
J.K. Galbraith's challenge to the accepted sequence: the management of the consumer

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Abstract – In the days following his death on 29 April 2006, John Kenneth Galbraith was praised as “a brilliant economist and writer”, “a preeminent symbol and source of liberal political thought”, and “an unapologetically liberal member of the political and academic establishment”. Nevertheless, for all the tributes and eulogies, Galbraith’s central contention that the firm has a vested interest in managing the responses of the consumer was somewhat downplayed. The argument advanced here is that Galbraith’s approach differs markedly from the dominant explanations of the role of advertising. This brief overview of his treatment of advertising as a mechanism for managing consumer demand in the service of the firm highlights the Galbraithian view’s distinctiveness from the dominant views on advertising and consumer spending. We also outline some potentially fruitful areas of research and study for those who are keen to ensure the lasting significance of J.K. Galbraith.

Keywords – Galbraith, firms, management of the consumer, advertising, institutional economics.

JEL – B20, D80, L10, L20.

1. Introduction

In the days following his death on 29 April 2006, John Kenneth Galbraith was praised as a brilliant economist and writer”¹, “a preemi-

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ment symbol and source of liberal political thought”² and “an unapologetically liberal member of the political and academic establishment”³. Nevertheless for all the tributes and eulogies Galbraith’s central contention that the firm has a vested interest in managing the responses of the consumer was somewhat downplayed. This is surprising as Galbraith presented a serious challenge to the omnipotence of the market and the power of Adam Smith’s invisible hand.

Galbraith suggested that the accepted sequence – that the firm responds passively to the wishes of the market and the consumer – is increasingly at odds with the facts of modern industrial life. As technology advances increasingly large amounts of time, money and specialized personnel are increasingly required. Threats to such investments must be protected. Unfettered the market and the forces of competition generate too much uncertainty for the large firm (Dunn, 2001). If the large firm is to take advantage of the opportunities presented through technology and scientific advance then increasingly the firm must seek to control the market rather than being subservient to it (Dunn and Pressman, 2005). One of the principal ways in which the large investments are protected and the uncertainties of the market are mitigated is through devoting resources to advertising and the management of consumer demands. In an economy dominated by large corporations the valid image of the modern economy is one where the producer seeks to control the consumer. The sovereignty of the consumer is surrendered to the producer in this revised sequence of events.

Galbraith’s challenge to the *a priori*ism of the doctrine of consumer sovereignty has largely been dismissed by economic theorists. Many view Galbraith’s discussion as a less formal expression of the persuasive approach to advertising, or they have criticized his observations as an *a fortiori* justification suggesting that just because the large firm faces a strong incentive to manage the consumer, and they continue to devote a major proportion of corporate revenues to such ends, do not demonstrate their success nor justify his thesis. Accordingly Galbraith’s view of consumer spending has been, at best misunderstood or, more often, flatly dismissed by the economic orthodoxy.

The full distinctiveness of Galbraith’s contribution to theories of consumer spending, however, has not been appreciated. Galbraith made

an original contribution to the economic theory of the management of the consumer and this deserves renewed attention and study. The argument sustained here is that the Galbraithian approach differs markedly from the dominant explanations of the role of advertising, and particularly with respect to his broader view than the persuasive view. We also outline some potentially fruitful areas of research and study for those that are keen to ensure the lasting significance of J.K. Galbraith.

2. Galbraith's distinctive challenge to the conventional wisdom

There are three dominant approaches to advertising and marketing in economics (Bagwell 2005). The *informative view*, associated with the Chicago School, holds that advertising influences not by altering preferences but by conveying the information that consumers need to make an informed spending choice and by conveying this information in a way that does not tax the resources consumers expend in their search.⁴ This view holds that both direct and implied information conveyed by advertising is useful to consumers engaged in the decision-making process. For instance, advertising directly informs consumers about the availability and price of products and implies the quality of products through the quality of the advertisements themselves. Thus the demand curve becomes more elastic given competing incumbent firms advertising similar products. Further, advertising is viewed as facilitating entry as it enables new entrants to publicize their existence, prices, and products, thus promoting even greater competition.

The *complementary view* postulates that consumers possess a stable set of preferences into which advertising enters directly in a fashion that complements the consumption of the advertised product. Consumers may value social prestige, for example, and the consumption of a product may generate greater prestige through appropriate product advertisement. Under this view advertising does not alter consumers' preferences and need not, although it may, provide information.⁵ Thus the complementary view is distinct from the informative view as advertising

may affect consumer demand even though it contains no product information. This perspective suggests that the market may under-provide advertising since the firm marketing the product does not benefit from (internalise) the increase in consumer welfare that advertising generates.

Finally, the *persuasive view* maintains that advertising creates artificial product differentiation and brand loyalty by altering consumers' tastes.⁶ As a consequence, the demand for an advertising firm's product becomes more inelastic and results in higher prices. In addition, advertising by incumbents may generate barriers to entry, which are exacerbated when economies of scale in production and/or advertising exist. The persuasive approach suggests the anti-competitive effects of advertising, as it has no *real* value to consumers but rather induces *artificial* product differentiation and results in more concentrated markets with higher prices and profits than would otherwise be the case.

Galbraith's thesis is generally viewed as a more literary version of the persuasive view. Accordingly, it is conventionally dismissed as a loose analysis of the social consequences of advertising and subsequently ignored (Bagwell 2005, p. 13). Galbraith (1967, p. 206), however, explicitly rejected many of the tenets of what has come to be referred to as the persuasive view. Galbraith's contribution offers a view of the management of consumer demand that is richer and broader in scope than he has typically been given credit for.

Galbraith maintained that the imperatives of organisation meant that the modern corporation would use an array of marketing techniques to ensure a market for the products that were produced. Production is a lengthy process that involves considerable investment in equipment, inventory, labor, delivery systems, and overhead. Galbraith argued that the risky nature of such large investment of capital necessitates engaging in activities aimed at ensuring that the consumer will reliably buy the firm's products:

The key to the management of demand is effective management of the purchases of final consumers – of individuals and the state. If these are under effective control, there will then be a comparatively reliable demand for raw materials, parts, machinery and

other items going into the ultimate product. If the demand for its automobiles is reliable, General Motors can accord its suppliers the security of long term contracts. And, in the absence of such contracts, there will still be a reliable and predictable flow of orders which allows planning (Galbraith 1967, p. 205).

This is a firm-based view that departs quite markedly from the structure-conduct-performance embeddedness of the persuasive view:

Were there but one manufacturer of automobiles in the United States, it would still be essential that it enter extensively on the management of its demand. Otherwise consumers, exercising the sovereignty that would be inconsistent with the company's planning, might resort to other forms of transportation and other ways of spending their income. (This is the answer to the orthodox contention that advertising is principally induced by market oligopoly). (Galbraith 1967, p. 212)

Galbraith maintained that the modern corporation increasingly seeks to manage needs in a manner that promotes greater accumulation and maintains the independence and pre-eminence of the technostucture. This has been widely misinterpreted as arguing that tastes and preferences should not be treated as exogenous but instead shaped by institutional processes and by particular influences such as advertising.

Galbraith attempts to provide a theory of both process and effects, although the latter is addressed somewhat indirectly. In terms of a theory of the process of advertising, Galbraith's views on the management of the consumer embody an important and oft-ignored distinction between primary physical needs and subjective psychological, or in Galbraithian terminology, psychic needs. His argument is that "as the industrial system develops to the point where it has need for planning and the management of the consumer that this requires, it is also serving wants which are psychological in origin and hence admirably subject to management by appeal to the psyche" (Galbraith 1967, p. 205). The basics of food,

clothing, and shelter having been largely satisfied for the majority of the population of an affluent nation such as the US, higher-level psychological needs rise in salience:

The success of modern industry, however, has meant that goods that are related only to elementary physical sensation – that merely prevent hunger, protect against cold, provide shelter, suppress pain – have come to comprise a small and diminishing part of all production. Most good serve needs that are discovered to the individual not by the palpable discomfort that accompanies deprivation, but by some psychic response to their possession. (GALBRAITH 1967, p. 206)

That is to say rising affluence, by moving beyond the satisfaction of basic physical needs, makes individuals more amenable to management through psychological appeals.

Galbraith argues that advertising by the firm – *The Management of Specific Demand* – will be tailored to the precise demands of industry and that it will need to evolve in order to reflect the development and progression of the customer's psychological needs over time. He does not argue, however, that the specific advertising of a corporation changes these underlying psychological needs. Of course his discussion (1967, p. 214) allows the general consumer climate created by such advertising to impact on the aspirations of consumers:

This management performs yet another service. For, along with bringing demand under substantial control, it provides, in the aggregate, a relentless propaganda on behalf of goods in general. From early morning until late at night, people are informed of the services rendered by goods – of their profound indispensability. Every feature and facet of every product having been studied for selling points, these are then described with talent, gravity and an aspect of profound concern as the source of health, happiness, social achievement or improved community standing. Even minor qualities of unimportant commodities are

enlarged upon with a solemnity which would not be unbecoming in an announcement of the combined return of Christ and all the apostles. More important services, such as the advantages of whiter laundry, are treated with proportionately greater gravity. (GALBRAITH 1967, p. 214)

Nevertheless, it should be noted that amplifying needs and fundamentally altering needs are conceptually distinct processes that should not be conflated.

Galbraith argues that the modern corporation seeks to exploit this in order to pursue its own narrow ends. Modern industry begins by identifying certain psychological needs (including complementary needs) which are then incorporated into the development of its various marketing strategies. Accordingly, it uses an array of techniques and strategies to manage psychological needs in order to assure the requisite demand for its products:

They give him a sense of personal achievement, accord him a feeling of equality with his neighbours, divert his mind from thought, serve sexual aspiration, promise social acceptability, enhance his subjective feeling of health, well-being or orderly peristalsis, contribute by conventional canons to personal beauty, or are otherwise psychologically rewarding. (GALBRAITH 1967, p. 206)

This results in the modern corporation developing a marketing strategy for its product in a manner that is largely *unrelated* to its objective qualities and characteristics. In this way we recognise the persuasive nature of advertising, though we distinguish *persuasion* (with a lowercase “p”) from the *Persuasive* view of advertising: The psychological or social need preexists, but managed demand for a commodity is unrelated to the actual benefits that the product confers.

In terms of the actual economic effect of advertising, it should be recalled that the core of Galbraith’s thesis is the imperative to ensure demand through removing consumer freedom of choice (cf. 1967, p.

212). For example, the importance of building consumer loyalty in order to displace control from the consumer to the firm is highlighted:

The specific strategy, though it varies somewhat between industries and over time, consists first in recruiting a loyal or automatic corps of customers. This is variously known as building customer loyalty or brand recognition. To the extent that it is successful, it means that the firm has a stable body of custom which is secure against the mass defection which might follow from freely exercised consumer choice (GALBRAITH 1967, pp. 210-211).

Such passages lends themselves to misinterpretation by those schooled in the conventional wisdom as arguing as making demand more inelastic as thus subsumable under the general label of the persuasive view. However, as noted above, Galbraith explicitly repudiated the conventional wisdom associated with the structure-conduct-performance approach and accordingly is broader in scope.

Galbraith's Management of Specific Demand has also been interpreted as narrowly focusing on advertising to the neglect of other institutional processes (see for example Hodgson 2003, p. 169). Galbraith's discussion, however, is much broader than the black box approach to advertising characteristic of the conventional wisdom and approximates the focus of the contemporary marketing discipline (cf. Fergenson & Fergenson 1989). It encompasses the whole process of production covering product development, configuration, and targeting *as well as* advertising:

advertising will be thought the central feature of this management, [and it] is certainly important ... [but] much more is involved ... The management of demand consists in devising a sales strategy for a particular product. It also consists in devising a product, or features of a product, around which a sales strategy can be built. Product design, model change, packaging and even performance, reflect the need to provide what are called strong selling points. They are thus as much a part of the process of demand man-

agement as an advertising campaign. (GALBRAITH 1967, pp. 207-208)

The management of the consumer is not a static exercise, but rather it requires ongoing development and evaluation:

When a firm is enjoying steady patronage by its existing customers and recruiting new ones, the existing sales strategy, broadly defined, will usually be considered satisfactory. The firm will not quarrel with success. If sales are stationary or slipping, a change in selling methods, advertising strategy, product design or even in the product itself is called for. Testing and experiment are possible. Sooner or later a new formula that wins a suitable response is obtained. (GALBRAITH 1967, p. 211)

It is clear from such comments that devising a marketing campaign and embodying it into the broader planning process involves a large degree of trial and error. Indeed the imprecision of the process of marketing is acknowledged in *Economics and the Public Purpose*:

Much of what is called market research, it may also be noted, is imprecise. Subjective, random or fraudulent judgements are offered in impressive pseudo-sociometric tables to suggest a precise relationship between outlays on different kinds of persuasion and the resulting sales. This will not be surprising. An industry that employs much carefully tempered mendacity will not be sensitive to its application to itself (GALBRAITH 1973, p. 154).

Again, this aspect of Galbraith's argument is frequently overlooked (cf. Gordon 1968; Galbraith 1969). Moreover, ultimate success is by no means assured. Indeed, Galbraith (1967, p. 211) "unhesitatingly concede[s] ... that it doesn't work perfectly", but this does not mean that it does not work at all. Ultimately the firm is motivated to attempt to assure the response of the consumer and will marshal its resources to this end. On

average one would expect that the firm would get it right, but it is by no means inevitable, and to point to failures of marketing does not refute Galbraith's broader contention.

Finally, it is important to note that although Galbraith's analytical focus is on this management role, he nevertheless acknowledges that not all advertising and selling activity is directed to the end of managing the consumer. That there is a role for the informative view of advertising is explicitly acknowledged:

Thus a certain amount of advertising, that of the classified ads and the department store displays, has no great purpose beyond that of conveying information - of advising the public that a particular person or enterprise has a particular item for sale and at what price. Such advertising is seized upon to show that the function of advertising in general is merely to convey information although, as I have noted on other occasions, only a gravely retarded citizen can need to be told that the American Tobacco Company has cigarettes for sale. (GALBRAITH 1967, p. 208)

It should be clear from this discussion that Galbraith's treatise involves a substantial departure from the existing economics literature. Though Galbraith's approach exhibits many similarities with the various aspects of the conventional approaches, it nevertheless represents a distinct approach. Accordingly, Galbraith's discussion should no longer be subsumed under the rubric of the persuasive approach, and further examination and elaboration should be undertaken. It is equally clear that in focusing on the actual institutional processes of advertising, he has moved beyond the conventional purview of economics.

3. The continued relevance of the Management of Specific Demand

The brief overview of Galbraith's contribution highlights its distinctiveness from the dominant views on advertising and consumer spend-

ing. Nevertheless, we argue that our research highlights the potential import of Galbraith's thesis suggesting several areas for further exploration.

First, there is an urgent need to explore more extensively Galbraith's neglected distinction between the appeal to, and management of, subjective psychological needs, as separate from objective physical needs. Indeed, in a recent analysis we demonstrated that since at least the 1960s the intent of tobacco firms in the United States has been to convey an intangible social or psychological "benefit" associated with a cigarette brand (Anderson and Dunn, 2006). In attempting to manage the tobacco consumer the tobacco industry has sought to augment demand by appealing to psychological needs rather than conveying information regarding the physical attributes of the product. In the context of the health hazards associated with tobacco, such management clearly challenges traditional notions of consumer sovereignty. As Galbraith (1967, p. 219) pointed out: "It is true that the [individual] consumer may still imagine that his actions respond to his own view of his satisfactions. But this is superficial and proximate, the result of illusions created in connection with the management of his wants." As our recent analysis showed (Anderson and Dunn, 2006), the marketing strategies of the tobacco industry have been designed to alleviate health concerns associated with consumption of the tobacco industry's products or to create an illusory escape from stress, so as to stabilise and grow demand even when product consumption results in detrimental welfare effects.

Second, there is a need to consider the historical evolution of *actual* marketing strategies as they relate to the firm. For example, it is clear that in the tobacco industry there has been an evolution away from stressing (narrow) product attributes to a more explicit appeal to psychological needs. This evolving marketing focus from stressing certain (narrow) product attributes to emphasising mood embodies an underlying focus on managing psychological needs as part of brand management.

Third, it is clear from the current discussion that there is a need to broaden the focus of economic advertising research to consider in more depth actual marketing processes. Galbraith's discussion encompasses the whole production planning process and are much broader than the narrow development of a concerted media advertising campaign.

Fourth, there is a need to adopt a broad conceptualisation of the nature of competition. It is clear that Galbraith views the megacorporation as engaged in rivalrous behaviour, which underscores his rejection of the established anti-competitive (persuasive) models of advertising: "A purely defensive strategy will not, however, suffice. Given the goals of the technostructure all firms will seek to expand sales. Each, accordingly, must seek to do so if it is not to lose out to others" (Galbraith 1967, p. 211). Similarly, it is important to note that although such product development may be competitive, it need not exhibit a narrow focus on price and product quality but rather a broader marketing focus on expanding sales by more effectively managing psychological needs.

Fifth, there is a need to acknowledge the fact that the different perspectives on advertising may all have certain domains of validity. For example, it has been noted that Galbraith's theoretical position does not entail that all advertising is of necessity malign; rather, the *a posteriori* experience of the nature and extent of persuasion and manipulation and its nexus to the modern corporation must be considered.

Finally once such conclusions are acknowledged as exhibiting some domain of validity, that knowledge should be used to inform social policy: "This consists in disciplining [the firm's] purposes – in making it serve, not define, the public interest" (Galbraith 1973, p. 240). Consistent with the Galbraithian hypothesis the tobacco industry, for example, has sought to promote its own ends in a way that diverges from the wider public interest and thus calls for a regulatory response (see Anderson and Dunn, 2006). Action to ban tobacco advertising may be viewed as a societal recognition of the influence that advertising has on the consumption of goods that are clearly evidenced as harmful to the individual and society. Indeed, Galbraith (1967, p. 213) highlighted the potency of persuasive communication through modern media as the prime instruments for the management of consumer demand: "It is easier and, if less precise, still sufficient to manage demand by persuasion rather than by fiat." This means continuing to take action to limit or ban misleading advertising that results in demonstrated public detriment such as tobacco advertising (Wakefield and Chaloupka, 2000; Anderson, Glantz, and Ling, 2005). Such considerations suggest that J.K. Galbraith's distinctive contributions should receive continued attention and appreciation.

Notes

- ¹ BBC News, 30 Apr 2006 <http://news.bbc.co.uk/1/hi/world/americas/4959302.stm>
- ² Martin Weil, Washington Post, 30 Apr 2006, p. A07 <http://www.washingtonpost.com/wp-dyn/content/article/2006/04/30/AR2006043000062.html>
- ³ Holcomb B. Noble and Douglas Martin, NYT, 30 Apr 2006 <http://www.nytimes.com/2006/04/30/obituaries/30galbraith.html?ex=1304049600&en=2435b9fee0ff8fb6&ei=5088&partner=rssnyt&emc=rss>
- ⁴ The genesis of the informative view can be found in Ozga (1960) and Stigler (1961). Telser (1964), in an early empirical study, examines several U. S. consumer goods industries and concludes that advertising has served principally to facilitate entry. Nelson (1970) introduces the instructive distinction between experience goods and search goods.
- ⁵ The origins of the complementary view are to be found in Stigler and Becker (1977) although, as Bagwell (2005) argues, aspects of this perspective can be found in Telser's (1964) and even Kaldor's (1950) work. A thorough treatment and defense of the complementary approach can be found in Becker and Murphy (1993). Hodgson (2003) provides an important and oft-ignored critique of this perspective.
- ⁶ Braithwaite (1928) develops the conceptual foundation of the persuasive view in a perceptive, but somewhat neglected, paper. Indeed the view gained greater momentum with the theoretical contributions on Monopolistic Competition (Bagwell 2005). For example Chamberlain (1933) accepted that advertising could be persuasive and seek to alter consumer wants. Similarly Robinson (1933) emphasized the fact that advertising may create brand loyalty and deters entry. Kaldor (1950) advances the view further and argues that advertising can lead to a more concentrated market, due to the presence of an advertising scale economy. Bain (1956) and Comanor and Wilson (1967), working within the structure-conduct-performance paradigm, offer early empirical support for the persuasive view. As Bagwell (2005) notes, the persuasive view was the dominant view explored by the economic literature in the first half of the 20th century. At the turn of this century it is perhaps now in the minority.

O Desafio de J.K. Galbraith à 'seqüência aceita': a manipulação do consumidor

Resumo – Nos dias que se seguiram à sua morte, John Kenneth Galbraith foi louvado como “um economista e um escritor brilhante”, “um proeminente símbolo e fonte do pensamento político liberal”, e “um decidido membro liberal do *establishment* político e acadêmico”. Contudo, em que pese todos os tributos e louvores, a afirmação central de Galbraith de que a firma possui um interesse

especial em manipular as respostas do consumidor foi de algum modo descurada. O argumento sustentado neste artigo é que a abordagem de Galbraith difere marcadamente das explicações dominantes do papel da propaganda. O artigo também sugere algumas áreas de pesquisa e estudo potencialmente férteis para os que desejam assegurar a duradoura significância de J.K. Galbraith.

Palavras-chave – Galbraith, firmas, propaganda, economia institucional.

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