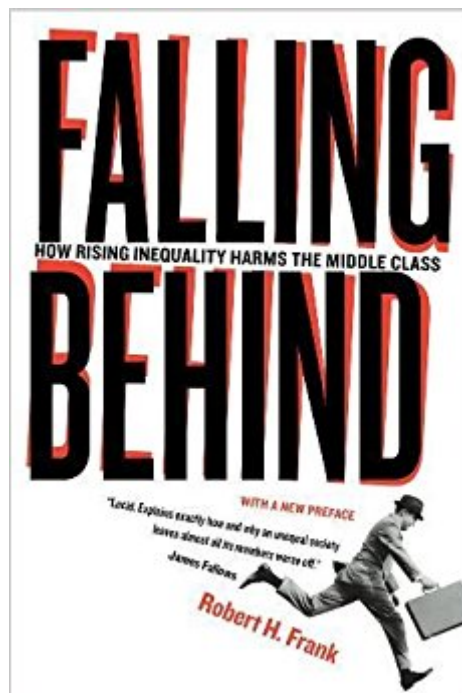




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# Falling Behind: How Rising Inequality Harms The Middle Class (Wildavsky Forum Series)



## Synopsis

With a timely new foreword by Robert Frank, this groundbreaking book explores the very meaning of happiness and prosperity in America today. Although middle-income families don't earn much more than they did several decades ago, they are buying bigger cars, houses, and appliances. To pay for them, they spend more than they earn and carry record levels of debt. Robert Frank explains how increased concentrations of income and wealth at the top of the economic pyramid have set off "expenditure cascades" that raise the cost of achieving many basic goals for the middle class. Writing in lively prose for a general audience, Frank employs up-to-date economic data and examples drawn from everyday life to shed light on reigning models of consumer behavior. He also suggests reforms that could mitigate the costs of inequality. *Falling Behind* compels us to rethink how and why we live our economic lives the way we do.

## Book Information

Series: Wildavsky Forum Series (Book 4)

Paperback: 176 pages

Publisher: University of California Press; Reprint edition (September 14, 2013)

Language: English

ISBN-10: 0520280520

ISBN-13: 978-0520280526

Product Dimensions: 5.5 x 0.5 x 8.2 inches

Shipping Weight: 7.8 ounces (View shipping rates and policies)

Average Customer Review: 3.9 out of 5 stars 19 customer reviews

Best Sellers Rank: #251,676 in Books (See Top 100 in Books) #76 in Books > Business & Money > Economics > Income Inequality #449 in Books > Politics & Social Sciences > Politics & Government > Specific Topics > Political Economy #458 in Books > Politics & Social Sciences > Sociology > Class

## Customer Reviews

Economist Frank argues that rising economic inequality harms the middle class, and he uses familiar examples to teach us about consumer behavior. One interesting example is the buying of larger and larger houses by those at the top levels of income and wealth, which leads families in the middle to spend a greater percentage of income on housing in order to send their children to a school of average quality. They must then spend less on other important categories while their real purchasing power over decades stagnates. We learn about the role of technology in shaking out

industries where a few become big winners and the rest hardly make it, explaining why foreign competition isn't always the reason. Frank's recommendation in favor of a progressive consumption tax is certain to draw controversy. This is an excellent book, written in an easy, understandable manner, alive with important examples of how our society spends its money and who are the winners and losers. Whaley, Mary --This text refers to an out of print or unavailable edition of this title.

"I've been a skeptic. Bob Frank is persistent. He's beginning to convince me."&#151;Thomas C. Schelling, author of *The Strategy of Conflict*"The arguments here are powerful and multidisciplinary. The crux is explaining how rising economic inequality causes harm to the middle class. It also offers a policy reform&#151;a progressive consumption tax&#151;that serves to mitigate this harm. This is a gem of a book."&#151;Lee S. Friedman, Professor of Public Policy, University of California at Berkeley"In this lively provocative book filled with memorable new examples, Bob Frank goes beyond his previous work (*Luxury Fever*, *Winner-Take-All Society*, and *Choosing the Right Pond*) and clarifies that 'falling behind' is a consequence not of envy but rather of the simple fact that a person's evaluation of his own possessions 'depends always and everywhere on context'&#151;an unconscious comparison with his neighbor's possessions or with his own previous possessions. His illuminating interchange with prominent discussants is a unique contribution of this book."&#151;Laurence Seidman, Chaplin Tyler Professor of Economics, University of Delaware"You may think that you understand what's in Bob Frank's earlier books, *Choosing the Right Pond* and *Luxury Fever*. You may even have read them. Nevertheless, if you pay even passing attention to the big economic policy questions, you should still read his latest contribution, *Falling Behind*. In this century, distributional concerns will top the policy agenda. This masterful essay will change how you think about them."&#151;Paul Romer, Stanford University"The most influential ideas often turn out to be those that seem obvious&#151;once someone has had the wit to point them out. Robert Frank's ideas in *Falling Behind* meet this test. In this short, lucid set of essays he explains exactly how and why an unequal society leaves almost all its members worse-off, including most of those who objectively are doing 'better.' This is a very important application of economic logic to modern America's main domestic problem."&#151;James Fallows, National Correspondent, *The Atlantic Monthly*"Robert Frank escapes the fog of economics wars by illuminating the meaning of facts on the ground, not numerical theories in the sky. He sketches a theory of human economic nature and links it responsibly to the rickety choices of policy-makers who have no such theory or, worse, a truly faulty one."&#151;Lionel Tiger, Rutgers

University"Robert Frank is the rare sort of economist whose work disconcerts economists and delights the rest of us. This is not mainly because he mischievously highlights the blind spots of his learned profession, but because his insights reveal fundamental, unnoticed, and yet very important truths about the society in which we live. As inequality has grown in America over the last three decades, Frank shows in this fluent and powerful little book, we have all been led by human nature to act in ways that are bad for virtually everyone. Frank's ideas should play an important and innovative role in the gathering debate about inequality in America."&#151;Robert D. Putnam, Harvard University

The subject of income inequality took center stage in the public mind only in 2010 with the advent of Occupy Wall Street, but the widening gap between the top 1% and the rest of us had been the subject of fierce debate in economic circles for many years previously. Robert H. Frank made a notable " and eminently readable " contribution to the public discussion with his widely read 1995 book, co-authored with Philip J. Cook, *The Winner-Take-All Society*. A decade later, Frank delivered the Aaron Wildavsky Lecture at UC Berkeley's Goldman School of Public Policy on the same broad topic. Frank expanded the lecture into a book under the title *Falling Behind* in 2007, published by UC Berkeley Press. Last year the Press reissued the book with a new preface by the author. In *Falling Behind*, Frank goes far beyond the superficial coverage of income inequality in much of the media, which is largely limited to dramatizing just how far and fast the gap has grown between the haves and have-nots. That's old hat now (though it wasn't in 2007). Making use of homey thought experiments and references to behavioral psychology, Frank explains how income inequality forces people of lower or middle income to spend more than they can afford on housing, clothing, and sometimes even food " and how the policies that foster inequality worsen the "tragedy of the commons," saddling society with inadequate public transportation, polluted air and water, crumbling infrastructure, and other frequently neglected problems. Frank challenges conventional economic thought by introducing such concepts as "the rising cost of adequate," "expenditure cascades" (tantamount to an arms race between the economic classes), "relative deprivation," and "positional" versus "nonpositional" goods (broadly speaking, personal consumption as opposed to socially desirable goods). The discussion is eye-opening and well worth the few hours needed to read this short but powerful book. Frank closes *Falling Behind* with a discussion of progressive consumption taxation as the way to lessen income inequality and generate additional revenue to pay for such long-neglected public goods as maintenance of bridges

and roads. A policy of this sort, Frank asserts, "could be achieved by a simple one-line amendment to the federal tax code" namely, by making savings exempt from tax. Since the difference between income and savings (or investments) is the amount spent on consumption, a sharply rising tax on this amount "climbing to as much as 200% above \$4 million" would provide disincentives for the superrich to spend ever rising sums on mansions, yachts, and jewels. At the same time, a progressive consumption tax could insulate the working poor from federal tax with a standard deduction of \$7,500 or more per person. Meanwhile, tax revenues would jump sharply. Given the current political environment, any policy of this sort is a non-starter, as Frank freely concedes. But political conditions change; the pendulum swings. Perhaps next year, or the next decade, will allow an intelligent public discourse on the remedies for our society's mounting ills.

This book provides many great examples and evidence of positional goods. A positional good is a good in which the owner derives utility not from its intrinsic quality, but its quality relative to others. A classic example is house size: many people want a large house not for its own sake, but as a form of conspicuous consumption to show off to their friends. House sizes have been rising at an unnatural rate and so has housing debt. I disagree that inequality is the cause of all these problems. There are two other agents at fault: the individual, and government. Individuals are often stupid, and short-sighted decisions to consume conspicuously, often to their long-run unhappiness. Governments, too, encourage positional good spending, by offering mortgage interest tax deductions and rigid public school districts that have no doubt helped create artificial real estate premiums. I disagree that a redistributive aggressive progressive consumption tax would solve all our woes. A consumption tax in itself may be superior to our present income tax, but the aggressive redistribution he advocates, just for the purpose of curbing inequality, just sounds too much like left-wing propaganda.

Short, concise and brilliant.

"Read it" for class, got an A.

Nice!

This was a great book that I chose for my Microeconomics course. It truly encompassed what we as

a Nation are facing.

If you read *Luxury Fever*, you've already read this book. All of his examples are identical to those found in his earlier book. Whether he is speaking of grills, business suits or elk, Mr. Frank is very much against anyone or anything being bigger or better than the rest. According to the author, no one has the mentality to resist following the crowd by spending more than Mr. Frank thinks they should spend. He feels that if people buy smaller houses, cheaper appliances etc. then there is more money available for the government to confiscate in order to spend for the public good. Mr. Frank definitely believes that the government is better able to spend your money than you are.

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