DOES GROWING INEQUALITY HARM THE MIDDLE CLASS?

Robert H. Frank
Cornell University

Presidential aspirants since Ronald Reagan have urged us to ask whether we're better off now than we were four years ago. At any time from 1945 to the early 1970s, the answer for most Americans would have been a resounding yes. Throughout that period, incomes grew at about 3 percent a year for families up and down the income ladder.

Today, however, this question is more difficult to answer. Although the top 1 percent of earners now have roughly twice as much purchasing power as in 1979, the real earnings of families in the middle have scarcely grown since then. The conventional wisdom has long been that such growth in the income gap between the rich and the middle class is a bad thing. But that view is now under challenge. Some revisionists, respected economists among them, invoke the Pareto criterion to argue that inequality doesn't really matter so long as no one ends up with less in absolute terms. Using income levels to measure the well-being of individual families, these inequality optimists argue that since the rich now have much more money than before and the middle class doesn't have less, society as a whole must be better off.

Yet "having more income" and "being better off" do not have exactly the same meaning. I will argue that changes in spending patterns prompted by recent changes in the distributions of income and wealth have imposed not only important psychological costs on middle-income families, but also a variety of more tangible economic costs.

RECENT TRENDS IN INEQUALITY

The period from the end of World War II until the early 1970s was, as noted, a time of balanced income growth in the United States. In the ensuing years, however, the pattern of income growth has been dramatically different. In the first row of Table 1, for example, notice that for families in the bottom 20 percent of the income distribution, real incomes actually declined by more than 4 percent from 1978 to 1998. The third row of the table indicates that the real incomes of families in the middle quintile grew by less than 10 percent during the same 20-year period (a growth rate of less than one-half of one percent per year). But while the real incomes of middle-class and poor families were stagnant or declining, families with the highest earnings experienced much bigger gains than in the immediate post-war decades. Thus real

Robert Frank: Johnson Graduate School of Management, Cornell University, B221 Bryant Avenue, Ithaca, NY 14850. E-mail: rhf3@cornell.edu
This article is based on the Presidential Address given by Robert Frank on March 25, 2000 at the 26th Annual Eastern Economic Association Conference in Crystal City, Virginia

TABLE 1
Mean Income Received by Families in Each Income Quintile and by the Top 5 Percent of Families, 1968 to 1998 (1998 dollars)

Quintile	1978	1988	1998
Bottom 20 percent	$13,103	$12,256	$12,526
Second 20 percent	28,415	28,541	29,482
Middle 20 percent	42,667	44,414	46,662
Fourth 20 percent	58,786	63,785	68,430
Top 20 percent	99,754	117,035	140,846
Top 5 percent	146,178	182,863	246,520

Source: Census Bureau, http://www.census.gov/hhes/income/histinc/f03.html

incomes jumped more than 40 percent for families in the top quintile between 1978 and 1998, while those for families in the top 5 percent jumped by more than 68 percent.

The result has been a significant shift in the overall distribution of earnings among American families. Table 2, for example, shows how the shares of total earnings have evolved for the different groups between 1978 and 1998. Note that the lowest three quintiles each had a significantly smaller share of the national income in 1998 than in 1978, while the share of the fourth quintile was essentially unchanged. But note in the final two rows of the table that the share of the top quintile rose more than 15 percent, and the share of the top 5 percent rose more than 37 percent.

Recent earnings growth has been even greater for those higher up the income ladder. Indeed, those near the top have taken home paychecks that might have seemed unimaginable just two decades ago. For example, though no American CEO earned as much as one million dollars in 1978, Disney's CEO Michael Eisner took home more than $565 million in 1997 (including gains from exercising his stock options). According to *Business Week*'s annual executive compensation surveys, CEOs of large U.S. corporations earned 42 times as much as the average worker in 1980, but earned 419 times as much in 1998.

Recent decades have also witnessed dramatic growth and increased concentration of personal wealth. Only the richest one percent of Americans have seen their wealth holdings grow significantly since 1983, and the combined wealth of this group now exceeds the combined wealth of Americans below the 95th percentile [Wolff, 1998]. The Forbes Four Hundred—the celebrated list of the 400 richest people in America—included 243 billionaires in 1998, up from 170 just a year earlier. In 1982 the list contained just 13 billionaires—five of them children of Texas oil tycoon H. L. Hunt. Together the Forbes 400 are now worth more than $1 trillion—nearly one-eighth of the national income of the United States, and more than the national income of China, a country of more than 1 billion people.

The recent gains in wealth have not been confined to those who were already worth hundreds of millions. For example, more than four million American households had a net worth of at least $1 million in 1998, 20 percent more than in 1995. 274,000 households had a net worth of at least $10 million in 1998, up from 190,400 in 1995 [Wolff, personal communication based on Federal Reserve *Surveys of Consumer Finances*].

TABLE 2
Share of Aggregate Income Received by Each Quintile and by the Top 5 Percent of Families, 1978 to 1998

Quintile	1978	1988	1998
Bottom 20 percent	5.4	4.6	4.2
Second 20 percent	11.7	10.7	9.9
Middle 20 percent	17.6	16.7	15.7
Fourth 20 percent	24.2	24.0	23.0
Top 20 percent	41.1	44.0	47.3
Top 5 percent	15.1	17.2	20.7

Source: Census Bureau: http://www.census.gov/hhes/income/histinc/f02.html

Not long ago, most of us knew of people with such wealth only by reading about them in the media. Today, most of us can count one or more of these people among our high school or college classmates. That wealth of this magnitude has been achieved by so many is one of the truly remarkable achievements of the modern American economy. But it is an achievement that has come at a steep price.

DO RELATIVE LIVING STANDARDS MATTER?

Few commentators deny that real economic hardships confront families in the lowest quintile of the income distribution. These families, after all, now have lower real incomes than they did in the 1970s, and many fall well below the official poverty threshold. But these families are not my focus in this essay. Rather, my concern is with how conditions have changed for families in the middle. The incomes of these families are now slightly higher in real absolute terms than they were two decades ago, but substantially lower in relative terms.

How could these families be economically worse off? I will consider two possible ways. First, I will examine how the capacity of material goods to deliver satisfaction, in purely psychological terms, depends heavily on the context in which those goods are consumed. I will then discuss a variety of more tangible ways in which a family's economic welfare might be adversely affected by the spending of others.

THE PSYCHOLOGICAL COSTS OF INEQUALITY

Most of us were taught from an early age not to worry about how our incomes compare with the incomes of others. This sensible advice stems from the observation that since there will *always* be others with more, focusing closely on income comparisons can't help but generate reasons to feel unhappy.

But suppose you were faced with a choice between the following hypothetical 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. Thus your higher income in World A would enable you to purchase a house that is 10 percent larger than the house you would be able to afford in World B, 10 percent more restaurant meals, and so on. No matter which world you choose, your relative position will not change in the future. Confronting a once-for-all choice between these two worlds, which one would you choose?

Much of neoclassical economic theory rests on the premise that World A is the uniquely correct choice. This theory assumes that people derive satisfaction primarily from the absolute quantity of goods and services they consume. On that measure, World A is better because it offers higher absolute consumption for every citizen. That fact notwithstanding, however, a substantial proportion of people confronted with this choice say they would opt for World B [Solnick and Hemenway, 1997].

Many economists appear reluctant to take seriously the concerns that might lead people to make this choice. On its face, this is a curious position for a profession whose practitioners often warmly endorse Jeremy Bentham's dictum that "a taste for poetry is no better than a taste for pushpins." If most people say they'd prefer World B, a genuine commitment to consumer sovereignty would appear to rule out any categorical claim that World A is necessarily best for all.

Modern disciples of Adam Smith have nonetheless been extremely reluctant to introduce the purely psychological costs of inequality into discussions of economic policy. Yet as Smith himself recognized, such concerns are a basic component of human nature. Writing more than two centuries ago, he introduced the important idea that local consumption standards influence the goods and services that people consider essential (or "necessaries," as Smith called them). In the following passage, for example, he described the factors that influence the amount an individual must spend on clothing in order to be able appear in public "without shame."

> By necessaries I understand not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. The Greeks and Romans lived, I suppose, very comfortably though they had no linen. But in the present times, through the greater part of Europe, a creditable day-labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty which, it is presumed, nobody can well fall into without extreme bad conduct. Custom, in the same manner, has rendered leather shoes a necessary of life in England. The poorest creditable person of either sex would be ashamed to appear in public without them. [Smith, 1937]

The absolute standard of living in the United States today is of course vastly higher than it was in Adam Smith's 18th-century Scotland. Yet Smith's observations apply with equal force to contemporary industrial societies. Consider, for instance, *The New York Times* correspondent Dirk Johnson's recent account of the experiences of Wendy Williams, a middle-school student from a low-income family in a highly prosperous community in Illinois. Both of Wendy's parents are employed at low-wage jobs, and the family lives in Chateau Estates, a trailer park at which her school bus picks her up each morning.

> Watching classmates strut past in designer clothes, Wendy Williams sat silently on the yellow school bus, wearing a cheap belt and rummage-sale slacks. One boy stopped and yanked his thumb, demanding her seat.
>
> "Move it, trailer girl," he sneered.
>
> It has never been easy to live on the wrong side of the tracks. But in the economically robust 1990's, with sprawling new houses and three-car garages sprouting like cornstalks on the Midwestern prairie, the sting that comes with scarcity gets rubbed with an extra bit of salt.
>
> ....
>
> To be without money, in so many ways, is to be left out.
>
> "I told this girl: 'That's a really awesome shirt. Where did you get it?'" said Wendy, explaining that she knew it was out of her price range, but that she wanted to join the small talk. "And she looked at me and laughed and said, 'Why would you want to know?'"
>
> A lanky, soft-spoken girl with large brown eyes, Wendy pursed her lips to hide a slight overbite that got her the nickname Rabbit, a humiliation she once begged her mother and father to avoid by sending her to an orthodontist.
>
> For struggling parents, keenly aware that adolescents agonize over the social pecking order, the styles of the moment and the face in the mirror, there is no small sense of failure in telling a child that she cannot have what her classmates take for granted.
>
> "Do you know what it's like?" asked Wendy's mother, Veronica Williams, "to have your daughter come home and say, 'Mom, the kids say my clothes are tacky,' and then walk off with her head hanging low." [Johnson, 1998, A1]

An adolescent in 18th-century Scotland would not have been much embarrassed by having a slight overbite, because not even the wealthiest members of society wore braces on their teeth then. In the intervening years, however, rising living standards have altered the frame of reference that defines an acceptable standard of cosmetic dentistry. On what ground might we argue that inequality's toll on individuals like Wendy Williams is unimportant because it occurs in psychological rather than explicit monetary terms?

MORE TANGIBLE COSTS OF A WIDENING INCOME GAP

Increased spending at the top of the income distribution has not only imposed psychological costs on families in the middle, it has also raised the cost of achieving many basic goals. Few middle-income parents, for example, would be comfortable knowing that their children were attending below-average schools. Yet the amount that any given family must spend to avoid that outcome depends strongly on the amounts that others spend. In particular, the quality of public schools in America is closely linked to local property taxes, which in turn depend on local real estate prices. The upshot is that people cannot send their children to a public school of even average quality if they buy a home in a school district in which house prices are well below average.

The relationship between school quality and housing prices creates a problem for middle-income families, because the average new home built in the United States today, which has some 2,200 square feet of living space, is roughly 50 percent larger than the average new home built in 1970. Thus today's middle-income family cannot send its children to schools of average quality unless it carries a much larger mortgage than its counterparts in 1970.

Increased income inequality is the reason the average house has grown so much bigger. The process begins when higher incomes prompt top earners to build larger homes. Perhaps your parents didn't care whether your neighbors had bigger homes than yours. Yet many people do care about relative home size, and when top earners build 20,000-square-foot houses, others just below them find their own 10,000-square-foot houses no longer adequate. This process of comparison repeats itself all the way down the income ladder.

If an average earner doesn't envy his neighbor's larger house, couldn't he simply buy the same size house that average earners bought in 1970? Yes, but then he would have to send his children to below-average schools. Rather than do that, he might prefer to buy the bigger house, even if he doesn't care about the extra space. Worse still, he might end up buying an existing 1,500-square-foot house whose price has been bid up sharply because of its location in a good school district.

Increased spending at the top also imposes other costs on those below. A soccer mom who buys a typical 3,000-pound sedan will incur risks that didn't exist in the 1970s, since she must now share the road with 6,000-pound Lincoln Navigators and 7,500-pound Ford Excursions. In self-defense, she may want to spend more for a bulkier vehicle.

Consider, too, how increased spending at the top affects how much one must spend on a professional wardrobe. Suppose that you have been unjustly accused of a serious crime and are looking for an attorney to represent you. Your choice is between two lawyers who, so far as you know, are identical in all respects except these: One wears a threadbare polyester suit off the rack and arrives at the courthouse in a 15-year-old, rust-eaten Chevy Citation, while the other wears an impeccably tailored sharkskin suit and drives a new BMW 740i. Which one would you hire? Remember, you are not looking for a friend, but for a competent attorney.

The odds suggest that the latter attorney is a better bet. The reason is that a lawyer's ability level in a competitive market is likely to be mirrored closely by his income, which in turn will be positively correlated with his consumption. There is obviously no guarantee that the lawyer who spends more on consumption will have higher ability. But as in other situations involving risk, it makes sense to be guided by the laws of probability. And these laws say unequivocally to choose the better-dressed lawyer.

Where important decisions involving people we do not know well are involved, even weak signals of ability are often decisive. Close employment decisions are an obvious example. First impressions count for a lot during job interviews, and as apparel manufacturers are fond of reminding us, we never get a second chance to make a first impression. Placement counselors have always stressed the importance of quality attire and a good address in the job search process. Even when the employer *knows* how good an applicant is, she may still care a great deal about how that person will come across to others. This will be especially true in jobs that involve extensive contact with outsiders who do *not* know how good the employee is.

From the perspective of the individual buyer, many lavish consumption expenditures may thus be considerably less frivolous than they seem. To the extent that wearing the right watch, driving the right car, wearing the right suit, or living in the right neighborhood may help someone land the right job or a big contract, these expenditures are more like investments than like true consumption.

Of course, if one job candidate is clearly much better qualified than others for a given position, the clothing he or she wears during job interviews is unlikely to make any difference. But competition is stiff for jobs that pay well and offer opportunities for advancement, and there are typically many well-qualified candidates for such jobs. In such cases, candidates are prudent to take whatever steps they can to gain an edge.

Even the gifts that middle-income families feel compelled to give are have been affected by the greater affluence of top earners. Suppose you have been invited to a professional associate's home for dinner and want to bring a bottle of wine for your host. What should you bring? John Brecher and Dorothy Gaiter, whose unpretentious, value-oriented wine column appears each Friday in *The Wall Street Journal*'s weekend section, devoted a recent column to precisely this question. "Ask a respected wine merchant to suggest an unusual wine, one that your host is unlikely to have tried before," they sensibly recommended. "And plan on spending about $30."

Why should you spend so much, given that many wines available today for under $10 are far better than the wines drunk by kings of France in centuries past? In part because you have an interest not only in how the wine tastes, but also in how your gift will be interpreted. Giving an inexpensive wine might be read as a statement that the relationship is unimportant. So unless you really *don't* care about the relationship, the extra $20 is probably worth spending.

Extra spending caused by growing wealth and income at the top puts additional pressure on gift givers up and down the income ladder. When others spend more for gifts at weddings, anniversaries, birthdays, and other special occasions, the rest of us must follow suit, or else risk being seen as people who just don't care.

SIGNALING AND THE UTILITARIAN CASE AGAINST INEQUALITY

Utilitarians have long argued against income inequality on the grounds that the marginal utility of income is typically smaller for a wealthy person than for a poor person. In their view, transferring $1,000 of income from a rich person to a poor person is justified because the extra happiness experienced when the poor person received the money would far outweigh the decline in happiness experienced when the rich person gave it up. Although some have objected to this argument, saying that no one knows for sure how gains and losses affect the well-being of people in different circumstances, most people accept that an extra dollar generally meets more pressing demands for a poor person than for a rich person.

Indeed, many top earners spend their money in ways that, from the perspective of the non-rich, appear to generate little impact at all. Consider, for example, Patek Philippe's Calibre '89, perhaps the most remarkably elaborate and accurate mechanical watch ever built. With its $2.7 million price tag, this particular timepiece is purchased only by persons of extreme wealth. Among its many features is a "tourbillon"—a gyroscope that turns about once each minute, whose purpose is to offset the distortionary effects of the earth's gravitational field. Yet despite its formidable engineering wizardry, the Calibre '89 is actually less accurate than a battery-powered quartz watch costing less than $20. The earth's gravitational field, it turns out, doesn't affect the accuracy of an electronic watch.

Accurate or not, top-of-the line mechanical wristwatches are selling briskly. A Patek Philippe watch priced at $45,000, for example, is available only on back order, and sales of watches costing more than $2,000 are growing at almost 13 percent a year. The men who purchase these mechanical wristwatches (women almost never buy them) often own several, which confronts them with a problem: Although the watches are self-winding, they will stop if put aside for a few days. So the person who owns several of these watches must often reset each one before wearing it.

One could hardly expect men of means to tolerate such a problem for long. And sure enough, there is now a ready solution. On display in Asprey & Garrard showrooms in Manhattan on Fifth Avenue, discerning buyers will find a finely tooled calfskin-leather-covered box with a golden clasp, whose doors open to reveal six mechanical wrists that rotate just often enough to keep the mechanical wristwatches they hold running smoothly. The price? Only $5,700.

The utilitarian argument for limiting inequality is strengthened considerably by the observation that these and other similar purchases are driven in part by their functions as signals—both of ability and of the importance of specific relationships. "It's all about who has what," said William Unger, a Madison Avenue retailer, as he described a conversation he had overheard between two men, each wearing a five-figure wristwatch. "The friend sees his friend has a [Patek Philippe] Pagoda, and these are people who have a certain intuitiveness; they know how much things cost. They ascertain what a guy's capability or monetary status is by looking at his watch. They know if he's a player. Or they think they know" [Quoted by Kuczynski, 1998, 3]. In an environment in which signal strength depends on relative expenditure, little would be sacrificed if all spent less on expensive wristwatches and birthday gifts.

PUBLIC EXPENDITURES AND FINANCIAL DISTRESS AMONG THE MIDDLE CLASS

The wealthy are spending more now simply because they have more money. But their spending has led others to spend more as well, including middle-income families. If the real incomes of middle-class families have grown only slightly, how have they financed this additional consumption? In part by working longer hours, but mainly by saving less and borrowing more. American families, for example, now carry an average of more than $5,000 in credit card debt, and personal bankruptcy filings are occurring at several times the rate they did in 1980. Some 45 million Americans now have no health insurance, 5 million more than when Bill Clinton took office. The national personal savings rate was negative during much of the past year, and millions of Americans now face the prospect of retirement at sharply reduced living standards.

General weakness of the economy cannot be among the principal causes of this phenomenon. After all, the unemployment rate is at a 30-year low and real wage rates on middle-income workers are again rising after many years of stagnation. Increased spending by top earners may not be the *sole* cause of financial distress among middle-income families. But it is clearly an important cause.

It is also an indirect cause of the median voter's increasing reluctance to support expenditures for basic public goods and services once considered essential.[1] Nationwide, for example, more than 50 percent of our major roads and highways are in "backlog," meaning that they will cost from 2 to 5 times as much to repair as those for which maintenance is done on time. We also face an $84 billion backlog in the repair and replacement of the nation's bridges. Between blown tires, damaged wheels and axles, bent frames, misaligned front ends, destroyed mufflers, twisted suspension systems and other problems, potholes on American roads cause an average of $120 worth of damage per vehicle each year, and untold numbers of deaths and injuries.

We also spend less than we once did to assure the safety of the food we eat. Despite growing instances of contamination from E-coli 0157, listeria, and other highly toxic bacteria, the Food and Drug Administration had resources sufficient to conduct only 5,000 inspections of meat-processing plants in 1997, down from 21,000 in 1981. And although food imports have doubled since the 1980s, FDA inspections of imports have fallen by half during that period. Exposure to E-coli alone causes an estimated 20,000 infections a year, and between 200 and 500 deaths.

We have also been slow to upgrade our municipal water-supply systems. The century-old pipes in many of these systems are typically cast-iron fittings joined by lead solder. As these conduits age and rust, lead, manganese and other toxic metals leach into our drinking water. According to one estimate, some 45 million of us are currently served by water systems that deliver potentially dangerous levels of toxic metals, pesticides, and parasites.

We also have grown more reluctant to invest in cleaner air. The Environmental Protection Agency recently proposed a tightening of existing standards for concentrations of ozone and particulate matter that would prevent more than 140,000 cases of

acute respiratory distress each year and save more than 15,000 lives. The EPA proposal drew intense and immediate political fire, and bills were introduced in both houses of Congress to repeal the new standards, which have yet to be implemented.

Although overall spending on public education has not declined relative to historical norms, here, too, important inputs have not kept pace. For example, the national average starting salary for primary and secondary school teachers fell from 118 percent of the average salary of college graduates in 1963 to only 97 percent in 1994, a period that saw a significant decline in the average SAT scores of people who chose public school teaching as a profession. And although we know that children learn more effectively in small classes than in larger ones, we have offered fiscal distress as the reason for allowing class sizes to grow steadily larger during that same period.

Drug-treatment and prevention programs have also been heavy casualties of recent budget slashing. These programs not only work, they are also cheap, especially in relation to the enormous costs they prevent. A Rand Corporation study estimated that that every $1 spent on cocaine prevention and treatment programs saves $7 in future in law-enforcement and health-care expenses

We have slashed funding not only for services that benefit middle- and upper-income families, but also for hospitals that serve the poor, the Head Start program, the school lunch program, homeless shelters, and a host of other low-overhead programs that make life more bearable for our neediest citizens. We cut these programs not because they did not work, not because they destroyed incentives, but because the median voter feels he cannot afford them. And that fact, in large part, is a consequence of the growing income gap.

TIME FOR A TAX CUT?

In the summer of 1999, both houses of Congress voted for a bill that would have slashed personal income taxes in the United States by almost $800 billion, a measure that was not enacted only because Congressional leaders could not muster the votes to override President Clinton's veto. As the Republican Party's 2000 presidential nominee, George W. Bush proposed an even larger tax cut. A disproportionate share of the tax relief granted under these measures—45 percent under the House plan, 30 percent under the Senate version, and percentages in the same range for the Bush proposal—would go to the wealthiest one percent of households, those currently earning more than $300,000 a year.

In their defense of these proposals, tax-cutters claim the moral high ground. "It's a matter of principle," says Bill Archer, chairman of the House Ways and Means Committee, "to return excess tax money in Washington to the families and workers who sent it here." "Tax cuts should go to taxpayers," said Texas Senator Phil Gramm, explaining why his proposal would deliver most of the tax reductions to those with the highest incomes.

Archer, Bush, Gramm and other tax-cut proponents have built their case on the proposition that money spent in the private sector is almost always used more responsibly than money spent by bureaucrats. This claim has at least surface plausibility. The Pentagon's $7,600 coffee maker may have been an aberration, yet private fire companies often deliver comparable protection at half the cost of their municipal counterparts.[2]

Would tax cuts like the ones proposed provide budget relief for cash-strapped American families? Their initial effect would be to stimulate still further private spending by the upper-income families whose tax liabilities would decline the most. But for the reasons just discussed, higher spending by these families would set in motion a chain of additional spending by other families, all the way down the income ladder. Accordingly, the tax cutter's promise of relief for American families in financial distress is largely illusory. Most of these families feel pressure not because they're poor in any absolute sense, but because they're trying to match consumption standards that are beyond their reach. In the wake of a tax cut, struggling middle-class families would simply have to meet tougher standards.

Proponents of smaller government argue that if we let the government spend more money, there will be more waste. This is true, of course, but only in the trivial sense that there would be more of *everything* the government does—good and bad—if public spending were higher. The solution favored by many opponents of government waste, epitomized in the Proposition 13 movement in California, is to starve the government. But as Californians have belatedly recognized, this remedy is like trying to starve a tapeworm by not eating. Fasting does harm the tapeworm, sure enough, but it harms the host even more. Residents of the Golden State, who once proudly sent their children to the nation's best schools, now send them to some of its worst.

The physician treats an infected patient by prescribing drugs that are toxic to the parasite but not to the host. We might consider a similar strategy for attacking government waste. As a first step, we could insist that our representatives enact the campaign finance reform legislation currently before Congress—an action that, by itself, would do more to eliminate government waste than all the budget slashing of the recent past. Yet many of our leaders advocate tax cuts to curb government waste even as they vote against laws that would prevent them from accepting campaign contributions from special interests whose government subsidies they support.

There is no free lunch. Money that could be used to finance a tax cut could also be used to restore public services that deliver good value for our money. We must choose. Tired slogans about government waste are no substitute for informed debate about the relative merits of these alternatives.

CONCLUSION

Although middle-class families now enjoy slightly higher real incomes than in the 1970s, they also exhibit more widespread symptoms of personal financial distress and reduced willingness to support basic public services. An important cause of both changes, I have argued, is the increased spending spawned by extremely rapid growth in the income and wealth of top earners.

We are in the early stages of a technological revolution that promises to increase the income and wealth gaps still further [Frank and Cook, 1995]. If that happens, middle-class families will find it still harder to save, and still harder to scrape to-

gether a down payment on a house in a good school district. Their commutes will continue to grow longer, along with their reluctance to support essential services. Savings rates will continue to decline.

These problems merit serious attention from economists. But to think constructively about them, we must be prepared to relax our traditional assumption that absolute income is the only important economic determinant of welfare.

NOTES

1. For an extended discussion of recent cutbacks in basic public goods and services, see chapter 4 of my 1999 book.
2. As Sklar [2000] suggests, however, questionable accounting procedures undermine many of the examples purporting to show that private contractors have lower costs than government service providers.

REFERENCES

Frank, R. H. *Luxury Fever.* New York: The Free Press, 1999.

Frank, R. H. and Cook, P. *The Winner-Take-All Society.* New York: The Free Press, 1995.

Johnson, D. When Money Is Everything, Except Hers. *New York Times,* 28 October 1998, A1.

Kuczynski, A. A Benz for the Wrist. *New York Times*, 8 March 1998: Section 9, 1, 3.

Sklar, E. D. *You Don't Always Get What You Pay For.* Ithaca, NY: Cornell University Press, 2000.

Smith, A. *The Wealth of Nations.* New York: Random House, 1937.

Solnick, S. J. and Hemenway, D. Is More Always Better? A Survey on Positional Concerns. *Journal of Economic Behavior and Organization*, 373, November 1998

Wolff, E. Recent Trends in Wealth Ownership. Paper for the Conference on Benefits and Mechanisms for Spreading Asset Ownership in the United States, New York University, December 1998.