



*The Affluent Society*  
John Kenneth Galbraith  
1958

Excerpts

The Concept of the Conventional Wisdom  
The Myth of Consumer Sovereignty  
The Case for Social Balance

## The Concept of the Conventional Wisdom

[from *The Affluent Society*]

*This article originally appeared in *The Affluent Society*, by many considered my most influential book, and certainly the one with the widest audience. It was published in 1958 in the United States and thereafter in a large number of other countries. For many months it was high on the American bestseller list.*

*There were occasional mishaps in its reception. In the spring of 1958, just after publication, Catherine Galbraith and I set out on a long journey to Latin America; this took us down the west coast to Ecuador, Peru and Chile, across to Argentina and back up along the east. When we reached Montevideo, where I was giving a major lecture, word had come of the intense discussion of my work back home. Since the Montevideo paper was to put my photograph on the front page, the editors had telephoned to get some details on my new distinction, but unfortunately two words with a similar sound got confused: I was billed not as a leading economist but as a leading American Communist. For better or for worse, my lecture was well attended.*

*In the following weeks, months, even years, the book received much attention in the United States and variously around the world. This early chapter was designed to set the groundwork for a challenge to the accepted belief. Economics and social thought generally could pursue the truth, but there was no question that the latter could be heavily influenced by what it was convenient or simply traditional to believe. It*

was my purpose or, in any case, my hope to bring discussion, academic discussion in particular, closer to the reality. The resistance came from what I called the Conventional Wisdom. To my surprise and, no one should doubt, my pleasure, the term entered the language. It has acquired a negative, slightly insulting connotation and is sometimes used by people with views deeply adverse to mine who are unaware of its origin. Few matters give me more satisfaction.

What follows is my characterization of the Conventional Wisdom. I should add that the selection of that name owes more than a little to Harvard colleagues on whom I tried out several possibilities.

\* \* \* \*

THE FIRST REQUIREMENT for an understanding of contemporary economic and social life is a clear view of the relation between events and the ideas which interpret them, for each of the latter has an existence of its own and, much as it may seem a contradiction in terms, each is capable for a considerable period of pursuing an independent course.

The reason is not difficult to discover. Economic, like other social, life does not conform to a simple and coherent pattern. On the contrary, it often seems incoherent, inchoate and intellectually frustrating. But one must have an explanation or interpretation of economic behavior. Neither man's curiosity nor his inherent ego allows him to remain contentedly oblivious to anything that is so close to his life.

Because economic and social phenomena are so forbidding, or at least so seem, and because they yield few hard tests of what exists and what does not, they afford to the individual a luxury not given by physical phenomena. Within a considerable range, he is permitted to believe what he pleases. He may hold whatever view of this world he finds most agreeable or otherwise to his taste.

As a consequence, in the interpretation of all social life, there is a persistent and never-ending competition between what is right and

what is merely acceptable. In this competition, while a strategic advantage lies with what exists, all tactical advantage is with the acceptable. Audiences of all kinds most applaud what they like best. And in social comment, the test of audience approval, far more than the test of truth, comes to influence comment. The speaker or writer who addresses his audience with the proclaimed intent of telling the hard, shocking facts invariably goes on to expound what the audience most wants to hear.

Just as truth ultimately serves to create a consensus, so in the short run does acceptability. Ideas come to be organized around what the community as a whole or particular audiences find acceptable. And as the laboratory worker devotes himself to discovering scientific verities, so the ghost writer and the public relations man concern themselves with identifying the acceptable. If their clients are rewarded with applause, these artisans are deemed qualified in their craft. If not, they have failed. By sampling audience reaction in advance, or by pretesting speeches, articles and other communications, the risk of failure can now be greatly minimized.

Numerous factors contribute to the acceptability of ideas. To a very large extent, of course, we associate truth with convenience — with what most closely accords with self-interest and personal well-being or promises best to avoid awkward effort or unwelcome dislocation of life. We also find highly acceptable what contributes most to self-esteem. Speakers before the United States Chamber of Commerce rarely denigrate the businessman as an economic force. Those who appear before the AFL-CIO are prone to identify social progress with a strong trade union movement. But perhaps most important of all, people most approve of what they best understand. As just noted, economic and social behavior are complex, and to comprehend their character is mentally tiring. Therefore we adhere, as though to a raft, to those ideas which represent our understanding. This is a prime manifestation of vested interest. For a vested interest in understanding is more preciously guarded than any other treasure. It is why men react, not infrequently with something akin to religious passion, to the defense of what they have so laboriously

learned. Familiarity may breed contempt in some areas of human behavior, but in the field of social ideas it is the touchstone of acceptability.

Because familiarity is such an important test of acceptability, the acceptable ideas have great stability. They are highly predictable. It will be convenient to have a name for the ideas which are esteemed at any time for their acceptability, and it should be a term that emphasizes this predictability. I shall refer to these ideas henceforth as the Conventional Wisdom.

## II

The conventional wisdom is not the property of any political group. On a great many modern social issues, as we shall see in the course of this essay, the consensus is exceedingly broad. Nothing much divides those who are liberals by common political designation from those who are conservatives. The test of what is acceptable is much the same for both. On some questions, however, ideas must be accommodated to the political preferences of the particular audience. The tendency to make this adjustment, either deliberately or more often unconsciously, is not greatly different for different political groups. The conservative is led by disposition, not unmixed with pecuniary self-interest, to adhere to the familiar and the established. These underlie his test of acceptability. But the liberal brings moral fervor and passion, even a sense of righteousness, to the ideas with which *he* is most familiar. While the ideas he cherishes are different from those of the conservative, he will be no less emphatic in making familiarity a test of acceptability. Deviation in the form of originality is condemned as faithlessness or backsliding. A “good” liberal or a “tried and true” liberal or a “true blue” liberal is one who is adequately predictable. This means that he forswears any serious striving toward originality. In both the United States and Britain, in recent times, American liberals and their British counterparts on the left have proclaimed themselves in search of new ideas. To proclaim the need for new ideas has served, in some measure, as a substitute

for them. The politician who unwisely takes this proclaimed need seriously and urges something new will often find himself in serious trouble.

We may, as necessary, speak of the conventional wisdom of conservatives or the conventional wisdom of liberals.

The conventional wisdom is also articulated on all levels of sophistication. At the highest levels of social science scholarship, some novelty of formulation or statement is not resisted. On the contrary, considerable store is set by the device of putting an old truth in a new form, and minor heresies are much cherished. The very vigor of minor debate makes it possible to exclude as irrelevant, and without seeming to be unscientific or parochial, any challenge to the framework itself. Moreover, with time and aided by the debate, the accepted ideas become increasingly elaborate. They have a large literature, even a mystique. The defenders are able to say that the challengers of the conventional wisdom have not mastered their intricacies. Indeed, these ideas can be appreciated only by a stable, orthodox and patient man — in brief, by someone who closely resembles the man of conventional wisdom. The conventional wisdom having been made more or less identical with sound scholarship, its position is virtually impregnable. The skeptic is disqualified by his very tendency to go brashly from the old to the new. Were he a sound scholar, he would remain with the conventional wisdom.

At the same time, in the higher levels of the conventional wisdom, originality remains highly acceptable in the abstract. Here again the conventional wisdom makes vigorous advocacy of originality a substitute for originality itself.

## III

As noted, the hallmark of the conventional wisdom is acceptability. It has the approval of those to whom it is addressed. There are many reasons why people like to hear articulated that which they approve. It serves the ego: the individual has the satisfaction of knowing that other and more famous people share his conclusions. To hear what he believes is also a source of reassurance. The individual knows

that he is supported in his thoughts — that he has not been left behind and alone. Further, to hear what one approves serves the evangelizing instinct. It means that others are also hearing and are thereby in the process of being persuaded.

In some measure, the articulation of the conventional wisdom is a religious rite. It is an act of affirmation like reading aloud from the Scriptures or going to church. The business executive listening to a luncheon address on the immutable virtues of free enterprise is already persuaded, and so are his fellow listeners, and all are secure in their convictions. Indeed, although a display of rapt attention is required, the executive may not feel it necessary to listen. But he does placate the gods by participating in the ritual. Having been present, maintained attention and having applauded, he can depart feeling that the economic system is a little more secure. Scholars gather in scholarly assemblages to hear in elegant statement what all have heard before. Again, it is not a negligible rite, for its purpose is not to convey knowledge but to beatify learning and the learned.

With so extensive a demand, it follows that a very large part of our social comment — and nearly all that is well regarded — is devoted at any time to articulating the conventional wisdom. To some extent, this has been professionalized. Individuals, most notably the great television and radio commentators, make a profession of knowing and saying with elegance and unction what their audience will find most acceptable. But, in general, the articulation of the conventional wisdom is a prerogative of academic, public or business position. Thus any individual, on being elected president of a college or university, automatically wins the right to enunciate the conventional wisdom. It is one of the rewards of high academic rank, although such rank itself is a reward for expounding the conventional wisdom at a properly sophisticated level.

The high public official is expected, and indeed is to some extent required, to expound the conventional wisdom. His, in many respects, is the purest case. Before assuming office, he ordinarily commands little attention. But on taking up his position, he is immediately assumed to be gifted with deep insights. He does not, except in the rarest instances, write his own speeches or articles, and these are

planned, drafted and scrupulously examined to ensure their acceptability. The application of any other test, e.g., their effectiveness as a simple description of the economic or political reality, would be regarded as eccentric in the extreme.

Finally, the expounding of the conventional wisdom is the prerogative of business success. The head of almost any large corporation — General Motors, General Electric, IBM — is entitled to do so. And he is privileged to speak not only on business policy and economics but also on the role of government in the society, the foundations of foreign policy and the nature of a liberal education. In recent years, it has been urged that to expound the conventional wisdom is not only the privilege but also the obligation of the businessman. “I am convinced that businessmen must write as well as speak, in order that we may bring to people everywhere the exciting and confident message of our faith in the free enterprise way of life . . . What a change would come in this struggle for men’s minds if suddenly there could pour out from the world of American business a torrent of intelligent, forward-looking thinking.”<sup>1</sup>

## IV

The enemy of the conventional wisdom is not ideas but the march of events. As I have noted, the conventional wisdom accommodates itself not to the world that it is meant to interpret but to the audience’s view of the world. Since the latter remains with the comfortable and the familiar while the world moves on, the conventional wisdom is always in danger of obsolescence. This is not immediately fatal. The fatal blow to the conventional wisdom comes when the conventional ideas fail signally to deal with some contingency to which obsolescence has made them palpably inapplicable. This, sooner or later, must be the fate of ideas which have lost their relation to the world. At this stage, the irrelevance will often be dramatized by some individual. To him will accrue the credit for overthrowing the conventional wisdom and for installing the new ideas. In fact, he will have only crystallized in words what the events have made clear, although this function is not a minor one. Meanwhile,

like the Old Guard, the conventional wisdom dies but does not surrender. Society with intransigent cruelty may transfer its exponents from the category of wise man to that of old fogey or even stuffed shirt.

This sequence can be illustrated from scores of examples, ancient and modern. For decades prior to 1776, men had been catching the vision of the liberal state. Traders and merchants in England, in the adjacent Low Countries and in the American colonies had already learned that they were served best by a minimum of government restriction rather than, as in the conventional wisdom, by a maximum of government guidance and protection. It had become plain, in turn, that liberal trade and commerce, not the accumulation of bullion, as the conventional wisdom held, was the modern source of national power. Men of irresponsible originality had made the point. Voltaire had observed that “it is only because the English have become merchants and traders that London has surpassed Paris in extent and in the number of its citizens; that the English can place 200 warships on the sea and subsidize allies.”<sup>2</sup> These views were finally crystallized by Adam Smith in the year of American independence. *The Wealth of Nations*, however, continued to be viewed with discontent and alarm by the men of the older wisdom. In the funeral elegy for Alexander Hamilton in 1804, James Kent complimented his deceased friend on having resisted the “fuzzy philosophy” of Smith. For another generation or more, or in all western countries, there would be solemn warnings that the notion of a liberal society was a reckless idea.

Through the nineteenth century, liberalism in its classical meaning having become the conventional wisdom, there were solemn warnings of the irreparable damage that would be done by the Factory Acts, trade unions, social insurance and other social legislation. Liberalism was a fabric which could not be raveled without being rent. Yet the desire for protection and security and some measure of equality in bargaining power would not down. In the end, it became a fact with which the conventional wisdom could not deal. The Webbs, Lloyd George, La Follette, Roosevelt, Beveridge and others crystallized the acceptance of the new fact. The result is what we call

the welfare state. The conventional wisdom now holds that these measures softened and civilized capitalism and made it tenable. There have never ceased to be warnings that the break with classical liberalism was fatal.

Another interesting instance of the impact of circumstance on the conventional wisdom was that of the balanced budget in times of depression. Almost from the beginning of organized government, the balanced budget or its equivalent has been the *sine qua non* of sound and sensible management of the public purse. The spendthrift tendencies of princes and republics alike were curbed by the rule that they must unfailingly take in as much money as they paid out. The consequences of violating this rule had always been unhappy in the long run and not infrequently in the short. Anciently it was the practice of princes to cover the deficit by clipping or debasing the coins and spending the metal so saved. The result invariably was to raise prices and lower national self-esteem. In modern times, the issuance of paper money or government borrowing from the banks had led to the same results. In consequence, the conventional wisdom had emphasized strongly the importance of an annually balanced budget.

But meanwhile the underlying reality had gradually changed. The rule requiring a balanced budget was designed for governments that were inherently or recurrently irresponsible on fiscal matters. Until the last century, there had been no other. Then in the United States, England and the British Commonwealth and Europe, governments began to calculate the fiscal consequences of their actions. Safety no longer depended on confining them within arbitrary rules.

At about the same time, there appeared the phenomenon of the truly devastating depression. In such a depression, men, plant and materials were unemployed en masse; the extra demand from the extra spending induced by a deficit — the counterpart of the extra metal made available from the clipped coinage — did not raise prices uniquely. Rather, it mostly returned idle men and plant to work. The effect, as it were, was horizontally on production rather than vertically on prices. And such price increases as did occur were

far from being an unmitigated misfortune; on the contrary, they retrieved a previous, painful decline.

The conventional wisdom continued to emphasize the balanced budget. Audiences continued to respond to the warnings of the disaster which would befall were this rule not respected. The shattering circumstance was the Great Depression. This led in the United States to a severe reduction in the revenues of the federal government; it also brought pressure for a variety of relief and welfare expenditures. A balanced budget meant increasing tax rates and reducing public expenditure. Viewed in retrospect, it would be hard to imagine a better design for reducing both the private and the public demand for goods, aggravating deflation, increasing unemployment and adding to the general suffering. In the conventional wisdom, nonetheless, the balanced budget remained of paramount importance. President Hoover in the early thirties called it an “absolute necessity,” “the most essential factor to economic recovery,” “the imperative and immediate step,” “indispensable,” “the first necessity of the Nation,” and “the foundation of all public and private financial stability.”<sup>3</sup> Economists and professional observers of public affairs agreed almost without exception. Almost everyone called upon for advice in the early years of the depression was impelled by the conventional wisdom to offer proposals designed to make things worse. The consensus embraced both liberals and conservatives. Franklin D. Roosevelt was elected in 1932 with a strong commitment to reduced expenditures and a balanced budget. In his speech accepting the Democratic nomination he said, “Revenue must cover expenditures by one means or another. Any government, like any family, can for a year spend a little more than it earns. But you and I know that a continuation of that habit means the poorhouse.” One of the early acts of his administration was an economy drive which included a horizontal slash in public pay. Mr. Lewis W. Douglas, through a distinguished life a notable exemplar of the conventional wisdom, made the quest for a balanced budget into a personal crusade and ultimately broke with the administration on the issue.

In fact, circumstances had already triumphed over the conven-

tional wisdom. By the second year of the Hoover administration, the budget was irretrievably out of balance. In the fiscal year ending in 1932, receipts were much less than half of spending. The budget was never balanced during the depression. But not until 1936 did both the necessities and advantages of this course begin to triumph in the field of ideas. In that year, John Maynard Keynes launched his formal assault in *The General Theory of Employment Interest and Money*. Thereafter, the conventional insistence on the balanced budget under all circumstances and at all levels of economic activity was in retreat, and Keynes was on his way to being the new fountainhead of conventional wisdom. By the very late sixties a Republican President would proclaim himself a Keynesian. It would be an article of conventional faith that the Keynesian remedies, when put in reverse, would be a cure for inflation, a faith that circumstances would soon undermine.

v

I will find frequent occasion to advert to the conventional wisdom — to the structure of ideas that is based on acceptability — and to those who articulate it. These references must not be thought to have a wholly invidious connotation. (The warning is necessary because, as noted, we set great ostensible store by intellectual innovation, though in fact we resist it. Hence, though we value the rigorous adherence to conventional ideas, we never acclaim it.) Few men are unuseful and the man of conventional wisdom is not. Every society must be protected from a too facile flow of thought. In the field of social comment, a great stream of intellectual novelties, if all were taken seriously, would be disastrous. Men would be swayed to this action or that; economic and political life would be erratic and rudderless. In the Communist countries, stability of ideas and social purpose is achieved by formal adherence to an officially proclaimed doctrine. Deviation is stigmatized as “incorrect.” In our society, a similar stability is enforced far more informally by the conventional wisdom. Ideas need to be tested by their ability in combination with

events to overcome inertia and resistance. This inertia and resistance the conventional wisdom provides.

Nor is it to be supposed that the man of conventional wisdom is an object of pity. Apart from his socially useful role, he has come to good terms with life. He can think of himself with justice as socially elect, for society, in fact, accords him the applause which his ideas are so arranged as to evoke. Secure in this applause, he is well armed against the annoyance of dissent. His bargain is to exchange a strong and even lofty position in the present for a weak one in the future. In the present, he is questioned with respect, if not at great length, by congressional committees; he walks near the head of the academic processions; he appears on symposia; he is a respected figure at the Council on Foreign Relations; he is hailed at testimonial banquets. He does risk being devastated by future hostile events, but by then he may be dead. Only posterity is unkind to the man of conventional wisdom, and all posterity does is bury him in a blanket of neglect. However, somewhat more serious issues are at stake.

## VI

No society seems ever to have succumbed to boredom. Man has developed an obvious capacity for surviving the pompous reiteration of the commonplace. The conventional wisdom protects the community in social thought and action, but there are also grave drawbacks and even dangers in a system of thought which, by its very nature and design, avoids accommodation to circumstances until change is dramatically forced upon it. In large areas of economic affairs, the march of events — above all, the increase in our wealth and popular well-being — has again left the conventional wisdom sadly obsolete. It may have become inimical to our happiness. It has come to have a bearing on the larger questions of civilized survival. So while it would be much more pleasant (and also vastly more profitable) to articulate the conventional wisdom, I am here involved in the normally unfruitful effort of an attack upon it. I am not wholly barren of hope, for circumstances have been dealing the conven-

tional wisdom a new series of heavy blows. It is only after such damage has been done, as we have seen, that ideas have their opportunity.

Keynes, in his most famous observation, noted that we are ruled by ideas and by very little else. In the immediate sense, this is true. And he was right in attributing importance to ideas as opposed to the simple influence of pecuniary vested interest. But the rule of ideas is only powerful in a world that does not change. Ideas are inherently conservative. They yield not to the attack of other ideas but, as I may note once more, to the massive onslaught of circumstance with which they cannot contend.

## NOTES

1. Clarence B. Randall, *A Creed for Free Enterprise* (Boston: Atlantic-Little, Brown, 1952), pp. 3, 5.
2. "Tenth Philosophical Letter." Quoted by Henry Sée, *Modern Capitalism* (New York: Adelphi, 1928), p. 87.
3. Arthur M. Schlesinger, Jr., *The Crisis of the Old Order* (Boston: Houghton Mifflin, 1956), p. 232.

*Some authors regret controversy; on a few occasions so have I. This was one of the instances where I much enjoyed it.*

\* \* \* \*

## The Myth of Consumer Sovereignty

[from *The Affluent Society*]

*My argument in this chapter of *The Affluent Society* was one of the more controversial exercises of my life, for it challenged consumer sovereignty, a major professional truth of economics. Nothing had been more important in accepted economic belief than the notion that economic life is ultimately guided by the sovereign consumer. It is consumer choice that governs what is produced, that and changing technology; and in some measure technological change itself occurs in response to consumer need and in service to consumer satisfaction. I argue here that a determining factor in production — perhaps the determining factor — is, in fact, not consumer choice but, in substantial measure, producer manipulation of consumer response. Salesmanship, design and innovation are all utilized to attract and capture the consumer.*

*In orthodox economic circles my thesis attracted a nearly universal objection. It was enthusiastically pointed out that the Ford Motor Company had at great expense developed the Edsel, which then didn't sell. I was called to a discussion in New York City attended overwhelmingly by advertising men who were given to unanimous denunciation of my views. In the end, however, circumstance, fact, had their effect: the established belief was undermined; perhaps it could even be said that consumer sovereignty was set aside as a dominant factor in the economic system. From my reading of the literature, including the textbooks, it no longer enjoys its old role as the center of truth in shaping the economy.*

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

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

Were it so that a man on arising each morning was assailed by demons which instilled in him a passion sometimes for silk shirts, sometimes for kitchenware, sometimes for chamber pots and sometimes for orange squash, there would be every reason to applaud the



effort to find the goods, however odd, that quenched this flame. But should it be that his passion was the result of his first having cultivated the demons, and should it also be that his effort to allay it stirred the demons to ever greater and greater effort, there would be question as to how rational was his solution. Unless restrained by conventional attitudes, he might wonder if the solution lay with more goods or fewer demons.

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

## II

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

That wants are, in fact, the fruit of production will now be denied by few serious scholars. And a considerable number of economists, though not always in full knowledge of the implications, have conceded the point. Lord Keynes once observed that needs of “the second class,” i.e., those that are the result of efforts to keep abreast or ahead of one’s fellow being, “may indeed be insatiable; for the higher the general level, the higher still are they.”<sup>1</sup> And emulation has always played a considerable role in the views of want creation of other economists. One man’s consumption becomes his neighbor’s wish. This already means that the process by which wants are satisfied is also the process by which wants are created. The more wants that are satisfied, the more new ones are born.

However, the argument has been carried farther. A leading modern theorist of consumer behavior, Professor James Duesenberry,

has stated explicitly that “ours is a society in which one of the principal social goals is a higher standard of living . . . [This] has great significance for the theory of consumption . . . the desire to get superior goods takes on a life of its own. It provides a drive to higher expenditure which may even be stronger than that arising out of the needs which are supposed to be satisfied by that expenditure.”<sup>2</sup> The implications of this view are impressive. The notion of independently established need now sinks into the background. Because the society sets great store by its ability to produce a high living standard, it evaluates people by the products they possess. The urge to consume is fathered by the value system which emphasizes the ability of the society to produce. The more that is produced, the more that must be owned in order to maintain the appropriate prestige. The latter is an important point, for, without going as far as Duesenberry in reducing goods to the role of symbols of prestige in the affluent society, it is plain that his argument fully implies that the production of goods creates the wants that the goods are presumed to satisfy.<sup>3</sup>

## III

The even more direct link between production and wants is provided by the institutions of modern advertising and salesmanship. These cannot be reconciled with the notion of independently determined desires, for their central function is to create desires — to bring into being wants that previously did not exist.<sup>4</sup> This is accomplished by the producer of the goods or at his behest. A broad empirical relationship exists between what is spent on the production of consumer goods and what is spent in synthesizing the desires for that production. A new consumer product must be introduced with a suitable advertising campaign to arouse an interest in it. The path for an expansion of output must be paved by a suitable expansion in the advertising budget. Outlays for the manufacturing of a product are not more important in the strategy of modern business enterprise than outlays for the manufacturing of demand for the product. None of this is novel. All would be regarded as elementary by

the most retarded student in the nation's most primitive school of business administration. The cost of this want formation is formidable. As early as 1987, total advertising expenditure in the United States — though, as noted, not all of it may be assigned to the synthesis of wants — amounted to approximately one hundred and ten billion dollars. The increase in previous years was by an estimated six billion dollars a year. Obviously, such outlays must be integrated with the theory of consumer demand. They are too big to be ignored.

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

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

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

that they shouldn't exist. Such suggestions have usually been ill received in the advertising business.

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

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

#### IV

The general conclusion of these pages is of such importance that it had perhaps best be put with some formality. As a society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied. This may operate passively. Increases in consumption, the counterpart of increases in production, act by suggestion or emulation to create wants. Expectation rises with attainment. Or producers may proceed actively to create wants through advertising and salesmanship. Wants thus come to depend on output. In technical terms, it can no longer be assumed that wel-

fare is greater at an all-round higher level of production than at a lower one. It may be the same. The higher level of production has, merely, a higher level of want creation necessitating a higher level of want satisfaction. There will be frequent occasion to refer to the way wants depend on the process by which they are satisfied. It will be convenient to call it the Dependence Effect.

We may now contemplate briefly the conclusions to which this analysis has brought us.

Plainly, the theory of consumer demand is a peculiarly treacherous friend of the present goals of economics. At first glance, it seems to defend the continuing urgency of production and our preoccupation with it as a goal. The economist does not enter into the dubious moral arguments about the importance or virtue of the wants to be satisfied. He doesn't pretend to compare mental states of the same or different people at different times and to suggest that one is less urgent than another. The desire is there. That for him is sufficient. He sets about in a workmanlike way to satisfy desire, and accordingly, he sets the proper store by the production that does. Like woman's, his work is never done.

But this rationalization, handsomely though it seems to serve, turns destructively on those who advance it once it is conceded that wants are themselves both passively and deliberately the fruits of the process by which they are satisfied. Then the production of goods satisfies the wants that the consumption of these goods creates or that the producers of goods synthesize. Production induces more wants and the need for more production. So far, in a major tour de force, the implications have been ignored. But this obviously is a perilous solution. It cannot long survive discussion.

Among the many models of the good society, no one has urged the squirrel wheel. Moreover, the wheel is not one that revolves with perfect smoothness. Aside from its dubious cultural charm, there are serious structural weaknesses which may one day embarrass us. For the moment, however, it is sufficient to reflect on the difficult terrain we are traversing. Not the goods but the employment provided by their production is something by which we set major store. Now we find our concern for goods further undermined. It does not

arise in spontaneous consumer need. Rather, the dependence effect means that it grows out of the process of production itself. If production is to increase, the wants must be effectively contrived. In the absence of the contrivance, the increase would not occur. This is not true of all goods, but that it is true of a substantial part is sufficient. It means that since the demand for this part would not exist were it not contrived, its utility or urgency, *ex contrivance*, is zero. If we regard this production as marginal, we may say that the marginal utility of present aggregate output, *ex advertising and salesmanship*, is zero. Clearly the attitudes and values which make production the central achievement of our society have some exceptionally twisted roots.

Perhaps the thing most evident of all is how new and varied become the problems we must ponder when we break the nexus with the work of Ricardo and face the economics of affluence of the world in which we live. It is easy to see why the conventional wisdom resists so stoutly such change. It is far, far better and much safer to have a firm anchor in nonsense than to put out on the troubled seas of thought.

## NOTES

1. J. M. Keynes, "Economic Possibilities for Our Grandchildren," *Essays in Persuasion* (London: Macmillan, 1931), p. 365.
2. James S. Duesenberry, *Income, Saving and the Theory of Consumer Behavior* (Cambridge, Mass.: Harvard University Press, 1949), p. 28.
3. A more recent and definitive study of consumer demand has added even more support. Professors Houthakker and Taylor, in a statistical study of the determinants of demand, found that for most products price and income, the accepted determinants, were less important than past consumption of the product. This "psychological stock," as they called it, concedes the weakness of traditional theory; current demand cannot be explained without recourse to past consumption. Such demand nurtures the need for its own increase. H. S. Houthakker and L. D. Taylor, *Consumer Demand in the United States*, 2nd ed., enlarged (Cambridge, Mass.: Harvard University Press, 1970).
4. Advertising is not a simple phenomenon. It is also important in competitive strategy, and want creation is, ordinarily, a complementary re-

sult of efforts to shift the demand curve of the individual firm at the expense of others or (less importantly, I think) to change its shape by increasing the degree of product differentiation. Some of the failure of economists to identify advertising with want creation may be attributed to the undue attention that its use in purely competitive strategy has attracted. It should be noted, however, that the competitive manipulation of consumer desire is only possible, at least on any appreciable scale, when such need is not strongly felt.

## The Case for Social Balance

[from *The Affluent Society*]

*When this was first published in *The Affluent Society*, I called it “The Theory of Social Balance” and thereafter, in slightly stronger terms, “The Nature of Social Balance.” The subject is one with which I have been closely associated over the years: the contrast between our wonderful affluence in private goods and the poverty-ridden character of much of our public economy. I later made reference to one more-than-adequate addition to public expenditure: that for defense. This, none should doubt, is also the result of the superior power of private industry, the great weapons producers in particular. They have joined with the Pentagon to take over this part of the budget, and with the acquiescence or positive support of both the major political parties. The private economy here clearly dominates public expenditure.*

*This chapter follows in all major detail its first presentation, and the material, in turn, has had a prominent part in my speech and writing ever since. When social balance is extended to embrace nuclear weaponry, I regard the problem it poses as perhaps the most urgent of our time.*

*My argument has not been without effect. When I had finished writing the book, I was in grave doubt about using the description of the car and its occupants as they travel out through the streets of the city to the surrounding countryside and rural park and see in dramatic form the difference between the public and the private estates. I thought this passage might make my point too dramatically or too blatantly. In the end, I included it, and it was, by a wide margin, the most*

*quoted part of the chapter and perhaps, indeed, of the whole Affluent Society. As an engaging consequence, I was appointed to a small governmental commission on the problem of the roadsides in Vermont, a state where our family has lived many of our summers. With little disagreement, the commission urged that the roads be protected, including, among other things, abolishing billboards outside the cities. The result has been a substantial improvement of the countryside and a considerable encouragement to tourism; people now motor to Vermont to see the unobstructed meadows, forests and mountains. Environmental control can actually be good for business, something I did not originally suspect.*

\* \* \* \*

It is not till it is discovered that high individual incomes will not purchase the mass of mankind immunity from cholera, typhus, and ignorance, still less secure them the positive advantages of educational opportunity and economic security, that slowly and reluctantly, amid prophecies of moral degeneration and economic disaster, society begins to make collective provision for needs no ordinary individual, even if he works overtime all his life, can provide himself.

— R. H. TAWNEY<sup>1</sup>

**A** CENTRAL PROBLEM of the productive society is what it produces. This manifests itself in an implacable tendency to provide an opulent supply of some things and a niggardly yield of others. This disparity carries to the point where it is a cause of social discomfort and social unhealth. The line which divides the area of wealth from the area of poverty is roughly that which divides privately produced and marketed goods and services from publicly rendered services. Our wealth in the former is not only in startling contrast with the meagerness of the latter, but our wealth in privately produced goods is, to a marked degree, the cause of crisis in the supply of public services. For we have failed to see the impor-

tance, indeed the urgent need, of maintaining a balance between the two.

This disparity between our private and public goods and services (expenditures for defense and a few other favored items apart) is no matter of subjective judgment. On the contrary, it is the source of the most extensive comment, which only stops short of the direct contrast being made here. In recent years, the newspapers of any major city — those of New York are an excellent example — have told daily of the shortages and shortcomings in the elementary municipal and metropolitan services. Schools are old and overcrowded. The police force is inadequate. The parks and playgrounds are insufficient. Streets and empty lots are filthy, and the sanitation department is underequipped and in need of staff. Access to the city by those who work there is uncertain and painful and becoming more so. Internal transportation is overcrowded, unhealthful and dirty. So is the air. Parking on the streets should be prohibited, but there is no space elsewhere. These deficiencies are not in new and novel services but in old and established ones. Cities have long swept their streets, helped their people move around, educated them, kept order and provided horse rails for equipages which sought to pause. That their residents should have a nontoxic supply of air suggests no revolutionary dalliance with socialism.

In most of the last many years, the discussion of this public poverty was matched by the stories of ever-increasing opulence in privately produced goods. The Gross Domestic Product was rising. So were retail sales. So was personal income. Labor productivity also advanced. The automobiles that could not be parked were being produced at an expanded rate. The children, though subject in the playgrounds to the affectionate interest of adults with odd tastes and disposed to increasingly imaginative forms of delinquency, were admirably equipped with television sets. The care and refreshment of the mind was principally in the public domain. Schools, in consequence, were often severely overcrowded and usually underprovided, and the same was even more often true of the mental hospitals.

The contrast was and remains evident not alone to those who read. The family which takes its mauve and cerise, air-conditioned, power-steered and power-braked 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 on into a countryside that has been rendered largely invisible by commercial art. (The goods which the latter advertise have an absolute priority in our value system. Such aesthetic considerations as a view of the countryside accordingly come second. On such matters, we are consistent.) They picnic on exquisitely packaged food from a portable icebox by a polluted stream and go on to spend the night at a park which is a menace to public health and morals. Just before dozing off on an air mattress, beneath a nylon tent, amid the stench of decaying refuse, they may reflect vaguely on the curious unevenness of their blessings. Is this, indeed, the American genius?

## II

In the production of goods within the private economy, it has long been recognized that a tolerably close relationship must be maintained between the production of various kinds of products. The output of steel and oil and machine tools is related to the production of automobiles. Investment in transportation must keep abreast of the output of goods to be transported. The supply of power must be abreast of the growth of industries requiring it. The existence of these relationships — coefficients to the economist — has made possible the construction of the input-output table which shows how changes in the production in one industry will increase or diminish the demands on other industries. To this table, and more especially to its ingenious author, Professor Wassily Leontief, the world is indebted for one of its most important modern insights into economic relationships. If expansion in one part of the economy were not matched by the requisite expansion in other parts — were the need for balance not respected — then bottlenecks and

shortages, speculative hoarding of scarce supplies and sharply increasing costs would ensue. Fortunately in peacetime the market system, combined with considerable planning, serves to maintain this balance, and this, together with the existence of stocks and some flexibility in the coefficients as a result of substitution, ensures that no serious difficulties will arise. We are reminded of the problem only by noticing how serious it was for those countries which sought to solve it by a more inflexible planning.

Just as there must be balance in what a community produces, so there must also be balance in what the community consumes. An increase in the use of one product creates, ineluctably, a requirement for others. If we are to consume more automobiles, we must have more gasoline. There must be more insurance as well as more space in which to operate them. Beyond a certain point, more and better food appears to mean increased need for medical services. This is the certain result of increased consumption of tobacco and alcohol. More vacations require more hotels and more fishing rods. And so forth.

However, the relationships we are here discussing are not confined to the private economy. They operate comprehensively over the whole span of private and public services. As surely as an increase in the output of automobiles puts new demands on the steel industry so, also, it places new demands on public services. Similarly, every increase in the consumption of private goods will normally mean some facilitating or protective step by the state. In all cases if these services are not forthcoming, the consequences will be in some degree ill. It will be convenient to have a term which suggests a satisfactory relationship between the supply of privately produced goods and services and those of the state, and we may call it Social Balance.

The problem of social balance is ubiquitous, and frequently it is obtrusive. As noted, an increase in the consumption of automobiles requires a facilitating supply of streets, highways, traffic control and parking space. The protective services of the police and the highway patrols must also be available, as must those of the hospitals. Although the need for balance here is extraordinarily clear, our use of

privately produced vehicles has, on occasion, got far out of line with the supply of the related public services. The result has been hideous road congestion, a human massacre of impressive proportions and chronic urban colitis. As on the ground, so also in the air. Planes are delayed or collide over airports with disquieting consequences for passengers when the public provision for air traffic control fails to keep pace with the private use of the airways.

But the auto and the airplane, versus the space to use them, are merely an exceptionally visible example of a requirement that is pervasive. The more goods people procure, the more packages they discard and the more trash that must be carried away. If the appropriate sanitation services are not provided, the counterpart of increasing opulence will be deepening filth. The greater the wealth, the thicker will be the dirt. This indubitably describes a tendency of our time. As more goods are produced and owned, the greater are the opportunities for fraud and the more property that must be protected. If the provision of public law enforcement services does not keep pace, the counterpart of increased well-being will, we may be certain, be increased crime.

The city of Los Angeles in modern times was the near-classic study in the problem of social balance. Magnificently efficient factories and oil refineries, a lavish supply of automobiles, a vast consumption of handsomely packaged products, coupled for many years with the absence of a municipal trash collection service which forced the use of home incinerators, made the air nearly unbreathable for an appreciable part of each year. Air pollution could be controlled only by a complex and highly developed set of public services — by better knowledge of causes stemming from more public research, public requirement of pollution control devices on cars, a municipal trash collection service and possibly the assertion of the priority of clean air over the production of goods. These were long in coming. The agony of a city without usable air was the result.

The issue of social balance can be identified in many other current problems. Thus an aspect of increasing private production is the appearance of an extraordinary number of things which lay claim to the interest of the young. Motion pictures, television, auto-

mobiles and the vast opportunities which go with the mobility they provide, together with such less enchanting merchandise as narcotics, comic books and pornographia, are all included in an advancing Gross Domestic Product. The child of a less opulent as well as a technologically more primitive age had far fewer such diversions. The red schoolhouse is remembered mainly because it had a paramount position in the lives of those who attended it that no modern school can hope to attain.

In a well-run and well-regulated community, with a sound school system, good recreational opportunities and a good police force — in short, a community where public services have kept pace with private production — the diversionary forces operating on the modern juvenile may do no great damage. Television and the violent mores of Hollywood must contend with the intellectual discipline of the school. The social, athletic, dramatic and like attractions of the school also claim the attention of the child. These, together with the other recreational opportunities of the community, minimize the tendency to delinquency. Experiments with violence and immorality are checked by an effective law enforcement system before they become epidemic.

In a community where public services have failed to keep abreast of private consumption, things are very different. Here, in an atmosphere of private opulence and public squalor, the private goods have full sway. Schools do not compete with television and the movies. The dubious heroes of the latter, not Ms. Jones, become the idols of the young. Violence replaces the more sedentary recreation for which there are inadequate facilities or provision. Comic books, alcohol, drugs and switchblade knives are, as noted, part of the increased flow of goods, and there is nothing to dispute their enjoyment. There is an ample supply of private wealth to be appropriated and not much to be feared from the police. An austere community is free from temptation. It can also be austere in its public services. Not so a rich one.

Moreover, in a society which sets large store by production, and which has highly effective machinery for synthesizing private wants,

there are strong pressures to have as many wage earners in the family as possible. As always, all social behavior is of a piece. If both parents are engaged in private production, the burden on the public services is further increased. Children, in effect, become the charge of the community for an appreciable part of the time. If the services of the community do not keep pace, this will be another source of disorder.

Residential housing also illustrates the problem of the social balance, although in a somewhat complex form. Few would wish to contend that, in the lower or even the middle income brackets, Americans are munificently supplied with housing. A great many families would like better located or merely more houseroom, and no advertising is necessary to persuade them of their wish. And the provision of housing is in the private domain. At first glance at least, the line we draw between private and public seems not to be preventing a satisfactory allocation of resources to housing.

On closer examination, however, the problem turns out to be not greatly different from that of education. It is improbable that the housing industry is significantly more incompetent or inefficient in the United States than in those countries — Scandinavia, Holland or (for the most part) England — where slums have been largely eliminated and where *minimum* standards of cleanliness and comfort are well above our own. As the experience of these countries shows, and as we have also been learning, the housing industry functions well only in combination with a large, complex and costly array of public services. These include land purchase and clearance for redevelopment; good neighborhood and city planning and effective and well-enforced zoning; a variety of financing and other aids to the house-builder and owner; publicly supported research and architectural services for an industry which, by its nature, is equipped to do little on its own; and a considerable amount of direct or assisted public construction and good maintenance for families in the lowest income brackets. The quality of the housing depends not on the industry, which is given, but on what is invested in these supplements and supports.<sup>2</sup>

## III

The case for social balance has, so far, been put negatively. Failure to keep public services in minimal relation to private production and use of goods is a cause of social disorder or impairs economic performance. The matter may now be put affirmatively. By failing to exploit the opportunity to expand public production, we are missing opportunities for enjoyment which otherwise we might have. Presumably a community can be as well rewarded by buying better schools or better parks as by buying more expensive automobiles. By concentrating on the latter rather than the former, it is failing to maximize its satisfactions. As with schools in the community, so with public services over the country at large. It is scarcely sensible that we should satisfy our wants in private goods with reckless abundance, while in the case of public goods, on the evidence of the eye, we practice extreme self-denial. So far from systematically exploiting the opportunities to derive use and pleasure from these services, we do not supply what would keep us out of trouble.

The conventional wisdom holds that the community, large or small, makes a decision as to how much it will devote to its public services. This decision is arrived at by democratic process. Subject to the imperfections and uncertainties of democracy, people decide how much of their private income and goods they will surrender in order to have public services of which they are in greater need. Thus there is a balance, however rough, in the enjoyments to be had from private goods and services and those rendered by public authority.

It will be obvious, however, that this view depends on the notion of independently determined consumer wants. In such a world, one could with some reason defend the doctrine that the consumer, as a voter, makes an independent choice between public and private goods. But given the dependence effect — given that consumer wants are created by the process by which they are satisfied — the consumer makes no such choice. He or she is subject to the forces of advertising and emulation by which production creates its own demand. Advertising operates exclusively, and emulation mainly, on behalf of privately produced goods and services.<sup>3</sup> Since manage-



ment of demand and emulative effects operate on behalf of private production, public services will have an inherent tendency to lag behind. Automobile demand, which is expensively synthesized, will inevitably have a much larger claim on income than parks or public health or even roads, where no such influence operates. The engines of mass communication, in their highest state of development, assail the eyes and ears of the community on behalf of more beverages but not of more schools. Even in the conventional wisdom it will scarcely be contended that this leads to an equal choice between the two.

The competition is especially unequal for new products and services. Every corner of the public psyche is canvassed by some of the nation's most talented citizens to see if the desire for some merchantable product can be cultivated. No similar process operates on behalf of the nonmerchantable services of the state. Indeed, while we take the cultivation of new private wants for granted, we would be measurably shocked to see such cultivation applied to public services. The scientist or engineer or advertising man who devotes himself to developing a new carburetor, cleanser or depilatory for which the public recognizes no need and will feel none until an advertising campaign arouses it, is one of the valued members of our society. A politician or a public servant who sees need for a new public service may be called a wastrel. Few public offenses are more reprehensible.

So much for the influences that operate on the decision between public and private production. The calm decision between public and private consumption pictured by the conventional wisdom is, in fact, a remarkable example of the error which arises from viewing social behavior out of context. The inherent tendency will always be for public services to fall behind private production. We have here the first of the causes of social imbalance.

## IV

Social balance is also the victim of two further features of our society — the truce on inequality and the tendency to inflation. Since

these are now part of our context, their effect comes quickly into view.

With rare exceptions such as the postal service, public services do not carry a price ticket to be paid for by the individual user. By their nature, they must, ordinarily, be available to all. As a result, when they are improved or new services are initiated, there is the ancient and troublesome question of who is to pay. This, in turn, provokes to life the collateral but irrelevant debate over inequality. As with the use of taxation as an instrument of fiscal policy, the truce on inequality is broken. Liberals are obliged to argue that the services be paid for by progressive taxation which will reduce inequality. Committed as they are to the urgency of goods (and also to a somewhat mechanical view of the way in which the level of output can be kept most secure), they must oppose sales and excise taxes. Conservatives rally to the defense of inequality — although without ever quite committing themselves in such uncouth terms — and oppose the use of income taxes. They, in effect, oppose the expenditure not on the merits of the service but on the demerits of the tax system. Since the debate over inequality cannot be resolved, the money is frequently not appropriated and the service not performed. It is a casualty of the economic goals of both liberals and conservatives, for both of whom the questions of social balance are subordinate to those of production and, when it is evoked, of inequality.

In practice, matters are better as well as worse than this description of the basic forces suggests. Given the tax structure, the revenues of all levels of government grow with the growth of the economy. Services can be maintained and sometimes even improved out of this automatic accretion.

However, this effect is highly unequal. The revenues of the federal government, because of its heavy reliance on progressive income taxes, increase more than proportionately with private economic growth. In addition, although the conventional wisdom greatly deplores the fact, federal appropriations have only an indirect bearing on taxation. Public services are considered and voted on in accordance with their seeming urgency. Initiation or improvement of a

particular service is rarely, except for purposes of oratory, set against the specific effect on taxes. Tax policy, in turn, is decided on the basis of the level of economic activity, the resulting revenues, expediency and other considerations. Among these, the total of the thousands of individually considered appropriations is but one factor. In this process, the ultimate tax consequence of any individual appropriation is *de minimus*, and the tendency to ignore it reflects the simple mathematics of the situation. Thus it is possible for the Congress to make decisions affecting the social balance without invoking the question of inequality.

Things are made worse, however, by the fact that a large proportion of the federal revenues are pre-empted by defense. The increase in defense costs has also tended to absorb a large share of the normal increase in tax revenues. The position of the federal government in improving the social balance has also been weakened since World War II by the strong, although receding, conviction that its taxes are at artificial levels and that a tacit commitment exists to reduce taxes at the earliest opportunity.

In the states and localities, the problem of social balance is much more severe. Here tax revenues — this is especially true of the general property tax — increase less than proportionately with increased private production. Budgeting too is far more closely circumscribed than in the case of the federal government — only the monetary authority enjoys the pleasant privilege of underwriting its own loans. Because of this, increased services for states and localities regularly pose the question of more revenues and more taxes. And here, with great regularity, the question of social balance is lost in the debate over equality and social equity.

Thus we currently find by far the most serious social imbalance in the services performed by local governments. The F.B.I. comes much more easily by funds than the city police force. The Department of Agriculture can more easily keep its pest control abreast of expanding agricultural output than the average city health service can keep up with the needs of an expanding industrial population. One consequence is that the federal government remains under

constant and highly desirable pressure to use its superior revenue position to help redress the balance at the lower levels of government.

## V

Finally, social imbalance is the natural offspring of inflation. In the past, inflation had two major effects on public services. Wages in the public service tended to lag well behind those in private industry. There was thus an incentive to desert public for private employment. More important, in the United States the most urgent problems of social balance involve the services of states and localities and, most of all, those of the larger cities. Increasing population, increasing urbanization and increasing affluence all intensify the public tasks of the metropolis. Meanwhile the revenues of these units of government, in contrast with those of the federal government, are relatively inelastic. In consequence of the heavy dependence on the property tax, the revenues of these units of government lag behind when prices rise. The problem of financing services thus becomes increasingly acute as and when inflation continues.

In very recent times in the larger cities, stronger union organization among municipal employees has arrested and in some communities reversed the tendency for wages of public workers to lag. So the competitive position of the public services does not automatically become adverse with inflation. But the inelasticity of the revenues remains. And with high labor costs, the constraints on services — cuts, on occasion, instead of urgent expansion — have become more severe.

## VI

A feature of the years immediately following World War II was a remarkable attack on the notion of expanding and improving public services. During the depression years, such services had been elaborated and improved partly in order to fill some small part of the vacuum left by the shrinkage of private production. During the war

years, the role of government was vastly expanded. After that came the reaction. Much of it, unquestionably, was motivated by a desire to rehabilitate the prestige of private production and therewith of producers. No doubt some who joined the attack hoped, at least tacitly, that it might be possible to sidestep the truce on taxation vis-à-vis equality by having less taxation of all kinds. For a time, the notion that our public services had somehow become inflated and excessive was all but axiomatic. Even liberal politicians did not seriously protest. They found it necessary to aver that they were in favor of rigid economy in public spending too.

In this discussion, a certain mystique was attributed to the satisfaction of privately supplied wants. A community decision to have a new school means that the individual surrenders the necessary amount, willy-nilly, in his taxes. But if he is left with that income, he is a free man. He can decide between a better car or a television set. The difficulty is that this argument leaves the community with no way of preferring the school. All private wants, where the individual can choose, are thought inherently superior to all public desires which must be paid for by taxation and with an inevitable component of compulsion.

The cost of public services was also held to be a desolating burden on private production, although this was at a time when private production was burgeoning. Urgent warnings were issued of the unfavorable effects of taxation on investment — “I don’t know of a surer way of killing off the incentive to invest than by imposing taxes which are regarded by people as punitive.”<sup>4</sup> This was at a time when the inflationary effect of a very high level of private investment was causing concern. The same individuals who were warning about the inimical effects of taxes were strongly advocating a monetary policy designed to reduce investment. However, an understanding of our economic discourse requires an appreciation of one of its basic rules: men of high position are allowed, by a special act of grace, to accommodate their reasoning to the answer they need. Logic is only required in those of lesser rank.

Finally, it was argued with no little vigor that expanding government posed a grave threat to individual liberties. “Where distinction

and rank is achieved almost exclusively by becoming a civil servant of the state . . . it is too much to expect that many will long prefer freedom to security.”<sup>5</sup>

With time, the disorder associated with social imbalance has become visible even if the need for balance between private and public services is still imperfectly appreciated. The onslaught on the public services has left a lasting imprint. To suggest that we canvass our public wants to see where happiness can be improved by more and better services has a sharply radical tone. Even public services that prevent disorder need to be defended. By contrast, the man who devises a nostrum for a nonexistent private need and then successfully promotes both remains one of nature’s noblemen.

## NOTES

1. *Equality*, 4th ed., rev. (London: Allen & Unwin, 1952), pp. 134–135.
2. In *Economics and the Public Purpose* (Boston: Houghton Mifflin, 1973), I have related the performance of public functions much more closely to the power of the part of the private sector being served. Thus the comparatively ample supply of highways, the more than ample supply of weapons and the poor supply of municipal services and public health care.
3. Emulation does operate between communities. A new school in one community does exert pressure on others to remain abreast. However, as compared with the pervasive effects of emulation in extending the demand for privately produced consumers’ goods, there will be agreement, I think, that this intercommunity effect is probably small.
4. Arthur F. Burns, Chairman of the President’s Council of Economic Advisers, *U.S. News and World Report*, May 6, 1955.
5. F. A. von Hayek, *The Road to Serfdom* (London: George Routledge & Sons, 1944), p. 98.