugal, environmentally sensitive person.

In other ways, my friend is less typical, and context has nearly everything to do with it. Context explains why she gets a weekly massage and a pedicure at least once a month, things she hardly ever did before. Context explains why she always flies first-class, after half a lifetime of coach. Context explains why she and her husband recently bought an \$80,000 convertible, and why they buy tens of thousand of dollars worth of new electronic equipment each year. Most of all, context explains why they live in a house that cost them \$2 million.

My friend, you see, lives in Los Altos, one of Silicon Valley's wealthiest suburbs, where the standards are vastly different from those in the Midwest, where she grew up. Many of her neighbors are rich on a scale that most of us still find difficult to comprehend. Although my friend and her husband can easily afford their current lifestyle, they're also a bit puzzled by it. "Ten years ago," she says, "there's no way I'd have imagined ourselves spending as much as we do today. But living here, things are different." In Los Altos, a \$2 million, 3,500-square-foot house is unremarkable, and few neighbors would find it strange that my friend is considering a bigger one. "I always wanted to live in a big house with lots of space," she says. "I don't know how large. I guess maybe double what we have."

Her experience differs in degree, though not in kind, from those of millions of other American families during the current boom. In the abstract, many of these families continue to embrace simple, unostentatious modes of living. Yet they find their own

sense of what they need pushed inexorably higher by the rapidly escalating consumption all around them.

In large measure, we spend more because we have more. There are now 590,000 American households worth \$5 million or more -- and by 2004, according to the Spectrem Group, their ranks will swell to 3.9 million.

These numbers are so big they cover up a simple fact: the vast majority of us still aren't rich. And while much is made of how the wealthy have segregated themselves from mainstream society -- living in gated communities, sending their kids to private schools -- they are in fact all around us. Even my small university-dominated city, which sits squarely within the vast economic sinkhole that is upstate New York, now has its own booming stratum of biotech and dot-com multimillionaires. If we don't know these people directly, we know others who know them. Servicing the wealthy has become one of the fastest-growing employment sectors, bringing the rich into daily contact with millions of ordinary Americans. We clean their houses, mow their lawns, teach their kids French, do their taxes. More than ever, the rich have become part of our local context, nudging upward our sense of what is required to live comfortably and securely.

Add to that the longstanding media fixation on money. Television shows and magazines have always presented the rich as objects of fascination but usually portrayed their lives as exotic and fanciful -- as opposed to ones to which ordinary people should aspire. That has changed. One can scarcely get through a magazine these days, for example, without encountering a report that \$45,000 Patek Philippe wristwatches and \$25 million Feadship yachts are available only on back order. On Sunday football telecasts, ads for Heineken and BMW have displaced those for Miller Lite and Ford pickups, even though the same people, more or less, are watching.

No matter how much the media focus on the extraordinarily wealthy, however, the strongest contextual influences on how we spend remain the ones closest to home. H. L. Mencken once defined a wealthy man as one who earns \$100 a year more than his wife's sister's husband. A recent study found striking support for Mencken's definition. The economists David Neumark and Andrew Postlewaite examined the behavior of a large sample of pairs of American sisters, each containing a sister who did not work outside the home. The authors' goal was to learn what factors might influence the other sister to seek paid employment. They rounded up all the things that are supposed to affect the decision to work -- the unemployment rate in the local labor market, the wage rate, education. All of these factors had some impact, but relative income was the most powerful: a woman in their sample was 16 to 25 percent more likely to seek paid employment if her sister's husband earned more than her own.

The ever-widening wealth and income gap between the rich and everybody else has meant that a growing number of Americans now find themselves in the role of the impoverished in-law. Middle-income families, whose inflation-adjusted incomes are no higher now than in the 1970's, have been saving at much lower rates than before -- indeed, even at negative rates for much of last year. They're also carrying record levels of

credit-card debt and other loans, going without health insurance and filing for bankruptcy at several times the rate of the early 1980's. In short, middle-income families are experiencing unprecedented levels of economic distress, largely because they are trying to keep up with a living standard they cannot afford.

Financial distress among the middle class is an important problem, and social critics have been vigilant in their search for villains to blame for it. Writers from the "personal responsibility" movement, for example, denounce those they consider too weak-willed to resist the influence of other people's spending. In their view, middle-class families should just spend less and stop complaining. Other critics, notably those of the "voluntary simplicity" school, express contempt for the buyers of the McMansions springing up all around us. What these judgments ignore is how context shapes our spending decisions at all different levels of the economy, and at all different standards of taste.

As a young man, I served for two years as a Peace Corps volunteer in Nepal. The one-room house I lived in had no plumbing or electricity, and its thatched roof leaked during heavy rains. At no time, however, did I feel it was unsatisfactory in any way. Yet I could not live in that same house in the U.S., even in the poorest neighborhood, without experiencing a profound sense of humiliation. If I had to go into debt to escape that experience, I'm certain I would.

As it happens, I live in a perfectly comfortable American middle-class house. But social critics might do well to reflect on how such a house would strike the median earner on planet Earth. If a friend from my village in Nepal saw our house, he'd think I'd taken leave of my senses. Why, he'd wonder, would a family of four possibly need a house with three and a half bathrooms?

The plain fact is that the kind of house people feel they need depends on the kind of house that others around them have. Living in a house priced well below average often means living in a relatively dangerous neighborhood, or sending your child to a below-average school. Wanting to avoid these penalties is totally normal.

The new economic climate has led us to spend more, borrow more and save less. These are symptoms of a social problem, no question about it. But the feelings that give rise to this problem are no more blameworthy than those of a student who's upset about getting a D on an exam.