

## John Kenneth Galbraith

(1908- )

*In the 1960s, two economists with contrasting views were best known to the general public. One was Milton Friedman, known for his conservative or libertarian views; the other was John Kenneth Galbraith, known for his liberal views. Galbraith followed in the steps of earlier liberal economists who favored a larger government role in the economy, but his writing ability quickly led him away from technical economics into writing for the general public. This had two effects: it made him extremely well known, and it meant that his provocative ideas had little influence on the actual movement of the profession. The profession discussed his ideas, but somehow few of them became incorporated into economic thinking. He is a prolific author, and three of his most famous books are American Capitalism, The Affluent Society, and The New Industrial State. This selection, taken from The Affluent Society, discusses the "dependence effect," an idea that parallels and further develops Veblen's notion of "conspicuous consumption." Specifically, Galbraith argues that the process of production creates wants and then satisfies them. Thus, it is an open question whether the production has made humankind better off, because if it had not created wants, humankind would not know what it was missing.*

*Note that in the selection he mentions "Messrs. Batten, Barton, Durstine & Osborn." "Messrs." is an old-fashioned abbreviation used in front of a series of names to mean more than one Mr.—that is, a number of people all of whom individually could be called "Mr." Galbraith's point in mentioning these people is that Batten, Barton, Durstine & Osborn was, and still is, a prominent New York advertising agency.*

John Kenneth Galbraith. 1952. *The Affluent Society*. Boston: Houghton Mifflin, pp. 126-131.

### The Dependence Effect

The notion that wants do not become less urgent the more amply the individual is supplied is broadly repugnant to common sense. It is something to be believed only by those who wish to believe. Yet the conventional wisdom must be tackled on its own terrain. Intertemporal comparisons of an individual's state of mind do rest on doubtful grounds. Who can say for sure that the deprivation which afflicts him with hunger is more painful than the deprivation which afflicts him with envy of his neighbor's new car? In the time that has passed since he was poor his soul may have become subject to a new and deeper searing. And where a society is concerned, comparisons between marginal satisfactions when it is poor and those when it is affluent will involve not only the same individual at different times but different individuals at different times. The scholar who wishes to believe that with increasing affluence there is no reduction in the urgency of desires and goods is not without points for debate. However plausible the case against him, it cannot be proven. In the defense of the conventional wisdom this amounts almost to invulnerability.

However, there is a flaw in the case. If the individual's wants are to be urgent they must be original with himself. They cannot be urgent if they must be contrived for him. And above all they must not be contrived by the process of production by which they are satisfied. For this means that the whole case for the urgency of production, based on the urgency of wants, falls to the ground. One cannot defend production as satisfying wants if that production creates the wants.

Were it so that a man on arising each morning was assailed by demons which instilled in him a passion sometimes for silk shirts, sometimes for kitchenware, sometimes for chamber pots, and sometimes for orange squash, there would be every reason to applaud the effort to find the goods, however odd, that quenched this flame. But should it be that his passion was the result of his first having cultivated the demons, and should it also be that his effort to allay it stirred the demons

## MICROECONOMICS

to ever greater and greater effort, there would be question as to how rational was his solution. Unless restrained by conventional attitudes, he might wonder if the solution lay with more goods or fewer demons.

So it is that if production creates the wants it seeks to satisfy, or if the wants emerge *paripassu* [concurrent] with the production, then the urgency of the wants can no longer be used to defend the urgency of the production. Production only fills a void that it has itself created.

### II

The point is so central that it must be pressed. Consumer wants can have bizarre, frivolous, or even immoral origins, and an admirable case can still be made for a society that seeks to satisfy them. But the case cannot stand if it is the process of satisfying wants that creates the wants. For then the individual who urges the importance of production to satisfy these wants is precisely in the position of the onlooker who applauds the efforts of the squirrel to keep abreast of the wheel that is propelled by his own efforts.

That wants are, in fact, the fruit of production will now be denied by few serious scholars. And a considerable number of economists, though not always in full knowledge of the implications, have conceded the point. In the observation cited at the end of the preceding chapter Keynes noted that needs of "the second class," i.e., those that are the result of efforts to keep abreast or ahead of one's fellow beings "may indeed be insatiable; for the higher the general level the higher still are they." And emulation has always played a considerable role in the views of other economists of want creation. One man's consumption becomes his neighbor's wish. This already means that the process by which wants are satisfied is also the process by which wants are created. The more wants that are satisfied the more new ones are born.

However, the argument has been carried farther. A leading modern theorist of consumer behavior, Professor Duesenberry, has stated explicitly that "ours is a society in which one of the principal social goals is a higher standard of living. . . . [This] has great significance for the theory of consumption . . . the desire to get superior goods takes on a life of its own. It provides a drive to higher expenditure which may even be stronger than that arising out of the needs which are supposed to be satisfied by that expenditure." The implications of this view are impressive. The notion of independently established need now sinks into the background. Because the society sets great store by ability to produce a high living standard, it evaluates people by the products they possess. The urge to consume is fathered by the value system which emphasizes the ability of the society to produce. The more that is produced the more that must be owned in order to maintain the appropriate prestige. The latter is an important point, for, without going as far as Duesenberry in reducing goods to the role of symbols of prestige in the affluent society, it is plain that his argument fully implies that the production of goods creates the wants that the goods are presumed to satisfy.

### III

The even more direct link between production and wants is provided by the institutions of modern advertising and salesmanship. These cannot be reconciled with the notion of independently determined desires, for their central function is to create desires—to bring into being wants that previously did not exist. This is accomplished by the producer of the goods or at his behest. A broad empirical relationship exists between what is spent on production of consumers' goods and what is spent in synthesizing the desires for that production. A new consumer product must be introduced with a suitable advertising campaign to arouse an interest in it. The path for an expansion of output must be paved by a suitable expansion in the advertising budget. Outlays for the manufacturing of a product are not more important in the strategy of modern business enterprise than outlays for the manufacturing of demand for the product. None of this is novel. All would be regarded as elementary by the most retarded student in the nation's most primitive school of business administration. The cost of this want formation is formidable.

In 1956 total advertising expenditure—though, as noted, not all of it may be assigned to the synthesis of wants—amounted to about ten billion dollars. For some years it had been increasing at a rate in excess of a billion dollars a year. Obviously, such outlays must be integrated with the theory of consumer demand. They are too big to be ignored.

But such integration means recognizing that wants are dependent on production. It accords to the producer the function both of making the goods and of making the desires for them. It recognizes that production, not only passively through emulation, but actively through advertising and related activities, creates the wants it seeks to satisfy.

The businessman and the lay reader will be puzzled over the emphasis which I give to a seemingly obvious point. The point is indeed obvious. But it is one which, to a singular degree, economists have resisted. They have sensed, as the layman does not, the damage to established ideas which lurks in these relationships. As a result, incredibly, they have closed their eyes (and ears) to the most obtrusive of all economic phenomena, namely modern want creation.

This is not to say that the evidence affirming the dependence of wants on advertising has been entirely ignored. It is one reason why advertising has so long been regarded with such uneasiness by economists. Here is something which cannot be accommodated easily to existing theory. More previous scholars have speculated on the urgency of desires which are so obviously the fruit of such expensively contrived campaigns for popular attention. Is a new breakfast cereal or detergent so much wanted if so much must be spent to compel in the consumer the sense of want? But there has been little tendency to go on to examine the implications of this for the theory of consumer demand and even less for the importance of production and productive efficiency. These have remained sacrosanct. More often the uneasiness has been manifested in a general disapproval of advertising and advertising men, leading to the occasional suggestion that they shouldn't exist. Such suggestions have usually been ill received.

And so the notion of independently determined wants still survives. In the face of all the forces of modern salesmanship it still rules, almost undefiled, in the textbooks. And it still remains the economist's mission—and on few matters is the pedagogy so firm—to seek unquestioningly the means for filling these wants. This being so, production remains of prime urgency. We have here, perhaps, the ultimate triumph, of the conventional wisdom in its resistance to the evidence of the eyes. To equal it one must imagine a humanitarian who was long ago persuaded of the grievous shortage of hospital facilities in the town. He continues to importune the passers-by for money for more beds and refuses to notice that the town doctor is deftly knocking over pedestrians with his car to keep up the occupancy.

And in unraveling the complex we should always be careful not to overlook the obvious. The fact that wants can be synthesized by advertising, catalyzed by salesmanship, and shaped by the discreet manipulations of the persuaders shows that they are not very urgent. A man who is hungry need never be told of his need for food. If he is inspired by his appetite, he is immune to the influence of Messrs. Batten, Barton, Durstine & Osborn. The latter are effective only with those who are so far removed from physical want that they do not already know what they want. In this state alone men are open to persuasion.

#### IV

The general conclusion of these pages is of such importance for this essay that it had perhaps best be put with some formality. As a society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied. This may operate passively. Increases in consumption, the counterpart of increases in production, act by suggestion or emulation to create wants. Or producers may proceed actively to create wants through advertising and salesmanship. Wants thus come to depend on output. In technical terms it can no longer be assumed that welfare is greater at an all-round higher level of production than at a lower one. It may be the same. The higher level of production has, merely, a higher level of want creation necessitating a higher level of want satisfaction. There will be frequent occasion to refer to the way wants depend on the process by which they are satisfied. It will be convenient to call it the Dependence Effect.