1. Introduction

A classic argument for income redistribution justifies it in terms of the decreasing marginal utility of added income as wealth increases. As an individual’s stock of wealth increases, each additional unit of income is likely to provide her with less utility. When Dives is already rich, giving him more money benefits him very little. If Lazarus is poor, giving him the money instead will benefit him greatly. If a main object of social policy is to provide the greatest benefit to the greatest number, then any redistribution of income from the wealthy to the poor that does not affect overall production may be justified or even obligatory.

One famous weakness of this argument is its dependence on interpersonal comparisons of utility. To justify giving some of Dives’ income to Lazarus, it must be shown that Lazarus receives more utility from the added income than Dives loses in having it taken away. But interpersonal comparisons of utility are famously problematic. How could we ever know for certain how one person’s enjoyment or discomfort compares to another’s? Perhaps Dives gains more added comfort from another silk cushion in his palace than Lazarus receives from his one meal a day. Intuitively this might seem unlikely, but how, in the absence of any more scientific test, do we know that we should trust our intuitions?
In this paper I shall argue that John Kenneth Galbraith, in *The Affluent Society*, found a way around this objection. This allowed him to develop a version of the argument presented above in favour of a specific sort of income redistribution from the private sector to the public sector. More specifically, Galbraith argued for a redirection of income from profit-takers in the private sector to recipients of public services. Of course, insofar as these two populations might overlap, it may seem incorrect to describe this as an argument for *redistribution*. Perhaps it should rather be seen as an argument for converting income in one form – private profits from the sale of consumer goods – into income in another form – receipt of government services. Nevertheless, I argue that Galbraith’s logic works most powerfully to support a specifically redistributive argument. His reasoning is really a variant on the redistributive reasoning presented above, one that can survive scepticism about interpersonal comparisons of utility. It justifies his proposal to transfer resources from the private to the public sector *only insofar as such a transfer would serve to redistribute income from the rich to the poor*.

2. Galbraith and Interpersonal Utility Comparisons

Before looking at *The Affluent Society*, it will be helpful to see what Galbraith thought about the Pigovian argument and its problematic dependence on interpersonal utility comparisons. In his *History of Economics*, he discussed how classical economists came to regard such comparisons as impossible to make:

...[I]t was not possible to say that the one with more goods had less satisfaction from an increment than the one who had fewer. The feelings of different people were not comparable; to make such comparisons was to deny the depth and complexity of human emotions, and this was a denial of the scientific modes of thought to which all good and reputable economists aspired. (Galbraith 1987, 212-13)
This, he acknowledged, was sufficient to rule out any straightforward application of the redistribution argument under discussion:

...[T]here could be no strict economic case for transferring income (or accumulated wealth) from the rich to the poor. ...[I]t could not be said that the rich, being rich, suffered less than the less affluent from some loss of marginal wealth or income. Nor could it be said that the satisfaction from the consumption they gave up was less than the satisfaction – the utility – gained by the poor. In strict economic theory this was an illegitimate comparison. Classical economics, accordingly, did not support a redistribution of income. (Galbraith 1987, 213)

By ‘a strict economic case’, Galbraith meant, I believe, a case that depends on no normative commitments not already made by economic theory in supposing welfare-maximization to be the goal of economic activity.

He then claimed that A.C. Pigou, along with others of the Marginalist school, “provided release” from this sceptical result:

[Pigou] held that so long as total production was not reduced by the action, economic welfare – the sum total of satisfaction from the system – was enhanced by the transfer of spendable resources from the rich to the poor. The marginal utility of money did, he held, decline with increasing amount; accordingly, the poor man or family did get more enjoyment than the rich from an increment of income and the goods so obtained. (Galbraith 1987, 213)

That, however, is a mere restatement of the argument. Galbraith failed to show how Pigou and others overcame scepticism about interpersonal welfare comparisons. All they did was to note the intuitive plausibility of certain comparisons made in the extreme case. As Frank Knight once pointed out, “no one contends that a bottle of old wine is ethically worth as much as a barrel of flour, or a fantastic evening wrap for some potentate’s mistress as much as a substantial dwelling-house.” (Knight 1935, 597) This is a mere argumentum ad populum. And it is unsuccessful even as such, since it is apparently untrue that no one contends Knight’s claim. George Stigler, in his Tanner lectures, replied to Knight: “Dear Professor Knight, please forgive your renegade student, but I do so contend, if it was a splendid year for claret.” (Stigler
Galbraith, speaking for Pigou, provided no obvious antidote against such bloody-mindedness. Indeed, he acknowledged, without further comment, that “the comparison of interpersonal utilities remained suspect” after Pigou.

The trend in economic theory following Pigou was generally towards the rejection of interpersonal utility-comparisons.¹ Allan Gibbard summarises what he calls the “historical lore” concerning this period of economic thought:

In the first place, under the influence of logical positivism, English-speaking economists followed the lead of Pareto, and came to deny the meaningfulness of interpersonal comparisons of interpersonal utilities.... In the second place, economists noted that in the theory of supply and demand, quantitative utilities were superfluous. An economic agent, on the old theory, always chooses, from among the alternatives open to him, the one of greatest utility for him.

Equivalently, though, it could be said that the agent chooses, from among the available alternatives, the one he most prefers. When the theory of rational choice is put that way, quantitative utility has been purged from it and replaced by preference orderings – which cannot be added together. (Gibbard 1986, 166)

One crucial point here is that post-Marginalist utility theory did not merely give up on the idea of interpersonal utility comparisons. Rather, it gave up on the idea of measuring absolute utility altogether. Economists could speak, perhaps, of a certain satisfaction bringing more utility to a single agent than another satisfaction, in the sense of ranking higher in the agent’s preference ordering. But they could not speak sensibly of any satisfaction having some absolute quantity of utility attached to it.

As Gibbard explains, the move from quantitative utility to preference ordering as a measure of welfare – the move from cardinal to ordinal utility theory – was motivated by normative as well as methodological concerns. In terms of methodology, there was an ambition to render economics an empirically robust science. This was part of what Galbraith called “the scientific modes of thought to

¹ See Harsanyi 2008
which all good and reputable economists aspired.” Preference orderings are, at least in theory, empirically testable in a way that cardinal utilities are not. One simply provides an agent with an option to exchange and observes the result. In exchanging x for y the subject reveals a preference for y over x, but not the absolute amount of utility provided by either. For the latter there seems simply to be no reliable empirical test. To this effect, Lionel Robbins made the following argument:

…[S]uppose that we differed about the satisfaction derived by A from an income of £1,000, and the satisfaction derived by B from an income of twice that magnitude. Asking them would provide no solution. Supposing they differed. A might urge that he had more satisfaction than B at the margin. While B might urge that, on the contrary, he had more satisfaction than A. We do not need to be slavish behaviourists to realise that here is no scientific evidence. There is no means of testing the magnitude of A’s satisfaction as compared with B’s. If we tested the state of their blood-streams, that would be a test of blood, not satisfaction. Introspection does not enable A to measure what is going on in B’s mind, nor B to measure what is going on in A’s. There is no way of comparing the satisfactions of different people. (Robbins 1932, 139).

Although Robbins bases his case on an apparent commitment to empirical testability, Alexander Rosenberg points out that the rejection of cardinal utility theory had other methodological motivations as well: the difficulty of finding a unit of measurement for utility, evidence from introspection that multiple satisfactions do not combine in any straightforward additive way, and so on.4

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2 Gibbard’s claim that logical positivism was an influence upon Pareto’s English-speaking followers requires further historical substantiation. Logical positivism holds, very roughly, that statements that cannot be tested empirically are either meaningless or they are true or false by definition. Note that Robbins’ argument makes no reference to this thesis. He does, however, betray a commitment to some sort of positivism, meaning the determination to justify all substantive claims by empirical evidence.

3 The claim that this amounts to a general empirical test of preference is in fact deeply problematic. See also Rosenberg 1981, 58-67.

4 See Rosenberg 1981, 57-60.
One example of a normative reason for the shift is that ordinal utility theory appears to embody a kind of anti-paternalism that many liberal economists found, and continue to find, attractive. It makes choice-behaviour the sole indicator of welfare. As a result nothing but the outcome of free exchanges can be known to be Pareto optimal. If a social order results from such free exchanges, the interventions of a would-be reformer cannot be justified in terms of Pareto-efficiency. Gibbard argues that this anti-paternalist reasoning is, in fact, confused. (Gibbard 1986, 168-72). Nevertheless, the fact that ordinal theory makes it seem available may have been enough to motivate defenders of the free market to embrace it.

It is beyond the scope of this paper to trace the precise ways and degrees in which such normative and methodological concerns provoked the move from cardinal to ordinal welfare theory. What is clear is that the shift installed a screen of scepticism before the Pigovian justification of redistribution. The latter depends very much on the idea of absolute quantities of utility that can be compared among agents.

How far, then, did Galbraith feel constrained to respect this development in economic theory and the commitments that supported it? That he did aim, in *The Affluent Society*, to respect such commitments is suggested by his declared resolution to tackle orthodox economic theory “on its own terrain” (Galbraith 1999, 124). Indeed, he began by presenting the case against the Pigovian argument in a strong form, by pointing out that the move from cardinal to ordinal theory has more radical consequences than the mere ruling out of interpersonal utility comparisons. It also rules out *diachronic comparisons of a single individual’s welfare*. If we can order

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5 I use the most recent (1999) edition of this work, which preserves the main argument while speaking in terms tolerably familiar to a contemporary audience.
preferences but cannot assign them cardinal magnitudes of welfare then we must concede the following:

Yesterday the man with a minimal but increasing real income was reaping the satisfactions which came from a decent diet and a roof that no longer leaked water on his face. Today, after a large increase in his income, he has extended his consumption to include cable television and eccentric loafers. But to say that his satisfactions from these latter amenities and recreations are less than from the additional calories and the freedom from rain is wholly improper. Things have changed; he is a different man; there is no real standard for comparison. (Galbraith 1999, 121)

The later man prefers the superior loafers (presumably to the leisure he gave up in working to pay for them) as the earlier man prefers the superior shelter. But if we can speak only of preference orderings then we cannot compare the absolute levels of satisfaction achieved in each case. Thus there are no grounds for the assumption that the marginal utility of added income (and thus, assuming the income is spent, added consumption) diminishes with accumulation. The later man might, for all we know, get as much pleasure from the loafers as the earlier man got from his shelter. Galbraith therefore conceded that:

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. (Galbraith 1999, 124)

He then claimed, nevertheless, to have a reply to this imagined scholar, which I shall examine below. The key question for this article is whether his reply is sufficient to revivify the Pigovian argument. I shall argue that it is.

3. The Dependence Effect and the Programme of The Affluent Society

Before turning to Galbraith’s specific response to the above claims concerning comparisons of utility, it is necessary to briefly explain their context in the general vision of The Affluent Society. While the book ranges widely over economic questions
concerning economic security, control over prices, market control, poverty, debt, inflation, and many other issues, it is remarkably focused on a single problem. Galbraith calls this “the problem of social balance”. The problem is that the current economic system abundantly, even excessively, satisfies our general demand for private consumption goods while failing to adequately satisfy our general demand for public goods and services (Galbraith was writing in the United States of 1958, though he republished the book with small amendments in 1998). The resulting situation is one of “private opulence and public squalor”, as Galbraith put it in one of his memorable phrases (Galbraith 1999, 191). Ironically, our poverty in public goods and services often precludes the enjoyment of the private goods so abundantly provided, as Galbraith expressed in what is possibly his most famous passage:

The family which takes its mauve and cerise, air-conditioned, power-steered and power-braked automobile 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 into a countryside that has been rendered largely invisible by commercial art. … 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? (Galbraith 1999, 187-8)

Galbraith’s central claim was thus that more should be spent on providing public goods and services so as to maximize social welfare. Under the current imbalanced system, “far from systematically exploiting the opportunities to derive use and pleasure from [public] services, we do not supply what would keep us out of trouble.” (Galbraith 1999, 193)

Galbraith’s great weakness, which opponents like Milton Friedman regularly exploited, was that he appeared to base his normative argument upon his own
personal preferences.\textsuperscript{6} He might want more public services, opponents could say, but the right social choice is not simply the one preferred by some famous economist. We have evidence that the general public, on the whole, prefers things just as they are. They have, after all, chosen to spend their money on cars and fancy tents rather than on hiring workers to repair the roads and clean up litter. Perhaps the market is unable to provide the latter services since, as Galbraith puts it, they do not “lend themselves to being sold to individuals” (Galbraith 1999, 234). But then the public could, if it chose, use its voting power to pressure governments to provide them. Since they have not done so, this is some evidence that the situation, however distasteful to Galbraith, is the outcome of public choice.

Galbraith was aware of this possible line of reply:

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. (Galbraith 1999, 193)

His response made reference to an idea theorised earlier in the work – the “dependence effect”:

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. (Galbraith 1999, 194)

This shows the centrality of the dependence effect – yet to be explained – to Galbraith’s overall argument. It alone saves Galbraith’s overall position from falling

\textsuperscript{6} See Friedman 1978
under Friedman’s uncharitable description: “Galbraith’s Tory Radical position implies that the values of the masses are inferior to those of the intellectual aristocracy” (Friedman 1978, 32). On the assumption that the current economic situation expresses, via markets and democracy, the wishes of the public, the idea that Galbraith’s personal disapproval should justify modifying it would indeed express the motives imputed by Friedman. But Galbraith made no such assumption, and it was his theory of the dependence effect that kept him from having to do so.

Galbraith introduced his theory of the dependence effect right after the passage, already quoted, in which he conceded the strength of the argument against the possibility of interpersonal utility comparisons:

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. (Galbraith 1999, 124)

We may now examine his reply:

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. (Galbraith 1999, 124)

The idea seems to be that if the acquisition of certain goods only creates new unsatisfied desires for more goods, then the acquisition may result in no net increase in satisfaction at all. Depending on the strength of the resulting new desires, the effect may even be one of net dissatisfaction. This is somewhat implicit in a quotation Galbraith draws from James Duesenberry: “the desire to get superior goods … 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.” (Duesenberry 1949, 38, Galbraith 1999)
Thus the dependence effect theory was explicitly held by Galbraith both to indicate a “flaw” in the anti-Pigovian argument, based on the impossibility of interpersonal utility comparisons, and to serve as a reply to the objection that the current balance between private and public goods is simply the outcome of individual choices. How did it achieve this? And how were these two functions of the theory linked?

4. The Logic of the Dependence Effect

While Dusenberry’s claim, quoted above, may make sense intuitively, it is not clear how it can survive the commitment to ordinal utility theory. It is, recall, a constraint of that theory that, while satisfactions can be preferentially ranked by a single agent, no intrinsic utility-value can be assigned to any satisfaction. As Galbraith himself admitted, this means not only that the level of utility of two agents cannot be compared; it also means that the level of utility of an agent at one point in time cannot be compared with her utility at a later point if time. This is because in the intervening interval her preferences may change. Her new preference ordering will be simply incommensurate with the old; satisfactions may be compared within each ranking, but not between one ranking and another. But if the process of satisfying a want creates new wants – new preferences – then the agent emerges from the process with a new preference-ordering. It is then impossible to determine whether she is more or less satisfied in absolute terms than he was before, and Dusenberry’s claim is at best unprovable and at worst meaningless.

Yet Galbraith hoped to use the dependence effect theory to prove that certain wants are not “urgent”. What he presumably meant by this was that the satisfaction of such wants does not bring any significant increase in welfare or perhaps even reduces it. This is why it is justified to take income that agents would, even by their free
choice, have used to satisfy such wants and to spend it instead on providing public services. This will make them better off than they would have been if they had been able to realise their own choices, for their choices were not really conducive to their increased utility. As Steven Pressman summarizes Galbraith’s argument:

We do not need to worry very much about the substitution effects of government programs to aid the poor and near-poor because … the goods we lose are not that important if our wants for them have to be manufactured.7

But does this not involve comparing the welfare lost (or perhaps gained) by some agents in giving up access to certain goods against the welfare gained by other agents via the provision of public aid? The answer must be no. Galbraith would not have offered the dependence effect theory as a direct response to an anti-Pigovian argument based on the incomparability of interpersonal utility if that theory were itself vulnerable to the exact same argument. To understand how it avoids such vulnerability, we ought to look at it more closely.

In the course of explaining how wants can be “contrived by the process that satisfies them” – the dependence effect – Galbraith provided two examples of “contrived” desires. First, there are wants arising from envy. As he succinctly put it, there are cases where “[o]ne man’s consumption becomes his neighbor’s wish” (Galbraith 1999, 124). The desire is contrived insofar as one acquires it only because she has observed another satisfying a similar desire. Then there are wants created by advertising: the “central function” of “the institutions of modern advertising and salesmanship [is to] create desires – to bring into being wants that previously did not exist” (Galbraith 1999, 124).8 On Galbraith’s view these are both instances of wants

7 Pressman 2008, 478

8 For a discussion of how Galbraith’s views fit into broader discussion about advertising in economics from this period see Edwards Forthcoming.
being contrived by the process of satisfying them, since this process – the sale and purchase of consumer goods – inevitably breeds envy and empowers producers to do more advertising.

It remains to be determined what precisely a contrived desire is for Galbraith. One clue comes from his assertion that contrived desires are distinct from needs that are fixed by physiology:

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.9 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. (Galbraith 1999, 129, my emphasis)

This suggests that advertising misinforms consumers about their own preferences rather than actually altering their preference rankings. The consumers do not know what they prefer, and the advertisers give them false information about what they prefer.

This can be modelled in terms of standard consumer demand theory (a version of ordinal utility theory) as in Figure 1. Suppose that I am a potential consumer. The axes x and y represent quantities of two different goods, while U1-3 represent my indifference curves – combinations of x and y equally preferable to me. Meanwhile FG and HI represent different budget lines to which I might be constrained – HI represents an increase in my income over FG. If my preference for y over x is misrepresented to me as greater than it actually is, then I may choose a combination of x and y that isn’t actually the optimal choice for me – the points A´ or B´, for

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9 George Batten, Roy Sarles Durstine, Alex Faickney Osborn, and Bruce Fairchild Barton were the founders of the still prominent advertising agency, BDDO. For its potential clients, it promises to do “work that changes consumer behavior” (See http://www.bbdo.com).
instance, if my budget line is FG or HI respectively. But if my income is increased so that my budget line moves from FG to HI and I simultaneously come to have my preferences misrepresented to me by advertising, then I might move from the point A to the point B', thus remaining on the same indifference curve, U2, even though my budget constraints have become reduced. In this way I simply miss the opportunity to move to a higher indifference curve; I fail to use the new income to make myself better off.

On this way of interpreting Galbraith, there is no actual modification of preferences resulting from the “contrivance” of want. Preferences are stable, represented by the unchanging indifference curves. The agent subject to the contrivance is simply 

misinformed about her preferences. This allows Galbraith’s theory to be reconciled with ordinal utility theory. The claim that the satisfaction of a contrived desire does
not bring any real increase in welfare translates to the claim that such a satisfaction does not move one to a new utility curve. It does not mean that one’s utility curves have *shifted* – that is, that one’s preference-orderings have changed. Thus to determine the effects of contrived desire upon utility requires no comparisons between distinct preference orderings. It is perfectly representable within ordinal utility theory.

There is further evidence that this is the right model for what Galbraith meant. In a later work he proposed that “the emancipation of belief” might be sufficient to make consumers less subject to advertising (Galbraith 1975, 248). This is some textual evidence to suggest that Galbraith took advertising to work on belief rather than on *preference*. The assumption of relatively stable preferences is fundamental to standard consumer demand theory, whereas models involving imperfect information – bad beliefs – are fairly standard. This again shows that the argument can be maintained within the framework of standard consumer demand theory. Again Galbraith’s commitment to tackle that theory “on its own terrain” is sustained.

This reading, however, has the misfortune of being in disagreement with Galbraith’s own son, who writes:

> In *The Affluent Society*, we find a logical demolition of the orthodox theory of consumer choice. It proceeds from the unassailable observation that stable preferences cannot exist for goods that do not exist. … This is, in essence, a plain-English version of the point about instability of preference fields that Philip Mirowski (1989) drove home in *More Heat than Light* three decades later.10

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10 Galbraith 2008, 494. The reference is to Mirowski 1989. In fact the stability of preference fields, at least for most kinds of goods, was challenged before *The Affluent Society*; see Gorman 1953. I respect this work a great deal, but I am not thereby led to insist that it must be continuous with that of Galbraith than I am to insist that all my friends must be friends with each other.
It seems imprudent, despite the textual evidence, to challenge a reading of Galbraith’s argument made by his own son; clearly the latter had access to more than the textual evidence. The most I can say in reply is that my reading makes greater sense out of the dialectic of Galbraith’s general argument in *The Affluent Society*. The objection Galbraith anticipated to his own view, which was soon actually articulated by Friedman and others, amounted to the question: “Who are you to advocate changes to a social arrangement arising out of voluntary exchanges?” His reply was, in effect: “Those exchanges were only made due to wants for private goods that were contrived through the dependence effect”. If “wants contrived through the dependence effect” is taken to mean “wants corresponding to changes in agent’s preferences, resulting from the process that satisfies their wants”, then it is unclear why Galbraith’s reply should have any force at all. If people come out of the process of satisfying their consumer desires with new preference fields defined over new consumer goods then who is to say whether or not they are better off, in *absolute* terms, in their new state than they were in the old? No doubt they are still dissatisfied, but perhaps it is a happier, less nagging dissatisfaction than the older one. Any judgment for or against this possibility would involve a reversion to the rejected notion that satisfactions can be compared across distinct preference fields.

By contrast, if “wants contrived through the dependence effect” means “wants resulting from *misinformation about agents’ own preferences*”, that is, wants that do not track agents’ true preferences, then the argument is valid, even within standard theory. To take from the public funds that it was using to satisfy wants that did not represent its true preferences, and then to spend them in ways that *do* satisfy its true preferences, is clearly to make the public better off, at least in material terms. The fact that the public did not choose to do this on its own only shows that it was deceived by
contrived, meaning *false*, wants: wants that did not track its real preferences at all. This reading therefore draws far more force out of Galbraith’s argument. It also allows it to work within standard consumer choice theory, legitimating his claim to be tackling that theory “on its own terrain”. And to Galbraith *fils*’ objection that stable preferences cannot exist for goods that do not exist, a reply may be found below.

Therefore, with all due caution and respect, I propose that a charitable view of Galbraith *père*’s consistency of vision bids us believe that he intended or at the very least ought to have intended “contrived wants” to mean “wants based on false beliefs about one’s own preferences”, and not to mean “wants resulting from some external modification of one’s preferences”.

5. The neo-Pigovian Argument

Reading Galbraith’s theory in this way shows how it allows for the revival of the Pigovian argument. Galbraith, as we have seen, explicitly presented his dependence effect theory against the argument that “with increasing affluence there is [or might be] no reduction in the urgency of desires and goods” (my emphasis). We have already seen the reason: people are more susceptible to the dependence effect the more they have satisfied their basic needs. Again, if a man “is inspired by his appetite, he is immune to the influence of Messrs Batten, Barton, Durstine, and Osborn”.

Galbraith does not explain why this is so, but, reading his argument in the way I propose, one can readily construct an explanation on his behalf. One could, for example, speculate as follows. The cost of mistakes concerning the preferences that correspond to one’s basic physiological needs is very high – indeed often fatal. The cost of mistakes about one’s preferences for luxury goods – those that one will satisfy only once one’s basic needs are met – is much lower. Thus it is likely that humans will develop powerful cognitive equipment for gaining accurate information about the
former kind of preference, whereas the development of equipment for gaining accurate information about the latter kind of preference is not worth the trouble. As a result, people will, as a whole, be easier to misinform about their preferences for luxury goods than they will about their preferences for food, shelter, etc. The more affluent people become – the smaller the proportion of their income they spend on catering to their basic needs – the more they will fall victim to misinformation concerning their preferences. This is a mere suggestion; I am sure that other stories could be told to justify the assumption that it is easier to mislead people about their preferences for luxuries than about their preferences for basic goods.

At any rate, making the assumption allows one to reformulate the Pigovian argument. A person who is poor enough to remain less than fully satisfied in terms of basic needs will, up to a point, spend additional income still catering for such needs. By contrast, a rich person will spend little or no part of the same amount of additional income satisfying his basic needs. Much of the rest will be spent satisfying preferences of the sort that give rise to contrived wants. The portion spent on satisfying such wants is merely wasted in terms of welfare, defined as the satisfaction of *real* preferences. If it were instead transferred to the poor person, there would be a net increase in overall welfare.

This argument requires no interpersonal comparisons of utility. It requires only a distinction between genuine wants that represent real preferences and contrived wants that do not. To apply it generally requires an assumption that the portion of one’s wants consisting of *contrived* wants increases fairly steadily with increasing
affluence. The argument for Pigovian redistribution is then merely one for the avoidance of unnecessary waste.\textsuperscript{11}

Not only does Galbraith’s dependence effect theory allow for this revival of the Pigovian argument; to a great extent his own use of it really amounts to such a revival. It is true that the problem he proposes to solve is not one of inequality \textit{per se}: the family portrayed in his famous vignette is not living in poverty, yet it is said to suffer the effects of public squalor. Thus it appears that his case is not so much for redistributing income from the more to the less affluent as it is for using more of everyone’s resources to provision everyone – rich and poor alike – with more public goods and services. Indeed Galbraith proposes to finance more public spending using sales taxes, a rather regressive mode of taxation, and blames an undue emphasis on income inequality for preventing other “liberals” from endorsing this programme (Galbraith 1999, ch.21, §v).\textsuperscript{12} Despite all this, it is only as a kind of Pigovian argument that Galbraith’s case appears at all compelling.

To see this, consider Galbraith’s justification for this policy:

\textit{The community is affluent in privately produced goods. It is poor in public services. The obvious solution is to tax the former to provide the latter – by making private goods more expensive, public goods are made more abundant. Motion pictures, electronic entertainment and cigarettes are made more costly so that schools can be more handsomely supported. We pay more for soap,}

\textsuperscript{11} Of course any transfer of wealth from the richer to the poorer person will in real cases most likely inhibit the richer person’s ability to satisfy some of her real wants as well as her contrived wants. It is barely possible to suppose that real wants are so much \textit{more} urgent in the richer person than in the poorer person as to override any net-welfare benefits arising from the elimination of waste in the transfer of income. Scepticism about cardinal utility is one thing, but this is turbocharged quibbling.

\textsuperscript{12} In using the term “liberal” here I conform to the American usage. The term actually means something like “social democrat”, but for historical reasons political labels involving the word “social” are best avoided in the United States. See Judt 2010, 4-6.
detergents and vacuum cleaners in order that we may have a cleaner urban environment and less occasion to use them. We have more expensive cars and gasoline so that we have more agreeable streets on which to drive them. Food being relatively cheap, we tax it in order to have better medical services and better health in which to enjoy it. (Galbraith 1999, 229)

This will restrict the consumption of privately produced consumer goods, of course. But, Galbraith supposes, this consumption was bringing little increase in welfare, while increased provision of public works and infrastructure would bring a great deal. How is Galbraith certain in this supposition? One argument for it could be that public goods and services enhance both the production and the enjoyment of private goods: more roads allows for more cars to be driven, and better public education produces more engineers to design them. But this is a fairly weak argument. If the government is justified in restricting the sale of consumer goods, because the desire for those goods is largely contrived rather than real, then it seems contradictory to promote its provision of public goods on the grounds that this enhances the usage and production of those same consumer goods.\(^\text{13}\)

A far better argument refers back to the theory that consumer desires are increasingly contrived as the consumer’s affluence increases. Public services, especially in the United States, are primarily used by and primarily benefit the less affluent – those who cannot afford private education and healthcare, those who require unemployment services, those – a central topic for Galbraith – whose participation in the economy is dependent on anti-poverty programs.\(^\text{14}\) Their wants are on the whole less contrived than those of affluent consumers, and so spending on them is far more efficient in adding to net welfare than spending on consumer goods.

\(^{13}\) To this extent I believe that Lamdin’s assessment of Galbraith’s advocacy of public spending in terms of its effect on productivity somewhat misses the point. See Lamdin 2011, 608-9.

\(^{14}\) See Galbraith 1999, ch.22.
marketed to the affluent. But this means that Galbraith’s scheme – increased sales
taxes to finance further spending on public services – is at its heart a redistribution
scheme.

It is not, of course, merely redistributive, since it does not simply transfer
wealth or income from the rich to the poor. Rather, it ensures that income flows to the
poor in a specific form – that of public services. But this is in part a matter of it so
happening that many of the things the less affluent need are the kinds of things that (at
least in Galbraith’s view) only the government sector can reliably provide: education,
mass transport, crime prevention, unemployment and health insurance, poverty
programmes, etc. If this were not the case, if such things could be reliably provided by
the free market so long as those in need of them had the cash to buy them, then
Galbraith’s scheme would perhaps be modified into one for redistributing income in
the form of cash. Indeed, such a scheme, in the form of a negative income tax, was
proposed by Friedman; the primary disagreement between the two friends was over
the relative efficiencies of government agencies and private firms in providing
essential services. At any rate, it is only as a redistributive scheme that Galbraith’s
proposal finds any justification on the basis of the dependence effect. It is because its
costs accrue to the more affluent and its benefits go to the less affluent that it is likely
to divert income that would have been spent satisfying contrived wants into income
that satisfies real wants.

Economically, of course, one might object that raising sales taxes on luxury
goods might simply reduce spending on those goods and thus reduce output
altogether. This could have the effect of simply making everybody poorer. On the
other hand, some suggest that the consumption of goods supported by advertising in

15 See Friedman and Friedman 1982, ch.12
fact works to prevent output from reaching its full potential. But net output as such is largely irrelevant to Galbraith’s argument. What matters is not the number of wants satisfied but their overall urgency. In this sense we might say that the argument is classically Pigovian.

I shall now show how this reading of the dependence effect theory can help to defend it against some criticisms. Criticisms of the theory, at least for a time, tended to come not from mainstream economists but rather from economists of the ‘Austrian’ school. I shall also show that Galbraith’s theory can be modelled using the tools of standard microeconomic theory, using strategies that economists like Gary Becker have pursued. I shall end by showing that the application of Galbraith’s Pigovian argument to any specific social situation would require developments to

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16 Dutt, who provides a model in which this is the result, explains the basic logic as follows:

“If advertising expenditures increase workers consumption, they may experience a rise in income in the short run because of the expansionary effect of higher spending by both workers and capitalists. But with increases in capitalist income and the desire by workers to emulate them, workers become borrowers and eventually net debtors. As their debt increases, workers experience a decline in their net income, and with a redistribution of income (from interest payments), there is a contractionary effect on demand, because capitalist interest earners have a higher saving propensity than workers.” (Dutt 2008, 547) This explanation involves the other side of the dependence effect – envy – and the role of debt – two topics I have not been able to address in this article.

17 A far more detailed discussion of various criticisms of the dependence thesis, as well as rebuttals of them, can be found in Dutt 2008. My aim here is only to show specifically how my reading of the theory can help to fend off some prominent objections.

18 Two fairly mainstream economists (from opposite sides of the political spectrum), Milton Friedman and Paul Krugman, have criticized Galbraith, but their criticisms were mostly directed at a different theory than the one discussed here, namely his theory of the ‘technostructure’, first outlined in The New Industrial State (Friedman 1978, Krugman 1995, 13-15).
microeconomic theory that Galbraith neither provided nor indicated how to provide. Nevertheless, it is worth noting that Galbraith, in reviving the Pigovian argument, provided a means of justifying redistribution that remained within the terms of standard microeconomic theory rather than, as many other such arguments do, requiring normative commitments or macroeconomic considerations that go beyond those terms.

6. The Austrian Criticisms

One criticism came from Friedrich Hayek. In a lecture entitled “The Non-Sequitur of the Dependence Effect”, Hayek tried to reduce to absurdity Galbraith’s claim that contrived wants are not urgent:

> Most needs which make us act are needs for things which only civilization teaches us exist at all, and these needs are wanted by us because they produce feelings or emotions which we would not know if it were not for our cultural inheritance. (Hayek 1961)

This, Hayek pointed out, includes our desires not only for the objects of advertising, but also for literature and art: “Surely an individual’s want for literature is not original with himself in the sense that he would experience it if literature were not produced.” Thus Galbraith’s central claim that “[i]f the individual’s wants are to be urgent, they must be original with himself” (Galbraith 1999, 124) entails that the desire for literature should be paid little regard in social planning, as should most needs that make us act.

The distinction Hayek made here reflects one later made by Amartya Sen, between basic preferences, which are independent of beliefs, and non-basic preferences, which arise out of basic preferences combined with beliefs (Sen 1970, ch.5). Obviously the vast majority of our preferences are non-basic. My preference for a hot dinner over a kick in the head involves my beliefs about the pain and pleasure
each is likely to cause. But a great many of our preferences are extremely non-basic, involving large numbers of complex beliefs. Hayek accused Galbraith of arguing that all extremely non-basic preferences are unreal. This reduces Galbraith’s position to absurdity: the only “urgent” needs that social planners should respect are very basic ones. All books and paintings should be pulped to provide insulation for housing; all gardens should be forcibly converted into farms and orchards; exotic national cuisines should be replaced by nutrient-rich paste in jars.

But we have already seen why this is an unnecessarily uncharitable interpretation. Galbraith’s distinction between real and unreal wants corresponds not to a distinction between basic and non-basic preferences but rather between non-basic preferences based on true beliefs and non-basic preferences based on false beliefs. Thus Galbraith was not, as Hayek claimed, rejecting all non-basic preferences as contrived wants. He did not regard as non-urgent any desire whose recognition by an individual requires some social influence. The question is: what is the social influence doing in each case? If it is simply making the individual aware of some preference she did not know she had then the want thus ‘created’ remains urgent. If, by contrast, it cultivates desires only by misrepresenting the agent’s own preferences to herself, then the resulting want is not urgent.

19 Indeed, for my preference to influence my rational choice it must at least be combined with my belief that I in fact have such a preference.

20 Gibbard argues that it is impossible to properly measure welfare in terms of preferences, even if these are restricted to those involving no false beliefs (“ideally informed preferences”, as he calls them) (Gibbard 1986, 170). Here he dissents from standard economic welfare theory more than Galbraith does. Various objections to the preference-satisfaction view of welfare are summarised and explained in Hausman and McPherson 2006, ch.8. There various alternatives are presented.
This has, it must be stressed, nothing to do with ordinary ideas about cultivated tastes nor with the higher and lower pleasures proposed by John Stuart Mill.\textsuperscript{21} It is not a matter, that is to say, of knowledge or cultivation modifying the preferences of agents. Preferences can be taken as stable; the question is whether social influences help agents to know their own preferences or only to be mistaken about them. Galbraith’s view was that advertising and envy achieve the latter, and that they work particularly well on the more affluent and on preferences for consumer goods. Perhaps Hayek had doubts about these latter views. Yet he provided little in the way of arguments against them, though we shall soon explore one such argument provided by Rothbard.

One way to remove the force from Hayek’s objections would be to represent the dependence effect using Gary Becker’s model, which treats households like firms in standard production models. Household consumption is seen as a kind of production process; just as a factory owner purchases raw steel to produce automobile parts, households purchase market goods as “raw materials” and then use them to produce “commodities”. The latter term, somewhat idiosyncratically, does not refer to concrete goods available on the market; rather it seems to refer to the intangible benefits such purchases ultimately aim to bring to the consumer – pleasure, health, status, etc. The household’s ultimate preferences are for these; it purchases consumer (market) goods as means to produce them (Becker 1978, Stigler and Becker 1977). For example, my household buys literature and uses it to produce the “commodity”

\textsuperscript{21} See Mill 1991, II. Mill was working within a cardinal utility theory and trying to include within it the idea of levels as well as quantities of utility. There is no obvious way in which this idea is directly relevant to Galbraith, who, I have argued, largely respects the methodological commitments that lead to the rejection of cardinal utility theory.
edification, which is what I ultimately want the literature for. Households maximize utility according to the function:

\[ U = u(Z_1, Z_2, \ldots, Z_n), \]

where \( U \) is utility and \( Z_i \) is the quantity of the commodity \( i \). The quantity \( Z_i \) is determined by the function:

\[ Z_i = z_i(x_i, t_i, E), \]

where \( x_i \) is the quantity of market goods bought, \( t_i \) is the time available for production, and \( E \) defines the relevant production techniques and capital requirements. One component of \( E \) will be information about how to convert \( x_i \) into \( Z_i \). If the information a household possesses is particularly poor (as if it is misled by advertising or blinded by envy), then it will have to buy a great deal more of \( x_i \) to produce an equal amount of \( Z_i \) – more than it would have if it had had access to better information. With sufficiently bad information, it might invest in market goods that are simply the wrong raw materials: no amount of them could be actually sufficient for the production of the commodity.

One may believe that to regard households as firms, or the derivation of satisfaction from market goods as the production of household goods, is to propound a helpful metaphor rather than to perform a scientific analysis. But at any rate Becker’s technique allows for the modelling of situations in which people’s satisfaction of contrived desires fails to satisfy any real preferences. One’s preference is for the commodity; market goods are wanted only for its production. Indeed, Becker and Stigler applied this model to explain the various positive and negative

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22 The dangers of taking it as anything more than this are given a compelling airing in Emmett 2006.

This article is Emmett’s attempt to deduce what Frank Knight might have written had he lived long enough to respond to Becker and Stigler.
effects that advertising can have on a household’s utility-maximizing activity (Stigler and Becker 1977, 83-7). They offered this partly as a refutation of what they took Galbraith to have claimed, which was that advertising works by changing people’s preferences for commodities (Stigler and Becker 1977, 83-4). There is no reason to read him this way. When he spoke of advertisers contriving wants, he need not have meant by “wants” the basic desires that households possess for commodities. He may have meant only the non-basic desires that households form for market goods.

Households form such desires on the basis of their belief, fostered in part by advertising, that such market goods can be used to produce the commodities for which stable desires already exist.23 If advertising fosters false beliefs, households can end up with non-basic desires for things that do not actually help them to satisfy their basic desires; they end up with wants whose satisfaction will not play any role in satisfying their true preferences.

Hayek was therefore wrong to imagine that Galbraith needed to regard all or even most non-basic wants as unreal. The only wants Galbraith had to regard as unreal were those depending on very poor information – wants whose satisfaction would have very little to do with the subject’s true preferences. “The beauty of the economic man”, wrote Alfred North Whitehead (Galbraith quoted him), “was that we knew exactly what he was after” (Galbraith 1974, 121, Whitehead 1947, 119). Hayek won a Nobel Prize for realizing, in effect, that we do not know at all what “the

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23 This is how, in reply to James Galbraith’s objection cited above, it can be possible for stable preferences to exist even for goods that do not yet exist. One’s preferences are directly for the products of “household production”. But if there are yet undiscovered raw materials that can be used for such production, one’s preferences for household goods will precisely determine one’s preferences for such raw materials, given specific information about their availability, cost, etc.
economic man” is after. But the assumption Galbraith challenged was the further assumption that *the economic man* knows what he is after. “Whatever his wants were”, wrote Whitehead, “he knew them and his neighbours knew them” (Whitehead 1947, 119, my emphasis). There seems little in common experience to motivate this assumption; without it we are free to imagine that in many cases “economic man” mistakenly pursues things that he is not really after at all – or, as Becker might have it, pursues things that play no role in helping him to produce what he is really after.

This leads to another criticism, found in Hayek’s lecture but elaborated in more detail by Murray Rothbard. It is also found outside the Austrian school (Friedman 1978, 15). It repudiates the claim that advertising, on the whole, peddles misinformation. This, Rothbard believed, would be a costly undertaking for the advertising firms, requiring expensive programmes of propaganda and brainwashing. “Why”, asked Rothbard, “*should* businessmen go to the expense, bother, and uncertainty of trying to create *new* wants, when they could far more easily look for better or cheaper ways of fulfilling wants that consumers already have?” (Rothbard 2004, 979).

Again, however, Rothbard failed to appreciate that what Galbraith supposed was not that advertisers forcibly manipulate the preferences of consumers. Rather, they give them bad information about how best to satisfy their preferences. In some cases this might *save* the advertising firms trouble and expense. One could readily turn Rothard’s question around and ask: “Why should businessmen go to the trouble of finding out what *really* satisfies customers’ preferences, when they could just convince customers that their preferences will be satisfied by whatever the firms are already producing?” Rothbard’s supposition that modifying people’s preferences

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24 See Hayek 1945.
would be an expensive undertaking is plausible enough – manipulation at that level probably requires a good deal of psychological expertise and effort. But there is no good reason to suppose that bad information should be more costly to produce than good information. If anything the opposite seems likely. Bearing in mind Becker’s analogy between household consumption and capitalist production, consider a case where you wish to purchase from me whatever is needed to make soap. I could go to the trouble of finding out how to make soap and sourcing the required ingredients for you. Or I could just sell you whatever I happen to have lying around, so long as I can convince you of its necessity for soap-manufacture. If I am a sufficiently adept dissembler, the latter will be the cheapest, easiest option for me. Likewise, a productive firm whose fixed capital is already set up for the production of X might find it cheaper to convince consumers that X will help them to satisfy their preferences than to find out what will truly satisfy their preferences and begin producing that.

Rothbard could reply to this that in an efficient market the supply of both information and misinformation should match demand, rendering the equilibrium price of the former high and that of the latter low. In this case we should expect the supply of information to exceed that of misinformation, and thus for advertising to work primarily by providing the former. But it is well known that a competitive market for information need not be efficient. Kenneth Arrow has provided several arguments to this effect (Arrow 1984, 142-3). One of the most compelling is that information about preferences gives way to a common knowledge problem; it is in my interests to overrate my preference for a particular good in order to drive the price down. Yet producers know this, just as I know it is in their interest to deceive me about what they are able to produce (and, if they can, about what will genuinely
satisfy my preferences). The resulting strategic interactions are enough to kill off any hope of determining a unique market-clearing equilibrium where the supply of information meets the demand.25

Rothbard, however, defended the view that producers aim at discovering what consumers really want and providing it as “the only one that makes sense of the increasingly large quantities of money spent by business on marketing research” (Rothbard 2004, 980). If advertising could really control what consumers wanted, producers would hardly have to bother learning about consumers’ real desires. They could just decide what they want consumers to buy and then manipulate them into buying it.

But on the Becker model discussed above, contrived desires involve both real preferences and false beliefs about what goods are required to produce what satisfies them. Thus if a firm aims to contrive desires, it must know something of the preferences about which such false beliefs are to be formed. In Economics and the Public Purpose, Galbraith characterised advertisers as working by spreading the beliefs “that happiness is associated with automobile ownership”, “that white sheets are an index of womanly virtue”, and that “modest intoxication” is “a mark of suave respectability” (Galbraith 1975, 156). Presumably we are not mistaken about our preference for happiness, and some people really are seeking womanly virtue and suave respectability. The advertiser’s role is to find out that we want such things and then convince us of the capacity of consumer goods to produce them. To return to our example from above, if I am to convince you to buy something for use in producing soap, I must first find out that you are hoping to produce soap and then learn what you already believe in order to know what I can and cannot convince you is a crucial

25 Some discussion of this issue from a sociological point of view can be found in Dupuy 1989.
ingredient in soap. Likewise, market research, Galbraith claimed, is often conducted “to ascertain the effectiveness of different kinds of persuasion or how well different products, brands or packages lend themselves to such persuasion” (Galbraith 1975, 153). This could mean finding out our preferences and existing beliefs in order to appropriately target misinformation about how best to satisfy our preferences and thus to contrive wants.

Galbraith’s claims about contrived wants are therefore not refuted by the arguments discussed above. As those claims remain plausible, so does the conclusion of Galbraith’s neo-Pigovian argument.

7. Assessment of Galbraith’s Argument

To show, however, that Galbraith’s theory is right, rather than just not obviously wrong, would require a great deal more than he provides. For one thing, it would require a means of identifying contrived desires with more rigour than the mere consultation of common sense allows. If wants can be contrived, choice behaviour will not always reliably indicate true preference. One must then determine what observable properties can be used as reliable indicators: testimony, neurological phenomena, tell-tale signs like Freudian slips, or whatever else psychologists and social scientists come up with. Alternatively, one might (as Becker does) retain the assumption that choices indicate preference but hold that this is subject to the constraints of available information. Then the task will be to quantify information. This is hardly a trifle. As Becker and Stigler note:

The quantity of information is a complex notion: its degree of accuracy, its multidimensional properties, its variable obsolescence with time are all qualities that make direct measurement of information extremely difficult. (Stigler and Becker 1977, 84)
Clearly a variety of strategies for identifying real preferences, rather than identifying preference with the outcome of choice, are actively pursued today in economics, cognitive science, neuroscience, evolutionary psychology, and beyond. Robbins was correct to point out that measuring blood pressure is unlikely to help; he was perhaps too hasty in ruling out all other possibilities. But it is well beyond me to comment on whether recent results seem in any way to justify the application of Galbraith’s Pigovian argument.

An empirical evaluation of Galbraith’s claim that advertising creates demand for consumer goods can be found in (Lamdin 2011). Generally, Lamdin’s results confirm the claim. But his results are also consistent with the claim that advertising creates real preferences. Thus the effects of advertising on general welfare cannot be determined, at least not within the scope of ordinal utility theory, and there are no distinct consequences for social choice arising from Lamdin’s results. Dutt also finds contemporary studies confirming the envy component of the dependence thesis; according to this literature “an important reason why consumers buy more is that other consumers buy more”. (Dutt 2008, 532) Again, however, this is not enough to show that consumers do not nevertheless makes themselves better off through such Veblenic consumption. Determining the latter will require empirically reliable ways of deciding not only whether wants are thus determined by envy, but also whether or not the resulting wants nevertheless embody truly represented preferences.

26 Lamdin surveys a variety of studies attempting to identify the direction of causation between advertising and consumption. Hsu, Darrat, Zhong and Abosedra 2002, Schmalensee 1972, Simon 1970 find that the causation runs from consumption to advertising, which goes against Galbraith’s thesis. The pathbreaking Jung and Seldon 1995, however, partly supports Galbraith’s thesis, as does Lamdin’s own research.
Indeed, the question of envy runs into the knotty issue of ‘interdependent preferences’ – preferences that agents form only because other agents behave in certain ways. I have not commented on Galbraith’s discussion of this matter for two reasons. First, Galbraith can hardly be said to have made much original contribution to the understanding of interdependent preferences, though he certainly used his rhetorical gifts to render the problem palpable. Second, it is not clear that the acknowledgement of interdependent preferences could help to advance the Pigovian argument. For example, assume we decide (what is far from uncontroversial) that my desire for x is unreal if I only desire it because you have so much of it. It is still not clear that the income I spend on x is wasted in terms of welfare. My spending might bring down the price of x, helping to increase the welfare of others who really do desire it. Or it might add to the income of the x-manufacturers so as to bring about a net increase in welfare. For this and other reasons the matter seems to be so complex that, compounded with the general difficulties in determining when the Pigovian argument applies, there seems little prospect of using these ideas to justify

27 For surveys of discussion of this issue, see, for example: Fullbrook 2002, Mason 1998, Pollak 1976.

28 Of course any model capable of representing these kinds of scenarios would be of a nonlinear dynamic, possibly chaotic system. It is hard to see how one could use such a model to judge the efficiency of various outcomes the way one can with a stable equilibrium model. It is hard, after all, to judge the efficiency of outcomes when the outcomes refuse to stay still. Becker suggests that this kind of situation can be modelled as a stable equilibrium system, so that one can solve for maximum efficiency in Becker 1974. But note that his model assumes the degree and direction of interdependence among preferences – what Becker calls ‘social capital’ – to be constant and exogenous to the system, rather than being an endogenous variable. This assumption is the mere hope that reality will constrain itself to the mathematical capacities of its modellers.
redistribution. The interdependence of preferences might have some positive effects that should also be taken into account before making the Pigovian judgment.

Also, deciding whether Galbraith’s argument applies to any given society would very likely require a general study of how social influences affect preference. There is no reason to restrict the study to the two sorts of influences upon which Galbraith almost exclusively focuses in *The Affluent Society*, namely advertising and envy. Moreover there are many other potential sources of preference-distortion that are not all distinctively social in character; these may also have to be taken into account. ²⁹

8. Conclusion

Galbraith’s argument thus rests heavily upon a promissory note about the possible deliverances of an improved theory of preference. It is also not his only argument in favour of greater public spending. There are many well-known arguments referring to the need for fiscal policy to ensure macroeconomic stability, many of which Galbraith employed and developed. Indeed, I suspect that these sorts of argument are currently, on the whole, more compelling towards that end than any that rely upon the dependence effect theory. ³⁰

²⁹ Daniel Kahneman’s latest book provides a recent basic survey of some of these: Kahneman 2012. Discussions from other points of view can be found in Earl 1990, Easterlin 2002, and many other sources. Some of this literature is discussed in relation to Galbraith in Dutt 2008, 536.

³⁰ Indeed my personal belief is that the most compelling cases are advanced within Modern Monetary Theory (MMT), which emphasizes the extent to which the constraints on public spending in countries like the United States are now entirely different than they were under the Bretton Woods regime of fixed exchange rates. *The Affluent Society* was, of course, written under this regime, and much of what it has to say about the need to raise revenue for public spending no longer apply in the same way. See
There are also other ways to make the case for redistribution. Again, there is a macroeconomic case – or variety of cases. As Keynes proposed: “measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital” (Keynes 1960, 373). There are also the cases that appeal to the idea of a relatively equitable society as a public good, and those that reject the preference-satisfaction view of welfare.\(^{31}\) But, unlike these cases, the argument based on the dependence effect requires no normative or methodological commitments beyond those of standard microeconomics and consumer demand theory. There is enough in any undergraduate microeconomics textbook to make the case, assuming only that the relevant facts about preference information and misinformation are roughly as reported by Galbraith. This, I believe, is interesting for two reasons.

First, it helps to reveal a somewhat hidden potential of standard microeconomic theory to engage interesting questions concerning social choice. This is interesting even to those who are, as I am, highly dubious about the foundations of standard microeconomics.\(^{32}\) It is common to suppose that microeconomics left to itself is guided, as if by an invisible hand, to recommend *laissez-faire* policies. Thus active fiscal policy must be justified in terms of macroeconomic ideas about business cycles, mostly inexplicable in purely microeconomic terms, while redistributive...
interventions in the free market must be justified in terms of normative commitments going beyond the basic ideals of welfare and efficiency embodied in standard microeconomic models. Galbraith’s neo-Pigovian argument is an interesting counterexample to such claims.

Secondly, it highlights the difference between defending public spending as such and defending it as an efficient means of directing income towards where it will provide the most benefit. Political pressure naturally goes in the direction of pushing governments to use public spending to bribe the middle classes rather than helping those in most need. Such action may nevertheless fulfil the requirements of Keynesian macroeconomic policy. Arguments for the latter thus tend to be essentially for public spending and only at best accidentally for redistribution. Galbraith’s dependence effect argument, if I have interpreted it rightly, is just the reverse. It is fundamentally a version of the Pigovian redistribution argument. It works to justify public spending only insofar as (1) serving the needs of the less affluent is a less wasteful use of money, in basic utilitarian terms, than serving the needs of the more affluent, and (2) the most burning needs of the less affluent are for public services.

To take a currently prominent example: when Thomas Piketty states that “no matter how justified inequalities of wealth may be initially, fortunes can grow and perpetuate themselves beyond all reasonable limits and beyond any possible rational justification in terms of social utility” and that “[e]very fortune is partially justified yet potentially excessive” (Piketty 2014, 440-1), he employs standards of reasonability, social utility, and fairness going well beyond Pareto measures of preference-maximization.

James Galbraith claims that his father, probably rightly, repudiated the macro/micro division (Galbraith 2008, 497). Even so, it is interesting that the argument discussed in this article can work within the terms of standard microeconomics as conceived by those who uphold the division.

James Galbraith resembles his father in this respect. He also believes that government spending should be promoted as a means of addressing the most urgent social need rather than as a means of
If anything, I believe that this makes The Affluent Society a more important work than it may otherwise seem. Several recent prominent works have put wealth inequality at the centre of political economists’ attention. But ordinal utility theory allows economists to build a dam of scepticism against all political pressures carrying forward redistributive schemes. The dam can be formidable – recall how Stigler claimed to actually doubt whether “splendid” claret brings less welfare than the opportunity to feed one’s malnourished children. A redistributive argument that can get around such ideological opposition is a thing of some consequence.

Bibliography


fiscal stimulus. Indeed, he is sceptical about the benefits of fiscal stimulus as such, believing that low growth in the developed world today has structural causes that fiscal stimulus is powerless to address. However, he argues, this makes public spending on social insurance programmes all the more vital. See Galbraith 2014, 246-51.

36 See Milanovic 2011, Stiglitz 2013, Wilkinson and Pickett 2010, and of course Piketty 2014. This is another sense in which James Galbraith carries on his father’s work: see Galbraith 2012.


Abstract

I argue that John Kenneth Galbraith’s theory of the “dependence effect” in *The Affluent Society* provides a way to rescue A.C. Pigou’s argument for wealth redistribution from a powerful objection. The objection is based on the unprovability of statements making interpersonal comparisons of utility. Galbraith’s dependence effect theory allows him to present a version of the Pigovian argument that requires no such statements to be made. I argue that Galbraith’s main piece of advocacy in *The Affluent Society* was for income redistribution, despite the fact that he claimed to be in favour of greater spending in the public sector rather than redistribution as such. I then show how my reading of the dependence effect theory helps to defend it against objections from Hayek and Rothbard. I end by discussing what improvements in economics a proper test of the theory would require and showing how my reading of it helps to reveal the ongoing importance of *The Affluent Society* to the understanding of political economy.

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