# Galbraith and Granola: Ethical Issues in Advertising

Firms rely heavily on their ability to successfully advertise, market, and eventually sell products and services. After all, it is the responsibility of those working in these areas to help ensure that there are actually people to do business *with—*that there are a sufficient number of customers who both (1) know about the products or services offered by the firm and (2) think that these products or services represent a worthwhile use of their money. Ethical issues begin to arise, however, when firms use their expertise in these areas to subtly *deceive* or *coerce* potential customers in order to make a profit. This may involve dishonest advertising, “hard sell” techniques, the targeting of vulnerable groups (such as children, those with mental illness, etc.), or similar techniques. In this lesson we’ll be looking at question regarding both personal *morality* (what are the responsibility of an individual working in an advertising agency?) and *public policy* (what sorts of behavior should FCC, FDA, and other government agencies actually *prohibit* or allow?*).*

## Galbraith and “The Dependence Effect”

* “As a society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied.... 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.”* (J.K. Galbraith, *The Affluent Society*)

One of the most important modern critics of advertising was **John Kenneth Galbraith (1908-2006),** a Canadian-American economist who served in the FDR, JFK, and LBJ Democratic administrations (he also wrote a number of popular books on economics). His critique of neoclassical economics was strongly informed by the earlier work of the Minnesota economist **Thorstein Veblen (1857-1929),** who had written about the economic phenomena of **conspicuous consumption** (people are motivated to buy luxury goods *in order that other people can see them consuming these goods.)*

Like Veblen, Galbraith focused on the particular ways that free markets could *fail* to promote wellbeing, and on possibility of designing effective *institutions* to help correct these imbalances. Galbraith argues in particular that the nature of modern advertising and marketing *requires* a much greater deal of government intervention than is sometimes thought. The basic argument:

**The Neoclassical Case for Free Markets.** According to neoclassical economic theory, free and competitive markets help to maximize the well-being of citizens’ by creating a tight link between match between the quantity of goods demanded by consumers (we can call these the consumer’s *wants*), and quantity of goods supplied by producers. It helps ensure that those consumers with the *strongest* wants are the ones who get it (since markets award good to the highest bidder). Over time, competition between producers will increase the degree to which products meet consumer’s demands AND will drive down costs. The basic idea is this: citizens want things, and a good society should do what it can to maximize the extent to which they *get* these things (a version of utilitarianism). Since free markets are the best way of ensuring this, we should have free markets!

Importantly, the models of classical economics assume a few things: that consumers have *complete information* regarding the products they purchase, that they will choose *rationally,* and that their desires/wants are independent of the market (e.g., they knew what they wanted before they came to the market). While neoclassical economists recognized that no market *perfectly* met these criteria, they nevertheless thought it was a good approximation. On the version of this view that Galbraith critiques, advertising simply serve to remedy customer’s lack of knowledge, and thus makes our imperfect markets *closer* to the ideal market.

**Granolaville, Pt. 1:** The consumers of town Granolaville all have a strong desire for granola. Currently, there are ten manufacturers of cereal in the town, but none offer granola. In response, the customers choose the cereals that most closely approximate granola. The producers (slowly) respond and, eventually, the customers have ten brands of granola to choose from. Competition improves quality and reduces cost, and everyone is as happy as can be (at least with respect to breakfast cereal…). Advertising, in this society, serves exactly one role: to help inform the consumers about the changes that have been made to the cereal (“Now even more like granola!”). It thus helps markets function more efficiently, and raises no moral problems.

**When Free Markets Fail: The Dependence Effect.** Galbraith does NOT claim that neoclassical models are “wrong,” but he thinks they don’t always apply to *modern* markets in the way they did when the neoclassical theorists first formulated them. In particular, he argues that, through advertising and marketing, **modern firms help to create the very wants they satisfy**. Importantly, this “dependence” of wants upon production means that the earlier argument for the value of free markets fail, since this was based on the idea that markets were merely a way of *satisfying* preexisting wants, and not of *creating* wants that (when unfulfilled) could actually make people less happy. This doesn’t mean that the effects of advertising are all negative, of course (ads still play an important role in informing customers, entertaining people, employing creative types, and so on). The problem with this, according to Galbraith, is that this distorts markets in unhealthy ways, since consumers will be motivated to spend their resources pursuing these “new” wants, when they could more productively be devoted to “public” goods (infrastructure, education, parks, and so on). Democratic elections, by themselves, can’t fix this problem, since people’s voting choices will be heavily informed by the advertising to which they have been exposed. (Recent research on happiness has provided some support for Galbraith—materialistic people who consume more unnecessary “luxuries” really do get short-term benefits from doing so, but they are also unhappier than materialistic people in the long run).

**Granola Example, Pt. 2.** The granola firms, unsatisfied with their market share, begin aggressive marketing campaigns. Some make implausible health claims (“You’ll lose twenty pounds if you eat this! And that’s important!!”), and encourage a sense of body insecurity formerly lacking in Granolaville. Others appeal to classism (“Eat our fancy granola! Which poor people can’t afford, so everyone will know you are rich!”), or direct their advertising children (“Free toys! Extra sugar!”). Some play on fear (“Eat all-natural! Our rival’s brands will turn you into a zombie!”), while others attach themselves to beloved sports teams, public buildings, and even school curricula. The Granolaville residents become unhealthy and spiteful, and begin spending their excess funds on fancier granola, at the expense of public services like education and infrastructure. Consumers continue to buy the latest and greatest granola, but many people find themselves stressed and unhappy.

**Solving the Problem?** Well there isn’t space to dive into Galbraith’s proposals in detail, he argues that there is a significantly greater role for the public sector (i.e. government) to play in the market than neoclassical models had suggested. In the context of the Granolaville example, for instance, the government might get involved in any number of ways: food safety regulations, “truth in advertising” laws, restrictions on targeting children, and so on. More broadly, the government might be justified in funding large, targeted programs aimed at doing things like improving health or community relations, especially insofar as consumers’ “bad” behaviors were themselves being driven by the marketing choices of private firms.

## Hayek’s Response to Galbraith

*“How complete a non sequitur Professor Galbraith's conclusion represents is seen most clearly if we apply the argument to any product of the arts, be it music, painting, or literature. If the fact that people would not feel the need for something if it were not produced did prove that such products are of small value, all those highest products of human endeavor would be of small value. Professor Galbraith's argument could be easily employed, without any change of the essential terms, to demonstrate the worthlessness of literature or any other form of art.”* (F. Hayek, “The Non-sequitor of the Dependence of Effect”)

The libertarian economist Frederich Hayek strongly resisted Galbraith’s call for a greater role for government within the market. His central criticism contends that Galbraith’s argument mispresents the way that human wants/needs actually work, and how these relate to the market. In particular, Hayek argues that Galbraith’s argument seem to presuppose a sort of distinction between what we might call “basic”, “innate” or “absolute” wants—things people would want in and of themselves, without any influence from society—andother wants*,* which are “created” only when the things that could satisfy them are created (they are “created by the process . Once this distinction is noted, Hayek notes several things:

* **There are very few “basic” desires.** Hayek argues that the class of wants entirely independent of society includes desires for food, sex, shelter, and probably not a whole lot else.
* **The fact that ads “create desires” is morally irrelevant.** Our enjoyment of books, movies, sports, and many, many other things are NOT basic wants. As Hayek notes, nobody “wanted” to read a book or watch a movie before these things were created. However, most people would presumably see these sorts of things as crucial to our ability to leave happy, fulfilling lives.From this observation, Hayek concludes that Galbraith’s central argument against the benefits of advertising false: just because ads “create the wants they satisfy” does NOT mean they don’t thereby improve human wellbeing.
* **The power of advertisers is much less than Galbraith suggests.** Hayek grants that Galbraith’s argument *would* be cogent if it could be shown that individual producers were able to exert high degrees over control over consumers. However, Hayek contends this is not the case. First, he notes that, there is a great deal of competition between producers, all of whom find it pretty difficult to predict what exactly consumers will want, and how to give it to them. Second, ads are simply one part (and often not the most important part) of a consumer’s environment. People’s tendency to imitate those around them, for example, can easily lead to the creation of new wants in much the same way as advertising.

While these criticisms identify real areas of concern of Galbraith’s argument, they are not the end of the story. First, its unclear whether “basic” needs are as minimal as Hayek suggests—besides food, sex, and shelter; people value companionship, leisure time, nature, art, and so on. Second, there may be morally relevant *differences* between the ways in which artistic production creates desires and the way that contemporary marketing does. Finally, even if successful, Hayek’s argument doesn’t show that advertising is *beneficial* (or that it shouldn’t be regulated), merely that Galbraith’s criticisms of it need revision. There’s been a fair amount of empirical research into the question of how happiness relates to consumers’ spending habits relate to their happiness in recent years, with scholars finding that happiness is correlated with both low levels of materialism, and with high level of perceived autonomy.

## Wrapping Up: Legal and Moral Restrictions on Advertising

Galbraith and Hayek are largely focused on the role that *government* ought to play in responding to the problems raised by advertising and marketing. Galbraith holds that there is a significant role for the government to play, while Hayek thinks there is much less of a role. Neither theorist offers any specific guidance on how this ought to apply to individuals, however. With this in mind, it’s worth considering a few issues more directly relevant to those working within advertising:

**“Legally OK” does not entail “morally OK.”** On both Galbraith’s and Hayek’s view, advertising serves a variety of purposes: informing consumers of new products, driving innovation and growth, and helping customers identify *reasons* to favor one product over another. Advertising also plays a key role in funding television, radio, web sites, etc. For all these reasons, government needs to be careful in restricting advertising. For example, while the government might be justified in banning **fraudulent advertising** or in restricting advertising aimed at children, it can’t plausibly eliminate all instance of **“puffery”** (exaggerating how great a product is), or ban ads appealing to our “worse” emotions (vanity, greed, fear, etc.). However, this does not mean that individual firms shouldn’t be concerned about these things.

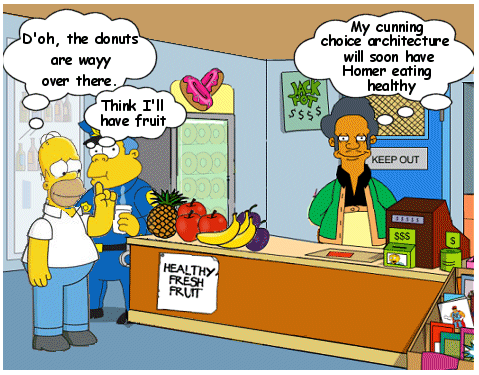
**What Separates Morally OK Ads from Immoral Ones?** The ethicist Alan Goldman argues that “the basic [moral] principle regarding effects of persuasion is that advertisers ought not to create desires whose fulfillment would be more harmful than beneficial to consumers. More broadly, the principle we propose would prohibit encouraging irrational desires.” There is, for example, something clearly morally reprehensible about ads aimed at selling products that firms *know* (or should have known) will harm their customers (whether these be cigarettes, fad diets, etc.). This principle entails that companies ought to especially cautious when marketing to children, since they are especially susceptible to emotion-based appeals. So, for example, where there may be nothing (morally) wrong with advertising violent movies or unhealthy foods for adults (since adults should be capable of understanding what’s go on), these same ads may raise concerns when targeted to children.

Figure 1 Apu puts behavioral economics to work. (From www.economistsdoitwithmodels.com)

**Putting Advertising to Good Work?** In recent years, a number of **behavioral economists** have begun investigating the precise ways in which people are (predictably) irrational. Among other things, we do very badly when trying to account for low-probability, high-impact events; we hate things described as “losses” more than we love things described as “gains”; we place *far* too much emphasis on first impressions, and other things. While those working in advertising and marketing have long had a good “feel” for these things, behavioral economists have begun encouraging non-profit and governmental organizations (especially those involved in issues such as public health) to begin utilizing these strategies, as well. The idea, in short, is to craft advertising/marketing materials that actually help people become *more* rational when it comes to making decisions regarding personal finance, health, and education. This view is sometimes called **libertarian paternalism,** as it supposedly blends parts of Galbraith’s “paternalism” (the government directly makes choices on people’s behalf) and Hayek’s “libertarianism” (people make their own choices). There are worries from both sides, however. Traditional left-wing liberals worry that direct action may be more effective, while traditional right-wing libertarians think it is a misuse of government funds. Both groups sometimes express worries that it is “manipulative” in a way that more straightforward government programs are not. (Finally, there are worries over whether this even works! As it turns out, people are fairly resistant to “nudges” encouraging them to become more healthy, save more money, etc.).

## Review Questions

1. In your own words, describe Galbraith’s and Hayek’s debate over the effects of advertising, and the proper government response to it. Whose view (if either) do you think is more correct? Why?
2. Some recent ad campaigns and marketing decisions that have been criticized on ethical grounds include the following. Do a little research, explain *why* there is a controversy, and say whether you think it is justified:
   1. Is it ethical for fashion magazines to (disproportionately) run photos of thin models, and to make widespread use of airbrushing/graphic design software to further alter their appearance?
   2. Is it ethical for internet uses to routinely use “Ad block” software, which may make it more difficult for the site they visit to stay finically viable?
   3. Should there be greater restrictions place on the advertising of unhealthy food (fast food, candy), especially where this marketing seems to be aimed at children?
   4. Some other recent issue you know about that relates to advertising.
3. What do you think of the ideas behind “libertarian paternalism”? Is this something you’d like to see the government (and/or non-profits such health insurance companies or hospitals) make more use of? Why or why not?

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