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## Are the Rich Driving Americans to Spend Too Much?

In his 1999 book, "[Luxury Fever](#)," [Robert H. Frank](#) (the Cornell economist, not yours truly) argued that the rich were driving America into debt.

Soaring incomes and luxury consumption at the top, he argued, was inspiring non-rich Americans to try to keep up with the much richer Joneses. They were going into debt, mortgaging their lives, working brutal hours and devoting their precious times to material consumption rather than happiness.

"The runaway spending at the top has been a virus," he wrote, "one that's spawned a luxury fever that, to one degree or another, has all of us in its grip."

A new paper by two economists at the University of Chicago Booth School of Business offers some new statistical evidence for the "trickle-down spending" theory.

According to the paper, by Marianne Bertrand and Adair Morse, cited in this week's [Economist](#), rising consumption by rich households induces the non-rich to consume more.

It finds that up to a quarter of the decline in the savings rate over the last three decades could be attributed to trickle-down consumption. The study also finds that households that are more exposed to spending by the rich report more "financial duress."

Even more surprising, it finds that politicians who represent areas of high inequality are more likely to vote for policies that increase credit – presumably to fuel the spending binges of its less-wealthy voters.

More wealth in your town, for instance, might lead to more Porsche dealers, country clubs and Louis Vuitton stores, which induce the non-rich to become customers.

Of course, there are other possible explanations for the correlations. Perhaps the non-rich are spending more because they're optimistic about their financial future — not because they want to keep up with the Gateses. And maybe the higher spending by the non-rich creates rich people (reversing the cause and effect).

It's also difficult to pinpoint a single reason why certain households are spending more or saving less.



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Still, the data looks at several alternative explanations and finds that “middle and lower income households expose to higher consumption by the rich also appear to consume more ‘rich’ goods, maybe because they are exposed to a higher supply of those goods in their market.”

Do you think “trickle down spending” is making Americans spend too much?

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