The Velvet Rope Economy How Inequality Became Big Business

New York Times economic specialist Nelson D. Schwartz explores the “velvet ropes” that

businesses – and, increasingly, public institutions – erect to separate haves from have-nots. The

have-nots suffer long lines and shabby treatment. The haves get fast lanes of such improved

circumstances that they don’t notice or care about the dilapidation of services for everybody else.

These socioeconomic fault lines isolate groups of people from one another – based on ability to

pay – and fray the social cohesion that binds communities and creates broad support for their

institutions.

Take-Aways

• “Velvet Rope” divisions pervade the economy, separating consumers into tiers according to how much they can pay for extra services.

• Marketers encourage “benign envy” to drive customers to aspire for higher status and to spend more on perks.

• Sports and music events have their distinct versions of velvet ropes.

• Affluent consumers want a “seamless experience” and will pay to jump to the front of every line.

• When “jumping the line” means greater access to medical specialists, the stakes are life and death.

• Money may not buy happiness, but it can buy greater security in an increasingly uncertain

world.

• Extra fees for sports, tutoring or extra school resources exclude kids from opportunities.

• “Pay-to-play” systems divide communities.

• Local businesses keep communities vibrant.

• Citizens can reject the “Velvet Rope Economy.”

Summary

“Velvet Rope” divisions pervade the economy, separating consumers into tiers

according to how much they can pay for extra services.

After World War II, all Americans enjoyed basically the same amenities. The wealthy mixed with

the less affluent. Now, the “Velvet Rope Economy” funnels more perks to the wealthy and isolates

the poor. The affluent world is increasingly frictionless, while increased friction has become the

daily norm for everybody else. The poor have fewer options and shabbier experiences.

“As the public sector is replaced by private services aimed at the elite, the very foundation

of the republic is eroded.”

For 90% of Americans, income has been flat since the 1970s. Income rose for the remaining 10%,

and soared for the richest 1%, especially the top one-tenth of 1%. Wall Street demands constant

growth, so businesses focus on the rich. Catering to the rich is easier than selling to a mass market.

Profit margins per unit are larger, and businesses needn’t scale up. Using artificial intelligence

(AI), companies target big spenders and shower them with perks.

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Marketers balance “benign” and “malicious” envy, since one causes customers to spend more

and the other makes them angry about what they’re missing. For example, frequent flier miles

target the 20% of fliers who create 80% of airline profits. Customers earn extras for flying, staying

at specific hotels, renting cars from certain firms, visiting casinos and even getting coffee. “Soft

benefits” like separate entrances and personalized attention denote higher status. These tiers

create a caste system.Even banks calculate your “customer life value,” and the service you get from

them reflects that valuation. Marketers exploit envy by following these guidelines:

• The smaller the most elite level is, the more superior its members feel.

• To avoid diluting the perception of high status, marketers create a secondary elite tier. This

heightens status perceptions at the top level and creates status envy in lower levels.

• The top level will pay attention only to the secondary tier.

Sports and music events have their distinct versions of velvet ropes.

Starting in the mid-1980s, privately funded sports stadiums adopted tiered marketing strategies

and sold premium seats. Perks vary – the NBA’s Boston Celtics’ exclusive floor seats sell out,

though the best views are from seats five rows up. “Personal seat licenses” (PSLs) put attending a

National Football League game out of reach for many fans. For example, NFL Dallas Cowboys sell

some PSLs for six figures. “Founders Club” and “Owners Club” members pay well to have their

own entrances and viewing spaces, exploiting the instinct to separate “us and them.”

“These findings suggest that the need to keep a certain number of individuals close to us, while driving everyone else away, is something we’re born with.” For festivals like Coachella, the illusion of egalitarianism matters, especially when performers express anti-authoritarian messages. Such events have unobtrusive VIP areas. By leaving general admission areas alone, the event’s organizers balance a “collective experience” with exclusivity. Affluent consumers want a “seamless experience” and will pay to jump to the front of every line. In his lifetime, Walt Disney ruled out tiers for Disneyland, but Disney parks now have subtle luxury levels. Digital apps allow guests to reserve rides. Rides feature fast lines for people with reservations, and slower lines for those without. Disney includes three reservations with every basic ticket to justify the preferential treatment: Everyone can use this perk. People can reserve additional reservation slots by booking more expensive rooms at Disney hotels. Park VIP tours “make lines disappear” at $435 to $625 per hour. At Six Flags, for example, a family can pay $700 to skip lines all day. “Polarization has lifelong consequences. Isolated from better-off peers, children growing up in poor neighborhoods are less likely to complete college, earn less once they enter the workforce and are more likely to become single parents.” People can travel from Manhattan to the exclusive east end of Long Island on the Blade helicopter service. It takes 35 minutes, instead of five hours by car or three hours by train. Prices are $365 to $1,425 per trip, compared to $35 for a train ticket. On Houston’s Katy Freeway – as in 40 other US cities – drivers pay a fee to use the faster, high-occupancy vehicle (HOV) lanes, or “Lexus Lanes.” Inadequate transit systems cause traffic jams, but political donors who pay to skip those tie-ups seldom pressure local governments for improvements. When the affluent don’t have to follow social rules, trust in public order declines. When “jumping the line” means greater access to medical specialists, the stakes are life and death. Wealthy people in Silicon Valley and San Francisco access velvet-rope medical care. Some pay as much as $100,000 per year for “concierge” services. For one doctor, Jordan Shlain, such fees cover visits, tests and in-house procedures. He’s always available to boutique patients, and he makes house calls. He gets his patients in to see top specialists. Time matters more than money to those who have the cash. In some cases, it’s the difference between life and death, as when cancer patients pay a private consultant for access to clinical trials that might save them. The wealthiest 1% of Americans live 15 years longer than the poorest. Affluent parents can hire IvyWise to navigate the college admissions process for fees starting at $1,350 and rising to $150,000. IvyWise counselors, many of whom are former admissions officers at top schools, help students stand out in ways that seem authentic. Across the United States, college acceptance in private and top public schools is growing increasingly competitive. In the 1980s, Harvard admitted 16% of applicants. By 2017, it admitted 5.3%. “A child born into the one percent is 77 times more likely to attend an Ivy League college than a child born into the bottom fifth of American households.” Alumni networks reinforce the have/have-not split by setting lifelong connections for top-tier graduates, further isolating the rich. Money may not buy happiness, but it can buy greater security in an increasingly uncertain world. California’s wildfires threaten everyone. But affluent homeowners purchase the assistance of private firefighters, such as the Chubb Wildfire Defense Services. In 2017, the Tubbs fire destroyed 20% of that area’s business and residential properties as well as the local fire department. The local tax base fell drastically, crippling the fire department’s ability to rebuild and prepare for the future. Private firefighters protect only insured properties. Gavin de Becker and Associates facilitates travel for rich people, public figures and celebrities. De Becker contracted with the Los Angeles airport to build a separate luxury terminal, the Private Suite, to help wealthy travelers board commercial flights while avoiding the airport. This facility generates $350,000 monthly for Los Angeles. Commercial airlines love it since they can regain travel business that private fliers had taken. The costs are much lower than charters. Public airports provide a luxury, hassle-free experience for the wealthy, while everyone else suffers bigger crowds, longer lines and greater tedium. Extra fees for sports, tutoring or extra school resources exclude kids from opportunities. As the population increased in New Albany, an upper-class suburban community in Ohio, attendance rose at the local schools, but the school district budget remained the same. Voters rejected every school tax increase. Schools turned to other revenue models, such as asking parents to pay $625 “per sport, per semester” for kids to participate on school teams. Some families could pay for only one sport. Many couldn’t pay at all. Others had unlimited access. The issue divided the community. Unlike cutting to the front of a theme park line, this “payto-play” scheme is mandatory. Club teams – not linked to schools – cost thousands yearly. For school and private sports teams, money counts more than talent. Fees cost the wealthy less than the higher property taxes they would pay in superior school districts. “Public services begin to resemble the private sector, where money takes priority over citizenship and gives society’s most likely to succeed an additional head start.”

Public School (PS) 191 and PS 87 are 15 blocks apart in Manhattan, but the students at PS 87 come from more affluent families. Although PS 191 receives more state aid per student, PS 87’s PTA raises more than $1.5 million per year. In a good year, PS 191’s PTA raises $30,000. The schools use the extra money to hire teachers’ aides and to fund art programs and trips. Academic performance has declined at PS 191 and improved at PS 87. In contrast, Portland, Oregon pools a portion of PTA revenues exceeding $10,000 to spread the benefits. Pay-to-play systems divide communities. Mission Bay Hospital of the University of California – San Francisco has top specialists, and most patients have private insurance. Across the bay, in San Pablo and Richmond, 20% of residents, mostly nonwhite, live in poverty. Many suffer obesity, diabetes, asthma and high blood pressure. Only 10% of emergency room patients at Doctors Medical Center (DMC) had private insurance; 10% had no insurance, and 80% relied on Medicare or Medi-Cal, the state Medicaid program. “The higher reimbursement rates of privately insured patients make up for the low reimbursement rates offered by government plans. As long as a favorable balance is maintained, hospitals can serve a broad swath of the community while remaining solvent.” Hospitals segregate patients by income. Public hospitals in low-income, racially segregated neighborhoods have a 20% higher chance of closing, which is what happened to the DMC. Now its former location is a parking lot for the San Pablo Lytton Casino. In small cities, hospitals are the largest employers. When they close, regional economies suffer as well as local health care. Cash-strapped law enforcement agencies can’t afford to put people in jail. Pay-to-play, “pretrial diversion programs” keep some people out from behind bars for a price. In Santa Ana, some prisoners pay $110 nightly for a more comfortable cell that enables them to avoid the more dangerous country jail. The justice system charges the nonwealthy oppressive fines. For example, when Christina Kovats left jail, she owed more than $10,000 in fines, but her job as a hairdresser paid only $8.50 per hour. Nonprofits like the ACLU are challenging this system, arguing that “excessive fines” are unconstitutional, as is jailing people because they can’t pay these fines. Everywhere, those without money shoulder the burdens of public systems. Local businesses keep communities vibrant. The rich get designer stores, while the poor get dollar stores. Thramer’s Food Center in Blue Hill, Nebraska, is the heart of its community. But in 2017, Dollar General moved to town. Dollar General doesn’t sell fresh produce or meat, but it undercuts Thramer’s on other groceries.

“By targeting low-income consumers in rural America and poorer sections of big cities, dollar stores have found fertile ground. The two largest chains, Dollar General and Dollar Tree, have over 30,000 outlets.” The revenues of locally owned stores have a “multiplier effect” as they recirculate in the community, but national chains send their profits to headquarters and shareholders. Groceries anchor downtown blocks and provide foot traffic for other local stores. Being paid as part-timers or contract workers undercuts poor working people. For instance, cafeteria workers once were once restaurant employees. Now they serve as hired hands under an outsourced contract, which erodes their sense of shared purpose and community. Such fractures destroy the societal fabric of a republic. Citizens can reject the “Velvet Rope Economy.” Southwest Airlines has one class of fliers. Passengers pay extra to board early, but the company offers no other tiers. Customers love Southwest, the industry’s most profitable carrier. The airline and other companies prove that an egalitarian approach can be good for business. For instance, stores without tiers – Starbucks, Best Buy, Target – are perennial top performers. New York University waived med students’ tuition in 2018 to encourage poorer people to apply, and they did. The program freed students from debt and enabled them to pursue less lucrative medical specialties. “As a society, we need to recognize that we’ve let public institutions like hospitals, fire departments, state colleges, airports and libraries suffer from decades of underinvestment. Rebuilding them would blunt some of the extremes in inequality.” To limit the damage done by the Velvet Rope Economy, policymakers should take other steps to help create an egalitarian business and political culture. Businesspeople should: 1. Know that leadership matters. 2. Understand that solutions don’t have to be perfect to be good. 3. Be inclusive. Remove barriers to serving customers instead of building them. 4. Vote with your consumer dollars. Support independent, local grocers, community amenities and schools. Government should stop prioritizing tax cuts for the rich and should cut taxes for the middle class, so they can invest more into their local economies.