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Ragnar Nurkse's hypothesis of an international demonstration effect – namely, that industrial countries' consumption standards exert a powerful attraction on poorer countries – is frequently cited in development literature. This chapter argues that Nurkse framed the issue too narrowly, particularly in his attempt to disassociate the demonstration effect from Thorstein Veblen's analysis of conspicuous consumption. A broader understanding is needed, drawing on the work of a number of economists to show that the related issues raised by Veblen and Nurkse have important implications for developing economies.

NURKSE'S FORMULATION

Nurkse argued that contact with superior consumption goods leads to restlessness, dissatisfaction, and the arousal of new desires. He stressed that this was not the same as conspicuous consumption, but merely depended on "demonstration leading to imitation."

Why does this distinction matter? Consider a consumer in a poor country who is exposed to modern consumer goods from an industrial country, and shifts his consumption pattern toward those goods. This may happen, as Galbraith might suggest, because the consumer's tastes have changed, perhaps as a result of advertising. Or it may happen because, although tastes are unchanged, the information available to the consumer has changed, as Gary Becker would suggest. In the former case, there is no way to know whether the consumer is better off; in the latter case, the new information presumably improves the consumer's welfare.

Fred Hirsch, in his analysis of positional goods, points out that competition for higher positions in a hierarchy is collectively self-defeating because one person can win only if others lose. Likewise, Veblen believed that much of consumption is driven by the desire to emulate or outdo a peer group. For both Veblen and Hirsch the outcome of emulative behavior (or positional competition) was a shift toward visible, positional goods. If the visible, positional goods are those which appear more modern, in the context of a developing country, then Veblen and Hirsch provide an explanation for Nurkse's demonstration effect.

However, Nurkse's formulation is inadequate because it ignores the manner in which individuals develop a taste for, and become responsive to knowledge about, developed country products. An understanding of these issues requires consideration of the findings of sociologists who have studied the process of modernization.

The sociological approach identifies several causal factors including urbanization, industrial employment, education, and exposure to mass media; together these factors give rise to a "modernity syndrome" which includes changes in values, openness to new ideas, ambition, and a taste for modern consumer goods. Individuals may become more "modern" through social learning, i.e., internalizing the values which are embedded in the institutions in which they work and live. However, the transmission of values through schools, factories, and offices may represent either the internal processes of these institutions (with, as Nurkse suggested, no need for conspicuous consumption), or increased exposure to Western values and lifestyles (in which case conspicuous consumption plays a central role).

AN ALTERNATIVE INTERPRETATION OF THE DEMONSTRATION EFFECT

Following Maslow's concept of a hierarchy of needs, status competition should become dominant only after more basic needs are satisfied. Conspicuous consumption, or positional competition, is a high-income taste but is transferred to the poor countries of the Third World via the demonstration effect.

Several instruments and mechanisms are involved in the transfer of positional values to developing countries. Education instills European and American values, often obliquely, as the standards of right and wrong, and directs youthful hopes and ambitions - all too often toward unattainable ends. As employers, foreign-owned enterprises impose standards of dress and behavior, and thus define a "respectable" outlook on life and business.

Advertising, as Hirsch points out, strengthens self-regarding individual objectives at the expense of socially oriented objectives, and often appeals to positional objectives, linking a product to "getting ahead." In developing countries, advertising is frequently essentially unaltered from its original, host country form, further contributing to pressures to emulate well-to-do foreign and local elites.

Finally, beginning in the colonial era, direct contact with Europeans and their consumption patterns has had a pervasive influence on the urban population of many developing countries. Expenditures on traditional rituals such as weddings may be slighted in favor of everyday display of conspicuous Western consumer goods.

THE WELFARE CONSEQUENCES OF POSITIONAL TASTE TRANSFER

While visibility is part of the definition of positional consumption, it is not alone sufficient. As Veblen noted, superfluousness is also essential for consumption to convey status: "No merit would accrue from the consumption of the bare necessities of life."[1] What are the effects of the transfer of tastes for positional consumption to developing countries?

New goods are developed almost entirely in and for advanced countries, whose consumers on average enjoy a high and rising standard of living. Thus new goods have the balance of characteristics desired by high-income rather than low-income consumers. As a result the consumption of modern goods becomes an expensive way to obtain other, non-positional

characteristics desired by low-income consumers. For poor countries, positional consumption imposes a high cost in terms of foregone non-positional characteristics.

The great expense of positional goods leads to efforts to create the appearance of modern consumption without the reality. A ballpoint pen cap on a pencil placed in a shirt pocket gives the appearance of ownership of an entire pen. A wall made of brick on the side of the house facing the street gives the appearance of expensive, modern construction, even if the other, less visible sides of the house are made of mud. Counterfeiting high-status brand name goods plays a similar role in developing countries, where fake designer sunglasses, watches, and jeans have captured a substantial market share.

There is a potential squeeze on essential, non-positional consumption to the extent that low-income groups in developing countries engage in positional consumption. Veblen noted that even the poorest members of society will engage in some conspicuous consumption, forgoing basic comforts or necessities as a result. Robert Frank argues that positional consumption tends to be most intense among the poor, both because they have so little status that any increase is of great value, and because only moderate expenditure is needed to catch up to the near-poor just above them. Thus purchases of infant formula and high-prestige packaged foods may come at the expense of basic nutrition. And, the more that the poor spend on positional consumption, the more the rich will spend to stay ahead; the race never ends.

In conclusion, it has long seemed self-evident that spending patterns in poor countries are influenced by the consumption behavior of richer societies but how this influence is transmitted has been less clear. In the 1950s Ragnar Nurkse made an important contribution by suggesting that the process works through an "international demonstration effect." However there are many reasons to doubt his argument that the effect depends solely on the influence of modern goods and is distinct from conspicuous consumption as analyzed by Veblen. Recent economic analyses of consumption in developed countries, combined with the sociology of modernization, suggest that status-seeking, emulative behavior may play an important role at the international level as well as within individual countries.

Notes

1. Thorstein Veblen, The Theory of the Leisure Class (New York: Macmillan, 1899), 155; cited by James, 127.