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John Kenneth Galbraith has been a leading proponent of the view that advertising can only have a persuasive effect on consumers who have satisfied their basic needs. Galbraith's theory implies that advertising expenditures should be minimal in poor countries and that levels of advertising expenditures ought to correspond to levels of affluence. This paper argues that Galbraith's view is untenable and that transnational advertising practices may create negative welfare effects in less developed countries.

THE GALBRAITHIAN VIEW

Galbraith's analysis suggests that while producers in affluent societies create wants in order to fulfill them, advertisers in less developed countries cannot induce wants since the poor majority are preoccupied with satisfying their basic physical needs. "The further a man is removed from physical need the more open he is to persuasion - or management - as to what he buys."[1] If Galbraith's premise were true, advertising expenditures should not be large in poor countries where the majority cannot afford luxuries. However, statistical analysis of data for 57 countries in 1974 shows that the level of development (as measured by per capita GNP) explains some, but far from all, of the variation in advertising expenditures as a percentage of GNP ($r2 = .31$). Developing countries such as Iran, Jamaica, Brazil, Costa Rica, and Peru spent a higher proportion of national product on advertising than developed countries such as West Germany, Belgium, and Italy.

Galbraith's error was his failure to see that even the very poor face consumption choices that can be influenced by advertising. Basic needs may be met by advertised products, and advertising may influence consumer priorities so that psychological needs take precedence over physical needs. Of course, at the time Galbraith was writing about advertising, in the 1950s and 1960s, it was difficult to anticipate the more recent explosive growth of transnational corporations and the powerful influence of globalized media institutions.

An important source of the strength of transnational corporations is their marketing expertise. U.S.-based multinationals spend a higher proportion of sales on advertising than other large American corporations; the greater the share of business abroad, the greater the company's spending on advertising. Goods such as pharmaceuticals, cosmetics, and soaps are particularly heavily advertised.

Accompanying and facilitating the growth of transnational corporations has been the increased availability of advertising media in developing countries. A much greater proportion of both radio and TV broadcast hours are devoted to advertising in less developed countries than in developed ones. In many countries, international, usually American-owned, ad agencies dominate the local advertising market and work closely with their transnational clients.

Beyond the specific advertising practices of transnationals, the media flow to less developed countries represents a form of advertisement all its own. As media institutions increasingly form larger and larger international conglomerates, First World culture is distributed increasingly to developing countries. For example, Hollywood, a handful of large production and distribution companies that are owned by various global corporations, supplies films to half the world's cinemas. The goods and services depicted in these movies become desirable without aid of a formal advertising structure.

DIFFERENTIAL EFFECTS OF ADVERTISING IN LDCs

Consumers in developing countries receive and often perceive different advertising information than their counterparts in industrialized countries. Transnational advertisers often deliver more misleading information to less developed countries where lax regulatory controls predominate. In less developed countries the majority of consumers tend to believe advertising claims more readily than consumers in developed countries since there are fewer, if any, consumer protection laws or advertising standards. In addition, understanding the complexity of mature products marketed in less developed countries requires educational levels attained by few. Less accurate information has a tendency to diminish consumer welfare since it is often the case that consumers would make different choices if they were better informed.

Galbraith's view that in low-income societies, "all the commercial advantages" lie with the producers of simple goods, is by no means generally true. In fact, multinationals are often able to secure a market for complex, branded goods through heavy advertising.
[W]hile competition in modern developed societies takes place mainly on the basis of advertising and product differentiation between very large oligopolists, this is not the typical situation in developing countries. Through heavy advertising, multinationals in the latter are relatively easily able to secure market predominance for their particular branded goods. (84)

Since multinationals can outspend their local competition, the market for many goods is no longer open to local producers.

Consumers in less developed countries are exposed to increasingly sophisticated goods that originate in developed country markets. In developed countries, brand competition among firms often produces expensive, heavily packaged goods but does not offer the choice of buying only part of the package. Less developed countries will suffer negative welfare effects if transnational advertising reduces savings and investment (and thus constrains future growth) through its promotion of expensive, developed-country patterns of consumption.

Notes

1. J.K. Galbraith, The New Industrial State (CITY: Pelican Books, 1969), 207: cited by James and Lister, 73.