

SUMMARY SUCCESS AND LUCK

ROBERT H. FRANK



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Summary of “Success and Luck” by Robert H. Frank

Written by Lea Schullery

Good Fortune and the Myth of Meritocracy

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Introduction

When you think of successful people like Steve Jobs, Elon Musk, and Bill Gates, you probably think of people who amassed a great fortune because of their talent and hard work. But what did they do that you can't? In recent years, social scientists have discovered that it might not just be talent and hard work that can get you to the top; instead, chance events play a much larger role in important life outcomes than previously believed.

The term *meritocracy* was coined in 1958 by British sociologist Michael Young in his satire called *The Rise of Meritocracy*. He argued that encouraging successful people to attribute their success solely on their own efforts and abilities would turn into a disaster. And while appointing people to jobs based on their merit makes good sense, it eventually creates an elite social class that excludes others. Unfortunately, in meritocratic individualistic societies, saying that top earners may have had some luck on their side is equivalent to telling them that they don't quite belong on top. But this isn't the case at all. Instead, the rhetoric of meritocracy simply camouflages the fact that success and failure are often decided on events completely beyond any individual's control. For example, Michael Lewis once spoke at a commencement ceremony describing the improbable chain of events that helped him become a rich and famous author - it wasn't all just talent and skills. It was also about being in the right place at the right time. In *Success and Luck*, author Robert H. Frank explores the role luck plays in success, and argues that no one person is entirely self-made - luck was always on that person's side.



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The Role of Hindsight Bias

If you've ever been in an accident, you might recognize that there was nothing you could have done to prevent the accident from happening - it was simply unpredictable. And like that accident, the world is equally unpredictable. However, we often play the accident over and over again in our minds and tell ourselves that the accident *was* preventable. If only I had slowed down, looked left, or simply reacted more quickly. We go through each "What If" scenario and assume that the event was predictable, even when it wasn't. This phenomenon is called *hindsight bias*.

"Psychologists use the term 'hindsight bias' to describe the tendency to think that events are more predictable than they are." For instance, in the late 1940s, sociologist Paul Lazarsfeld released the results of a study that found that World War II soldiers from rural areas were much better at coping with the demands of military life when compared to their urban counterparts. And just as Lazarsfeld predicted, the people who read the study found the results unsurprising: "Of course the grueling lives led by rural men would make them better equipped to endure wartime stresses!" The funny thing is, this study was a complete hoax. In fact, the actual study found the reverse to be true: soldiers from urban areas fared better in the military. The point was that when you think you already know what happened, you tend to invent reasons for why it happened.

In addition to Lazarsfeld's work, sociologist Duncan Watts argued that hindsight bias works to propel people to fame and success. This may seem unbelievable, but let's take a look at the most famous painting in the world, the *Mona Lisa*. In 1911, the painting was stolen by an Italian maintenance worker at the Louvre, an event that became widely publicized. The crime remained unsolved until the thief, Vincenzo Peruggia, attempted to sell the painting to the Uffizi Gallery in Florence. The French were outraged but the Italians hailed Peruggia as a patriot who simply wanted to return the painting home. In reality, Peruggia wasn't trying to do some heroic act, he

simply wanted to get rid of the painting! Because of the international press, the Mona Lisa became the first work of art to achieve global fame.

So while the painting was certainly the result of a talented artist, it was the chance events that truly mattered. It was the sheer luck surrounding Peruggia's decision to steal the painting and simply get rid of it in Italy that propelled it to international praise and recognition.



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We Live in a Winner-Takes-All Society

“Why do hardworking people with similar talents and training often earn such dramatically different incomes? And why, too, have these earning gaps grown so much larger in recent decades?” Today, we live in a winner-take-all society where those in the top 1 percent didn’t get there by simple luck; instead, it was their access to human capital that became far more valuable when making it to the top. For instance, those small local shops are less viable today due to the dramatic decrease in shipping costs. In the past, it was cheaper to buy locally versus to ship it elsewhere. Today, however, transport networks have grown globally, meaning local businesses must now compete with the global market.

The internet has only amplified this problem. Customers can find anything they want online and have it shipped to them in just a few days. This allows big businesses to continue to prosper; meanwhile, smaller local businesses are fighting to stay afloat. For instance, local accountants became displaced in two waves - first by franchised services like H&R Block and then by tax software available to the masses. Furthermore, the winner-take-all market means that rewards are highly concentrated in the hands of a few at the top. This is especially true in the entertainment and music industry.

Today, it seems as if popular artists can bring in a countless amount of money. But what makes them different from their nearest rival who earns much less? Today’s top sellers are becoming even more popular thanks to technology. For instance, people today have less time and energy to sift through the million-plus offerings of music in Apple’s Music Store. Therefore, most people simply focus on the most popular entries in each category. Additionally, producers can use sophisticated search algorithms to reach their target audience for much cheaper than using traditional marketing.

We can also take a look at the soloists in classical music who are often paid more than the rest of the orchestra. This wide gap is only getting bigger as

opera buffs today only want to hear the most renowned singers perform. And with the recording technologies of today, the demand for classical singers is dwindling. For instance, author Robert Frank states that “Most people today would have difficulty naming more than three tenors. That’s because the market no longer ‘needs’ more than a handful of tenors.” While it may seem as if the market is solely responsible for rewarding these entertainers and big businesses, it’s also a bit of sheer luck!



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The Role of Luck

Reddit, an online forum, once asked its readers a simple question: “What’s the most statistically improbable thing that ever happened to you?” One person retold the story of the time he was in the middle of making an omelette and answered his door while holding an egg. The person at the door happened to be his neighbor asking if he could borrow an egg. He goes on to say, “The look of confusion on her face when I produced one on the spot was matched only by my own. She took it and left without saying a word.” The odds of something like this happening are truly remote, which is why few of us will ever experience this specific chain of events.

But as a whole, the odds of that chain of that event happening aren’t minuscule at all. “In the United States alone there are hundreds of millions of adults and therefore hundreds of millions of breakfast hours each day. Let twenty years pass and we have more than a trillion breakfast hours during which the events described could have occurred to *someone*.” Most of the things we experience in life are the result of complex combinations of events, and we experience millions of events throughout our lifetime; therefore, it only makes sense that a few of these events would seem stupefyingly improbable.

For instance, like tens of millions of other American boys, author Robert Frank shared the dream of becoming a professional baseball player. After realizing the hard work and dedication it takes to achieve this dream, many boys abandon this dream by the time they reach high school. Even then, a large number of others continue their quest. According to the High School Baseball Web, there are more than 450,000 players on almost 15,000 teams. Of the more than 140,000 eligible for the professional baseball draft, only 1,500 are selected each year. What’s more, there are only 30 Major League Baseball teams, each one with a 25-player roster. Statistically, most of those 1,500 will never play a single inning.

And it is chance events that determine success in competitions. “That’s because winning a competition with a large number of contestants requires that almost everything go right. And that, in turn, means that even when luck counts for only a trivial part of overall performance, there’s rarely a winner who wasn’t also very lucky.” For example, wind direction plays a considerable role in track and field events. Seven of the eight world record holders in the 100-meter dash, the 110-meter hurdles (100 meters for women), the long jump, and triple jump were lucky enough to have had a tailwind behind them when setting those records.

While we don’t like to acknowledge it, luck plays a significant role in our success and failure of events; in fact, it can even mean the difference between winning and losing in certain competitions!



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The Roles of Taxes

There are only two certain things in life: death and taxes. You've likely heard this popular saying before, after all, death and taxes are two inevitables that we will encounter in our lifetime. Many people dread both, and the mistake that many wealthy people make about taxes is that higher taxes would make it significantly harder to buy what they want.

Additionally, they believe higher taxes will impact their buying power, but the economy doesn't quite work that way. If the government raises taxes, the taxes of other people go up as well, which means your buying power stays relatively the same.

Sure if you were to lose a job, your buying power would certainly decline, but when everyone's income declines simultaneously, relative purchasing power is unaffected. Not only do the rich fail to appreciate the distinction between across-the-board income declines, but they also underestimate the importance of luck. You see, when smart, hardworking people make it to the top, it is only natural for them to credit their success to talent and hard work alone. As a result, they feel more entitled to keep the lion's share of the income they've earned, and they feel that taxation is the equivalence of theft.

However, a country without mandatory taxation is a highly unstable one. It wouldn't be able to fund a military and would quickly be taken over by a country that did have one, and they would soon be paying taxes to that country. So while few people enjoy paying taxes, a world without taxes would be far worse. This is because tax money isn't just money that simply goes away; instead, that money goes back into the country's infrastructure. And tax money that is spent wisely creates the necessary conditions to cultivate luck. Therefore, rich people should be grateful for being able to live in a country with roads, good schools, and established legal systems that are made and maintained with tax revenue. In other words, the rich shouldn't oppose higher taxes, after all, it was those taxes that helped them succeed in the first place!



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Why We Spend More Money

Let's say you spend \$2,000 on a new bike. Now, you have \$2,000 less to spend on travel and entertainment, right? "As economists like to say, there's no free lunch. By this, we mean simply that all things we value come at a cost, explicit or implicit." And as humans, our spending patterns lead to waste, easily amounting to several trillion dollars a year. This waste doesn't occur because we are spending carelessly either, but rather because our individual incentives lead us to spend money in ways we think benefits us best.

For instance, how much are people willing to spend on a wedding? For many, the answer varies, but most want their guests to remember the special occasion. In 1980, the cost of an average American wedding, adjusted for inflation, was \$11,000. But by 2014, that figure rose to \$30,000, and in Manhattan, the average wedding now costs more than \$76,000! So why are people willing to spend so much? As humans, we are easily influenced by the actions of others, so when we see others spending a crazy amount on a wedding, we are likely to do the same. Many call this "keeping up with the Joneses."

However, today's more expensive weddings haven't made marrying couples any happier. In fact, the Social Science Research Network revealed that spending more on your wedding day increases your likelihood of divorce. In addition to social pressures to spend more money, failing to keep pace with community spending norms may have more consequences than we realize. For example, failing to keep pace with what others are spending on housing doesn't just mean that you will be living in a smaller house. It also means having to send your children to inferior schools.

While a "good" school may be a relative concept, indeed, the better schools are always those in more expensive neighborhoods. Schools recruit students from the surrounding district, so if you want to send your child to a "good" school, you'll need to shell out the money to move to a fancier

neighborhood. And while we are spending more money on houses and parties, we have less money in our pockets, and as a result, we do everything we can to pay fewer taxes. When there is less tax money for schools and other public services, those services begin to deteriorate. People will then turn to private schools and other privatized amenities, which will only widen the gap of inequality.



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The Answer Lies in a Progressive Consumption Tax

While it may seem that we are doomed to keep on spending, there is a solution. What is it? More taxes. You might not like this solution, but let's explain. We are already faced with paying tax as we see income taxes taken out of our paychecks and sales taxes taken out of our everyday purchases. But the tax system is not meant to leave you broke, it's meant to improve your quality of life and make your life better. And when properly implemented, it can help us change our spending habits. Additionally, it can ensure that our taxes are going to where society needs them most: infrastructure and education. Simply put, we could abandon the current progressive income tax and adopt a progressive consumption tax.

Under the system, people would report their incomes as they do now, and also report their annual savings. So a family that earned \$100,000 and saved \$20,000 in a tax year would have an annual consumption of \$80,000. If the standard deduction were \$30,000, this family would only pay tax on the remaining \$50,000. The tax rate would start low and then rise steadily as taxable consumption increased, meaning it would increase with your earnings and spending. This system encourages saving and investment, and in the end, you'll be taxed less for saving more!

The wealthy often believe that higher taxes would make them less able to buy what they want. But remember from a previous chapter, if all of society cuts back, then it won't necessarily affect their buying power. For example, "in a society with a progressive consumption tax, the wealthiest drivers might buy a Porsche 911 Turbo for \$150,000 rather than a Ferrari Berlinetta F12 for more than twice that amount. But since everyone would be scaling back, that society's Porsche owners would be just as excited about their cars as Ferrari owners are under the current tax system."

Remember, evidence shows that bigger houses and extravagant weddings don't make the rich any happier. So why not scale back? And the benefits

don't stop there. A progressive consumption tax would also generate additional revenue to help pay for better infrastructure and education. Today, Ferrari owners are driving expensive cars on poorly-paved roads. But with this new tax system, people could be driving Porsche 911 Turbos on roads that don't cause their cars any damage. Ultimately, reorganizing the tax system would keep our society lucky. If enacted, people will begin to appreciate how lucky we were that our historical spending patterns were so wasteful. And without making any painful sacrifices, we will be able to live in a society that greatly benefits everyone. In the words of author Robert Frank, "It's a golden opportunity that's ours for the taking."



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Final Summary

While the wealthy like to attribute their success to their own talent and abilities, the truth is that their success wouldn't exist without luck. When we hear great success stories in sports, the business world, and even in the arts, we see that no one has made it entirely on their own. Instead, luck was on their side too. And if we turn to a progressive consumption tax system, we can keep that luck on our side. In our current system, it's hard to ignore the poorly maintained roads and the failures of the public school system to produce qualified workers - both of which affect the wealthy as well. The new system would mutually benefit everyone by providing funding for better schools and other publicly funded systems. After all, it is these institutions that keep us lucky and keep our society successful.



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