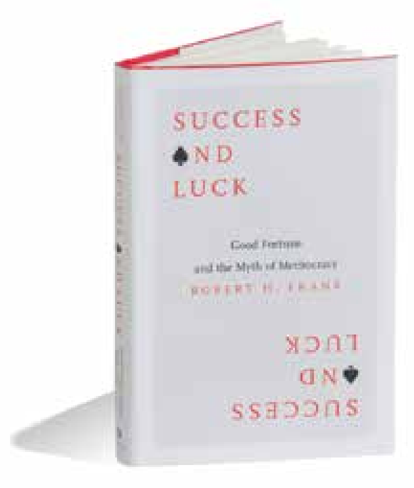
When Winners Don't Take All



Robert H. Frank

Success and Luck

Good Fortune and the Myth of Meritocracy

Princeton University Press, Princeton, New Jersey, 2016, 187 pp., $26.95 (cloth).

In their 1995 book, *The Winner-Take-All Society*, Philip Cook and Robert Frank looked at the competition for fewer and larger rewards in winner-take-all markets. They postulate that these markets—in which the best performers capture the most rewards, leaving remaining competitors with very little—have led to spiraling income inequality, higher consumption spending, and perhaps, with their emphasis on winners only, a dilution of culture itself. Since that book's publication, Frank has been a strong proponent of the idea that a progressive consumption tax might end the income inequality spiral and divert funds from consumption spending to saving and investment.

His latest book, *Success and Luck,* follows naturally from his earlier work. It is a compelling discussion of how winner-take-all markets work, the rising income inequality and "expenditure cascades" in these markets, the economic need for winners to acknowledge the role of luck in such markets and thereby be willing to share their winnings for the common good, and how a change in tax policy might ameliorate some of these problems.

Frank, a professor of management and economics at Cornell University, argues that talent and hard work alone do not necessarily lead to proportional success in the market. Chance events such as being born into the right family (the influence of genes and early family advantage) or the right country (the influence of the physical, financial, cultural, and educational environment) also contribute greatly to success.

The effect of these chance events, or luck, is magnified in winner-take-all markets, he says. The winner, who may be only slightly better than the second best, takes all, thanks to open markets, most people's inability to choose among competing options because of a lack of time and energy, and the network effects of social media. Thus, rewards depend more on relative than absolute performance (think of the incentives for athletes to dope!), and rewards are highly concentrated in the hands of a few. Winners then lobby government to lower top tax rates and reduce regulations, which leads to spiraling income and wealth inequality.

One interesting implication is that as the wealthy spend more, those in lower income tiers also spend more—what Frank terms the positional arms race. The idea of what is "adequate" keeps changing with rising income inequality (reminiscent of Amartya Sen's influential essay *Poor, Relatively Speaking*). For those with lower incomes, this creates inordinate financial distress.

Frank then introduces the role of luck in winner-take-all markets. Using simulations, he illustrates why the biggest winners are almost always lucky—when all competitors are extremely talented and hard-working, winning requires almost everything to go right. Drawing on behavioral economics and experiments in psychology, Frank shows that winners themselves tend to downplay the role of luck. The notion that they worked hard is cognitively more "available" than the notion that they were lucky. And downplaying the role of luck encourages more hard work and effort.

Frank claims that there is an economic cost to underestimating the importance of luck. Winners who believe they have a legitimate claim to their winnings become reluctant taxpayers, making it more difficult to raise revenue for economic investment. Those who acknowledge luck's role in their lives are more likely to feel grateful for their success—and to share their winnings to support the common good.

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Finally, Frank argues that a change in tax policy—replacing the current progressive income tax with a much more steeply progressive consumption tax—could increase saving and investment and reduce spending. He shows evidence of both conservative and liberal interest in such a tax and provides examples of how it could be implemented.

Given the rising concern with income inequality during this U.S. election season, the tenuousness of the U.S. federal government's budget as baby boomers retire, and the urgent need for infrastructure investment, this book could not be more timely. It is not just another tax proposal; the author has deftly constructed a coherent framework for understanding some of society's most pressing issues. It is a quick and thought-provoking read—and provides far more economic insight than its title suggests.

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