

John Kenneth Galbraith The Dependence Effect

John Kenneth Galbraith was one of the most influential economists of the twentieth century.

The theory of consumer demand, as it is now widely accepted, is based on two broad propositions, neither of them quite explicit but both extremely important for the present value system of economists. The first is that the urgency of wants does not diminish appreciably as more of them are satisfied or, to put the matter more precisely, to the extent that this happens it is not demonstrable and not a matter of any interest to economists or for economic policy. When man has satisfied his physical needs, then psychologically grounded desires take over. These can never be satisfied or, in any case, no progress can be proved. The concept of satiation has very little standing in economics. It is neither useful nor scientific to speculate on the comparative cravings of the stomach and the mind. The second proposition is that wants originate in the personality of the consumer or, in any case, that they are given data for the economist. The latter's task is merely to seek their satisfaction. He has no need to inquire how these wants are formed. His function is sufficiently fulfilled by maximizing the goods that supply the wants. 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 neighbour'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 proved. In the defence 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 man on arising each morning was assailed by demons which instilled in him a passion sometimes for silk shirts, sometimes for kitchen-ware, 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 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 *pari passu* 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. 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.¹

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 . . . student[s] in the . . . 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 thousand million dollars. For some years it had been increasing at a rate in excess of a thousand million 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

This is accomplished by the producer 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 passersby 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

unravelling the complex we should always

be careful not to overlook the obvious. The fact that wants can be synthesized by advertising, catalysed 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 and 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. 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.

The final problem of the productive society is

what it produces. This manifests itself in an implacable tendency to provide an opulent supply of some things and a niggardly yield of others. This disparity carries to the point where it is a cause of social discomfort and social unhealth. The line which divides our area of wealth from our area of poverty is roughly that which divides privately produced and marketed goods and services from publicly rendered services. Our wealth in the first is not only in startling contrast with the meagreness of the latter, but our wealth in privately produced goods is, to a marked degree, the cause of crisis in the supply of public services. For we have failed to see the importance, indeed the urgent need, of maintaining a balance between the two. This disparity between our flow of private and

public goods and services is no matter of subjective judgment. On the contrary, it is the source of the most extensive comment which only stops short of the direct contrast being made here. In the years following World War II, the papers of any major city—those of New York were an excellent example—told daily of the shortages and shortcomings in the elementary municipal and metropolitan services. The schools were old and overcrowded. The police force was under strength and underpaid. The parks and playgrounds were insufficient. Streets and empty lots were filthy, and the sanitation staff was underequipped and in need of men. Access to the city by those who work there was uncertain and painful and becoming more so. Internal transportation was overcrowded, unhealthful, and dirty. So was the air. Parking on the streets had to be prohibited, and there was no space elsewhere. These deficiencies were not in new and novel services but in old and established ones. Cities have long swept their streets, helped their people move around, educated them, kept order, and provided horse rails for vehicles which sought to pause. That their residents should have a non-toxic supply of air suggests no revolutionary dalliance with socialism. The contrast was and remains evident not alone

to those who read. The family which takes its mauve and

cerise, air-conditioned, power-steered, and

power-braked car out for a tour passes through cities that are badly paved, made hideous by litter,

blighted buildings, billboards, and posts for wires that should long since have been put underground. They pass on into a countryside that has been rendered largely invisible by commercial art. (The goods which the latter advertise have an absolute priority in our value system. Such aesthetic considerations as a view of the countryside accordingly come second. On such matters we are consistent.) They picnic on exquisitely packaged food from a portable icebox by a polluted stream and go on to spend the night at a park which is a menace to public health and morals. Just before dozing off on an air-mattress, beneath a nylon tent, amid the stench of decaying refuse, they may reflect vaguely on the curious unevenness of their blessings. Is this, indeed, the American genius? The case for social balance has, so far, been put negatively. Failure to keep public services in minimal

relation to private production and use of goods is a cause of social disorder or impairs economic performance. The matter may now be put affirmatively. By failing to exploit the opportunity to expand public production we are missing opportunities for enjoyment which otherwise we might have had. Presumably a community can be as well rewarded by buying better schools or better parks as by buying bigger cars. By concentrating on the latter rather than the former it is failing to maximize its satisfactions. As with schools in the community, so with public services over the country at large. It is scarcely sensible that we should satisfy our wants in private goods with reckless abundance, while in the case of public goods, on the evidence of the eye, we practice extreme self-denial. So, far from systematically exploiting the opportunities to derive use and pleasure from these services, we do not supply what would keep us out of trouble. The conventional wisdom holds that the community, large or small, makes a decision as to how much it will devote to its public services. This decision is arrived at by democratic process. Subject to the imperfections and uncertainties of democracy, people decide how much of their private income and goods they will surrender in order to have public services of which they are in greater need. Thus there is a balance, however rough, in the enjoyments to be had from private goods and services and those rendered by public authority. It will be obvious, however, that this view depends on the notion of independently determined consumer wants. In such a world one could with some reason defend the doctrine that the consumer, as a voter, makes an independent choice between public and private goods. But given the dependence effect—given that consumer wants are created by the process by which they are satisfied—the consumer makes no such choice. He is subject to the forces of advertising and emulation by which production creates its own demand. Advertising operates exclusively, and emulation mainly, on behalf of privately produced goods and services.² Since management and emulative effects operate on behalf of private production, public services will have an inherent tendency to lag behind. Car demand which is expensively synthesized will inevitably have a much larger claim on income than parks or public health or even roads where no such influence operates. The engines of mass communication, in their highest state of development, assail the eyes and ears of the community on behalf of more beer but not of more schools. Even in the conventional wisdom it will scarcely be contended that this leads to an equal choice between the two. The competition is especially unequal for new products and services. Every corner of the public psyche is canvassed by some of the nation's most talented citizens to see if the desire for some merchantable product can be cultivated. No similar process operates on behalf of the nonmerchantable services of the state. Indeed, while we take the cultivation of new private wants for granted we would be measurably shocked to see it applied to public services. The scientist or engineer or advertising man who devotes himself to

developing a new carburetor, cleanser, or depilatory for which the public recognizes no need and will feel none until an advertising campaign arouses it, is one of the valued members of our society. A politician or a public servant who dreams up a new public service is a wastrel. Few public offences are more reprehensible. So much for the influences which operate on the decision between public and private production. The calm decision between public and private consumption pictured by the conventional wisdom is, in fact, a remarkable example of the error which arises from viewing social behaviour out of context. The inherent tendency will always be for public services to fall behind private production. We have here the first of the causes of social imbalance.