



“Summary of article by Harry G. Johnson: The Political Economy of Opulence”  
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### “Summary of article by Harry G. Johnson: The Political Economy of Opulence”

*This is a summary of the eighth chapter in Harry Johnson's book in which the author summarizes and further develops some of John Kenneth Galbraith's central points regarding consumption and the economic difficulties that relate to it.*

John Kenneth Galbraith argues in *The Affluent Society* that many Western countries have solved the problems of scarcity that concerned classical economic theorists. However, as productivity and output rose, so did a new set of economic difficulties which were related to a change in the nature of consumption.

Consumption has been transformed by opulent societies and the economic theory of demand must be expanded to embrace these changes. Galbraith's objection to modern economic policies provides us an analytical point of departure for his critique of classical demand theory. In Johnson's words, Galbraith argues that:

...[C]lassical economics was formed in and shaped by an atmosphere of grinding poverty for the mass of the population. In that environment, the economic problem appeared as a tripartite one: the inadequacy of production, which expressed the prevalence of poverty and the grimness of the human lot; the inequality of distribution, which accentuated the insufficiency of production to provide more than a miserable standard of living for the masses; and the insecurity of income, which reinforced the misery of inadequacy... [S]ince scarcity of resources was the apparent cause of poverty..., the need to increase production placed severe limits on the pursuit of policies aimed directly at overcoming inequality and insecurity.

Production, inequality, and insecurity were the economic problems of the nineteenth century. But, Galbraith argues, these problems are no longer with us...

But the solution of the economic problems of the nineteenth century through expansion of production raises new problems, because this solution involves our economic society in a rat-race in which people have to be persuaded by high-powered advertising and hidden persuasion to buy the goods which the business men think up to produce. Real scarcity has been succeeded by contrived scarcity, and the successful functioning of the economy depends on reiterating the contrivance... [T]he necessity of, and insistence on, sustained expansion of production carries with it a number of attitudes inimical to sensible economic policy... Luxurious living, which drives the whole machine, becomes the

necessary cost of production, so that the margin of resources available for social uses such as defense is unduly small in relation to national income. In particular, the assumption that it is private consumption that counts, together with the emphasis on the scarcity of resources and the need for efficiency, creates strong resistance to the provision of public services and collective consumption goods by tax-financed governmental activity. (165-166)

Thus, according to Galbraith our economy has achieved many essential economic goals and there are built-in structures (i.e., the institutionalization of capital accumulation and technical progress in the modern corporation) that perpetuate economic growth. If this view of the economy is correct, what implications might be drawn for revisions in traditional economic doctrine, and for the creation of what might be called the *political economy of opulence* ?

### **The Nature of Opulent Consumption**

Current demand theory originated with Alfred Marshall but has strayed far from its historical roots. Contemporary theory reduces the concept of demand to the logic of isolated choices: it assumes an individual with a given income and preferences, choosing between commodities in the market, and from this derives the demand curves for individual products. Marshall understood that economic progress changes the nature of demand and that the purpose of economic organization may eventually be oriented toward the development of wants rather than merely satisfying wants:

...although it is man's wants in the earliest stages of his development that give rise to his activities, yet afterwards each new step upwards is to be regarded as the development of new activities giving rise to new wants, rather than of new wants giving rise to new activities.<sup>1</sup>

Economic progress results in the development of new wants which are a function of the improvement or education of taste. Although tastes may be shaped and facilitated by the advertising industry, the creation and satisfaction of new wants by advertising may produce social gain if it is possible to distinguish superior from inferior products and to thwart flagrant exploitation of consumers.

### **Consumption and Demand**

In an age of opulence, created wants are typically satisfied by the services of consumer capital – the services provided by goods like televisions – rather than the consumption of perishable or nondurable commodities. Wants satisfaction via consumption is increasingly accomplished by substituting capital-intensive for labor-intensive methods. For example, household purchases of goods that provide labor-saving services are on the rise.

There are two significant implications of this change for economic theory. First, Marshall's rejection of the distinction between short-run and long-run demand curves should be reconsidered. The price of consumer durables has both a short-run effect on the optimal life of the existing stock of goods, and a long-run effect on the desired level of stocks. The importance

of consumer durables implies that the consumer has the same problem of short-run rigidity as the producer; response to a change in the price of consumer durables will not be complete until stocks have been adjusted to the new optimal level. Once the consumption of the services of capital is recognized as a structural component of an opulent economy, it becomes clear that the nature of demand will change over time.

Second, conventional conceptions of consumer choice must be expanded to embrace choice with respect to the use of one's time. In opulent societies, the value of an individual's use of time increases relative to the value accorded to commodities. As a result, as people become wealthier they will care more about their working conditions than they will about their financial rewards. People will want to spend less time at work so as to enjoy more fully the services of their consumer goods. Leisure activities will become increasingly capital-intensive as the equipment necessary to participate in travel and sport increasingly requires expensive capital equipment. Thus, choice in the use of time becomes a significant factor in economic decisions in the political economy of opulence.

### **Notes**

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1. Marshall, Alfred. Principles of Economics, 8e (London: MacMillan, 1920), 89; cited by Johnson, 168.