3-1-2000

Smart for one, dumb for all. Review of: Luxury Fever: Why Money Fails to Satisfy in an Era of Excess by Robert H. Frank

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Recommended Citation
Economist Robert H. Frank has written a stimulating book that integrates research from psychology, evolutionary biology, and economics to address the raging “luxury fever” that is needlessly consuming precious resources in “overdeveloped” economies. Frank documents how luxury consumption in western industrialized countries has been rising at an astronomical rate even though recent psychological research shows that there is scant correlation between this consumption and levels of stated life satisfaction.

Why, then, are some wrist watches selling for $20,000, huge houses of 10,000 square feet or more being built, and myriad other forms of conspicuous individual consumption rapidly increasing, even as social spending on education, infrastructure, the environment, and other things that would raise the average level of life satisfaction in society is decreasing? Frank describes how this perverse “luxury fever” occurs when individuals pursue their strong individual incentives to increase their relative position in society by consuming more than their peers. In the prisoner’s dilemma (Axelrod 1984), and the tragedy of the commons (Hardin 1968). Frank cleverly labels these phenomena as situations that are “smart for one, but dumb for all.” Once one begins to look, clear examples of these situations can be found everywhere, in such phenomena as drug addiction, pesticide overuse, arms races, environmental pollution, and high fashion. Although these phenomena have been recognized by economists, they have largely been relegated to the status of interesting but relatively minor anomalies. But Frank clearly points out just how pervasive, important, and wasteful they are and how eliminating them can save literally billions of dollars while actually improving human welfare. The “invisible hand” of the market cannot be relied on to solve these problems, Frank notes, because “far from being a principle that applies in most circumstances, the invisible hand is valid only in the special case in which each individual’s rewards are completely independent of the choices made by others. In the rivalrous world we live in, precious few examples spring to mind” (p. 271).

After describing current trends in luxury consumption in often shocking detail, Frank looks at the psychological research on the determinants of life satisfaction and combines that research with research on human evolution. Individual humans have clearly evolved to respond much more strongly to relative position in a group than to absolute position. As in all animal species, the competition to survive and reproduce rewards individuals that are relatively more successful at finding mates and raising offspring than their peers. In humans and many other mammals, mate selection by females is influenced by the relative status of males, because male status is often correlated with the success of their offspring. But these evolutionary processes, Frank points out, can be smart for one but dumb for all. For example, the relative size of a male elk’s antlers determine his mating success. But although the relative sizes of antlers in the population have remained constant, the absolute sizes have increased, in a kind of “arms race.” The problem with this strategy is, of course, that big antlers hinder the male’s movements and make them easier targets for predators. Likewise, individual humans get caught in the same kind of trap by pursuing their (perfectly rational) individual incentives to increase their relative status. The net effect is no change in relative status—but huge increases in wasteful consumption, with its related costs.

Frank’s solution to luxury fever is a strongly progressive consumption tax. A simple one-line amendment in the US tax code would exempt all savings from income taxation. With this modification, the income tax would tax only consumption, obviating the need to specify which consumption was “luxury consumption,” and (because of its steep progressivity) it would do so without adversely affecting the poor. This consumption tax would have the effect of increasing the costs of conspicuous consumption for indi-
individuals (and thus reducing it) while freeing up significant resources to pursue increased “inconspicuous consumption”—things like education, infrastructure, environmental protection, and family time. Given the psychology of relative consumption and satisfaction, this change could occur with absolutely no decrease in human welfare. In fact, average life satisfaction would increase because relative individual consumption would not change and the neglected forms of social consumption could be increased with the resources from the tax.

Why has so obvious a “win–win” move not already occurred, and what are its chances in the future? Frank answers the first part of this question with the famous joke about the economist who sees a $10 bill lying in the street and concludes that it couldn’t really be a $10 bill because if it were, someone would have already picked it up. The first step is to clearly and convincingly lay out the problem and the solution as Frank has done—in effect, to point out that the $10 bill is, in fact, just lying on the ground. Indeed, the idea of a broad consumption tax (and the reasons for it) has been around for many years. It was first proposed by Thomas Hobbes in 1651 and has surfaced many times during the last 300 years (Seidman 1997). Frank concludes that it will be just a matter of time before the obvious benefits of such a tax are recognized and the plan is implemented—after all, most political changes have a significant gestation period. But there are also obvious impediments to implementing such a tax in the current political climate. In political systems run more and more by special interests, it is difficult to agree on any policy that might hurt even one of those interests, even if only in the short run.

Frank supports the tax idea by noting the “success” of environmental taxes in solving pollution problems caused by forms of social traps analogous to luxury fever. In reality, pollution taxes are still only very sparingly used and have a long way to go before they can be said to have solved pollution problems, even though the obvious win–win nature of this solution has been pointed out by a broad range of commentators and demonstrated in the few situations for which it has been tried (Bernow et al. 1998). The political barriers to implementing pollution taxes are similar to those for implementing a broad-based consumption tax, even though both taxes are really “money for free” from society’s point of view.

Overcoming the political impediments to meaningful tax reform will require “government by discussion” (Sen 1995) rather than by interest groups and media manipulation. If social issues of the importance of those in Frank’s book can be discussed rationally by society at large, then such obvious social win–win solutions as ecological tax reform and a progressive consumption tax can be appreciated and implemented. In a few countries, this kind of social discussion occurs reasonably well, but in most it is a far cry from current political reality. Just as it is difficult for an animal caught in a trap to free itself, it is also difficult for a society caught in a social trap to free itself—even when the nature of the trap and the way out has been clearly identified. Let’s hope that we don’t have to bite off our social foot to escape the invisible hand.

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COUNTERING BIOLOGICAL WEAPONS’ GRAVE THREAT


The grave threat posed by biological weapons to global security is real. So points out Defense Secretary William S. Cohen in the foreword to Biological Weapons: Limiting the Threat. The security problems posed by biological weapons, particularly their potential use by terrorists to cause mass casualties, presents a significant challenge—both to the medical community, to prepare for a horrific biological weapons attack, and to the political community, to prevent such an event from occurring. International agreements have so far failed to remove the threat of biological weapons. The 1972 Biological Weapons and Toxins Convention did not prevent Iraq from carrying out a major biological weapons development program. Nor did it halt the massive biological weapons program of the former Soviet Union that has been detailed by Ken Alibek, a former leader in that illicit program, who defected to the United States with tales of huge stockpiles of smallpox, anthrax, and other deadly agents. Particularly frightening are the attempts by terrorist groups such as the Aum Shinrikyo, which carried out the nerve gas attack on the Tokyo subway, to acquire biological weapons that could cause massive civilian casualties, and the possibility that scientists from the former Soviet biological weapons programs may have moved into state-sponsored terrorist programs in Iraq and North Korea.

It is against this background that