Positional Goods, Conspicuous Consumption and the International Demonstration Effect Reconsidered

JEFFREY JAMES*

Boston University, Massachusetts

Summary. — Ragnar Nurkse's early formulation of the international demonstration effect explicitly eschewed the possibility that international emulation of the rich has anything to do with status seeking, or, to use Veblen's phrase, with conspicuous consumption. This paper argues in favor of a reassessment of Nurkse's formulation in the light, first, of recent analyses of advanced countries (by Hirsch, Frank and Scitovsky) which show the powerful welfare implications of consumption based on status seeking and in the light, second, of the large sociological literature that has investigated the modernization process in developing countries. The analysis casts doubt on Nurkse's eschewal of status-seeking behavior at the international level and suggests an alternative view with a profoundly different set of welfare implications for the Third World.

1. INTRODUCTION

Statements such as the following description of the West Indies abound in the development literature. "With ready access to foreign goods and easy credit arrangements, an expanding bourgeoisie emulates the buying habits of the local elite and of more affluent societies. . . . Exposure to metropolitan standards affects all levels of West Indian society. . . . The external standards West Indians emulate include not only European but American modes of thought, behaviour, and material goods" (Lowenthal, 1972, pp. 245, 247).

1 Descriptions of this sort would seem to correspond to Nurkse's hypothesis of an international demonstration effect — namely, that "the attraction of advanced consumption standards exerts itself fairly widely, though of course unevenly, among the poorer two-thirds of mankind" (Nurkse, 1957, p. 65) — and at one level of course they do. But, what is seldom recognized, is that Nurkse adopted a highly specific view of the mechanism which gives rise to this effect and as a result he was predisposed to a particular description of its consequences.

The purpose of this paper is to argue, first, that Nurkse's view — especially his attempt to disassociate the demonstration effect from Veblen's notion of conspicuous consumption — is not at all well founded, because it is based on an excessively narrow vision of the process of taste formation in developing countries. On this basis, and second, it is contended that a reappraisal of the relationship between these concepts needs to be undertaken within a considerably broader socioeconomic framework than that which Nurkse employed. Finally, the paper is concerned to stress that the need for such a reappraisal is based on far more than more theoretical curiosity; it derives instead from recent demonstrations by Hirsch (1976), Scitovsky (1976) and Frank (1985) that a Veblenian approach to consumer behavior has welfare implications that are not only profound but also sharply different from those associated with the conventional theory of consumer demand. So far, none of these authors have considered the specifically developmental implications of their analyses — indeed all of them have confined their attention to developed market economies — but in so far as a Veblen-type approach has relevance also to consumption in the Third World, and to the demonstration effect in particular, equally, if not more important policy implications may arise.

The first part of the paper describes Nurkse's formulation and shows how the welfare implic-
tions of his view for individual consumers differ from that which would result from the alternative view of how individual preference functions are related. For this purpose, the product characteristics approach to demand theory is used. Following a discussion of the respects in which Nurkse's formulation of the issue is thought to be deficient, an alternative framework is proposed. Within the context of this alternative approach, the competing interpretations are then described and assessed.

2. NURKSE'S FORMULATION

The point of departure of Nurkse's formulation is that the preference functions of individual consumers in rich and poor countries are interdependent rather than independent. What is envisaged in particular is that "When people come into contact with superior goods or superior patterns of consumption, with new articles or new ways of meeting old wants, they are apt to feel after a while a certain restlessness and dissatisfaction. Their knowledge is extended, their imagination stimulated; new desires are aroused" (Nurkse, 1957, p. 59). Nurkse is at pains to stress that this particular form of interdependence in consumption functions allows no room for any concept of social emulation through conspicuous consumption. As he himself put it,

we can leave out Veblen's point that the propensity to spend is partly based on the desire for conspicuous consumption. I do not think that on the international plane the effect of unequal living standards depends on the idea of "keeping up with the Joneses." All it depends on is demonstration leading to imitation. Knowledge of or contact with new consumption patterns opens one's eyes to previously unrecognized possibilities. It widens the horizon of imagination and desires. It is not just a matter of social snobishness.

New products constantly emerge from the course of technical progress, which modify existing ways of life, and frequently become necessities. (Nurkse, 1957, pp. 61-62; emphasis added)

Before proceeding to describe the limitations of Nurkse's formulation and to show why it is not thought to be an adequate basis on which to judge the issue that is raised in the previous paragraph, it is necessary to demonstrate why the issue itself is important.

(a) Why the issue matters

Use of the product characteristics approach (which views products in terms of the characteristics that they embody) reveals that there are two distinct possible consequences for the welfare of the consumer in a poor country who is exposed to the demonstration effect à la Nurkse. These two possibilities — corresponding to what may be called a Galbraithian view and a Becker/Stigler household production function approach — are illustrated in Figure 1a.

The figure assumes a world of two (indivisible) goods, two types of characteristics ("modern" and "traditional") and prior to contact with the advanced countries, the individual in the poor country is consuming good A at point P. According to the one (Galbraithian) version of how Nurkse's effect operates, the knowledge that is transmitted (via advertising for example) alters the tastes of the consumer (in favor of modern characteristics), so that his entire indifference map shifts (from IC1 to IC2) and he moves to Q by replacing good A with good B. In this case, as is recognized in formal welfare economics, without a fixed frame of reference, it is impossible to assess the effect on the welfare of the individual consumer (James, 1983).

The alternative view of the individual welfare effect of contact with the developed countries originates in the household production function approach espoused by Stigler and Becker (1977). These authors argue that the effect of advertising (and presumably also other forms of the transmission of knowledge) is to alter the information available to the consumer, rather than his tastes. And since the welfare effect of the information that is conveyed depends only on its accuracy and in so far as the demonstration effect on balance improves rather than detracts from the knowledge available to the consumer, his choice of good B in Figure 1a will enable him to move on to the higher indifference curve IC1.

If the product characteristics approach is useful in revealing these two distinct variants of Nurkse's formulation, it is also helpful in elucidating the approach that he chose to eschew. In particular, it enables one to reconcile Veblen's early views on consumer behavior with the similar ideas that have more recently been advanced by Hirsch. The latter argued that in so far as consumption is based on positional competition — that is, "competition that is fundamentally for a higher place within some explicit or implicit hierarchy and that thereby yields gains for some only by dint of losses for others" (1976, p. 52) — it is collectively self-defeating. The fundamental problem is that "The choice facing the individual in a market or market-type transaction in the positional sector, in a context of material growth, always appears more
attractive than it turns out to be after others have exercised their choice” (Hirsch, 1976, p. 52, emphasis in original). Hirsch referred to goods whose consumption is based on positional competition as “positional goods” or, more specifically, as “those things whose value depends relatively strongly on how they compare with things owned by others” (Frank, 1985, p. 101). Conversely, nonpositional goods “depend relatively less strongly on such comparisons — the nonpositional category includes, but is not limited to, goods that are not readily observed by outsiders” (Frank, 1985, p. 101).

Like Hirsch, Veblen believed that much of consumption behavior is driven by “emulation — the stimulus of an invidious comparison which prompts us to outdo those with whom we are in the habit of classing ourselves” (Veblen, 1899, p. 103). Veblen also contended — and here a clear analogy with positionality begins to emerge — that the outcome of this emulative behavior would be “discrimination in favor of visible consumption” (Veblen, 1899, p. 112), a concentration of consumption “upon the lines which are most patent to the observers whose good opinion is sought” (Veblen, 1899, p. 112, emphasis added). And although he did not formulate the matter in the same rigorous zero-sum terms as Hirsch, Veblen nevertheless seemed to perceive that this conspicuous consumption was inherently economically wasteful, as the following quotation suggests. “Relative or competitive advantage of one individual in comparison with another does not satisfy the economic conscience” (Veblen, 1899, p. 98). Unlike Hirsch, however, Veblen maintained that it is the characteristics of goods and not the goods themselves that are required for “positional” or “conspicuous” purposes and he suggested, furthermore, that these are rarely the only reasons why particular products are in demand. In general, that is to say, the demand for goods has both a positional and a nonpositional component. Thus, “It is obviously not necessary that a given object of expenditure should be exclusively wasteful in order to come in under the category of conspicuous waste. An article may be useful and wasteful both, and its utility to the consumer may be made up of use and waste in the most varying proportions. Consumable goods, and even productive goods, generally show the two elements in combination, as constituents of their utility” (Veblen, 1899, p. 100).

By combining the ideas of Hirsch and Veblen it is possible to represent the welfare implications of this synthesis — the type of approach that Nurkse chose to reject — in terms of Figure 1b. Unlike Figure 1a, the two goods A and B are now defined by their embodiment of positional and nonpositional, rather than modern and traditional, characteristics. The individual initially chooses good A but given his new tastes which, because of the demonstration effect, reflect the increased orientation to the positional aspect of demand, he changes to good B. Following Hirsch, however, the positional characteristics turn out (ex post) to be entirely illusory. That is, “after others have exercised their choice,” all the consumer ends up with is OL of intrinsic or nonpositional characteristics, which is less than was obtained (OM) with the original preference ordering. It is worth noting that the extent of the
absolute decline in nonpositional characteristics (and hence the degree of the consumer's *ex post* loss in welfare) depends on the nature of good B (i.e., on the slope of the ray representing this good). If, instead of B the consumer had chosen good B', for example, it is clear that the diminution of nonpositional characteristics would have been much less severe. We shall explore the welfare implications of this point below, when a detailed interpretation of the demonstration effect along Hirsch/Veblen lines is attempted. For the present purpose, it is sufficient to note that if this effect is represented as causing an enhancement of positional tastes, the welfare impact is quite different from that which is associated with Nurkse's view.

(b) The limitations of Nurkse's formulation

If the issue raised in this paper seems therefore to raise a potentially important question of welfare, it is also fairly plain that Nurkse's formulation — and in particular his dismissal of a Veblenian interpretation — is inadequate. For it entirely ignores the manner in which individuals become responsive to, and predisposed to search for, the knowledge about advanced country products that is transmitted through the demonstration effect. And it also fails to address the question of how, in the process by which tastes for products are altered, other proclivities of individuals may also be affected. Yet, these factors are likely to constitute essential determinants of the type of interdependence between individual utility functions that is created by the process that Nurkse describes (i.e., whether the process is better described by Figure 1a or 1b). A more adequate assessment needs to incorporate these omitted factors in a much wider analysis of how tastes are formed in developing countries. And this in turn means that one has to enlarge the scope of the inquiry beyond the confines of economic variables (with which Nurkse was mostly concerned) to include the findings of sociologists, and particularly those sociologists who have studied the modernization process.

3. MODERNIZATION THEORY

As it is formulated by modernization theorists, the sociological approach differs from that taken by economists not merely with respect to the specification of the independent or explanatory variables but also (as Table 1 indicates) with regard to the range of variables that are to be explained. Whereas in the former approach changes in taste are *isolated* from any other accompanying (psychological and sociocultural) changes, sociologists tend to a view in which all these various dimensions of change occur *simultaneously* and often inextricably, as part of what is referred to as a "modernity syndrome." In particular, together with the acquisition of a taste for modern goods, "modern man" identifies with the newer, larger entities of region and state, takes an interest in public affairs, national and international as well as local, joins organizations, keeps himself informed about major events in the news, and votes or otherwise takes some part in the political process. The modern man's sense of efficacy is reflected in his belief that, either alone or in concert with others, he may take actions which can affect the course of his life and that of his community; in his active efforts to improve his own condition and that of his family; and in his rejection of passivity, resignation, and fatalism toward the course of life's events. His independence of traditional sources of authority is manifested in public issues by his following the advice of public officials or trade union leaders rather than priests and village elders, and in personal matters by his choosing the job and the bride he prefers even if his parents prefer some other position or some other person. The modern man's openness to new experience is reflected in his interest in technical innovation, his support of scientific exploration of hitherto sacred or taboo subjects, his readiness to meet strangers, and his willingness to allow women to take advantage of opportunities outside the confines of the household... In other words, psychological

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modernity emerges as a quite complex, multifaceted, and multidimensional syndrome. (Inkeles and Smith, 1974, pp. 290-291)

What is striking about the vector of factors that make up the syndrome described in the quotation is not only that it seems to appear consistently in studies that are independently conducted, but also in a variety of diverse populations. And because some sociologists have devoted a considerable amount of time to the empirical investigation of the factors that contribute to the “modernity syndrome,” much can be learnt about the causes of taste change (which, in the transition from traditional to modern tastes, comprise an integral part of this syndrome) from an analysis of their results. This knowledge in turn, ought to throw a good deal of light on the assessment of the competing interpretations that were described above.

(a) The determinants of modernity

Using a summary measure of modernity that incorporates a very wide range of attitudinal variables Inkeles and Smith sought to identify the factors that were most important to explaining the variation in this measure among a large sample of individuals in six developing countries. What they found was that approximately 50% of the variance in the data could be accounted for by a set of eight variables of which education, experience in a modern large-scale factory and exposure to mass-media were the most important. But modernity also appeared to be influenced to an important degree by the country in which these separate influences were exerted. In particular, the researchers found no way to escape the fact that the men from some countries consistently scored higher in individual modernity than those from other countries, even when the individuals compared were apparently alike in certain characteristics which had previously been shown to be the most powerful determinants of such scores . . . A man from Argentina who had completed more than eight years of schooling and a Chilean with about seven years of schooling did only as well as an Israeli who had only been to school for three years. (Inkeles, 1983, p. 178)

The authors concede that the reasons for this “national character” effect on modernity are not at all clear but suggest that the most likely explanation has to do with a view of modernization in which “individuals living in a more modern setting should become more modern merely by sharing a generally modern ambience. And one important factor in making a modern ambience may be the average level of modernity of the individuals who live in the environment” (Inkeles, 1983, p. 182). Because this average is also highly correlated with more objective indices of development such as GDP per head, “the richer countries will enjoy a double advantage.” For not only will they be better able to supply more of the factors (such as education, factory jobs, etc.) that contribute to modernity but their very affluence in itself contributes to the process.

(b) The social learning view of taste change

Earlier we noted that one reason for the inadequacy of Nurkse’s formulation is its failure to provide insight into the question of why individuals become favorably disposed towards or inclined to search for the knowledge that is conveyed about developed country products via the demonstration effect. The evidence presented in the previous section indicates the variables that are important to this transformation, but provides no view of what sociological processes underlie the explanatory variables.

Inkeles and Smith assert that the causal factors underlying their results (as well as those of other modernization theorists) mostly derive from the principle of “social learning.” That is, in their view individuals become modern by internalizing the values which are “embedded in the organizational practices of the institutions in which they live and work” (Inkeles, 1983, p. 19).

Consider, for example, the way in which education and work in large-scale factories are thought to promote modern attitudes according to this approach (which derives its rationale principally from the Marxist view that it is the relationship to the mode of production that is fundamental in shaping one’s consciousness). Thus, “school and factory produce the same result because they both expose individuals to certain common principles of organization, procedures for assigning power and prestige, modes for allocating rewards and punishment, and approaches to the management of time. Individual modernity then becomes a quality learned by the incorporation into the self-system of certain qualities characteristic of particular institutional environments” (Inkeles, 1983, p. 20).

What is stressed by this approach, therefore, is the general, rather than the specific nature of the impact that is imparted by the modernizing institutions. In the case of education, for example, the process by which the school inculcates modern values has mostly to do with “the distinctive nature of the social organization as
such” and little to do with “the curriculum as such” (Inkeles, 1983, p. 54). As an example of how the inherent characteristics of this institution work to produce this effect, consider its relation to the notion of “a sense of efficacy,” which, as noted earlier, is one component of the “modernity syndrome.”

In the acquisition of this feeling generalization plays a substantial role. Generalization occurs when an individual enjoys so satisfying an experience in one specific relationship or performance that he is led to believe that he can attain comparable success in other contexts. The child who learns to read his school books later finds himself able to read directions and instructions and to follow events in the newspaper. By extension and diffusion, or what we have called generalization, a heightened general sense of personal efficacy results. (Inkeles, 1983, p. 55)

Or, to take another example, it is argued that “principles directly embedded in the daily routine of the school teach the virtue of planning ahead and the importance of maintaining a regular schedule” (Inkeles, 1983, p. 56).

It follows from this social learning view that there is an essential similarity in the way that individuals become modern, regardless of the context in which the process occurs. Indeed, even the vast diversity that is brought about by different economic systems (capitalist vs. socialist), cultural and political variations and so on, are thought not to have a “great impact on the process of individual modernization. The critical factor in that process will be the extent to which individuals are exposed to the “schools for modernity” such as formal education, factories, modern offices” (Inkeles, 1983, p. 318).

In brief, then, according to the social learning view the “emergence of modernity is primarily a consequence of internal dynamics of each society rather than of external forces. With law-like regularity, the same psychological traits arise in different and relatively independent national settings in response to the same structural pressures. Modernity is the natural response of personality and culture to incipient processes of structural transformation wherever they may occur” (Portes, 1973, p. 270). In so far as it is valid, this view lends support to Nurkse’s formulation of the demonstration effect for it shows how individuals can become predisposed to favor advanced country products in a way that need have no Veblenian positional component at all. However, as Portes has pointed out, even on the basis of the same explanatory variables an alternative interpretation of the modernization process is possible. In particular, as an alternative to the dramatic portrait of a new personality system arising spontaneously and independently in different social contexts — the universality of modernity is an obvious consequence of the universality of diffusion of modern, i.e., Western, values and behavior patterns. Many people in many countries have had the opportunity to be socialized in, essentially the same set of orientations. Massive aspirations, media-consumption and other such modern traits do not arise naturally from internal processes of structural change, but artificially from the impact of Western cultural diffusion centered in urban areas. Factors which have been repeatedly found to promote modernity — education, industrial occupation and urban residence — may function less as carriers of self-evident psychological implications discovered anew by each developing population than as vehicles for closer and more intensive exposure to Western values and lifestyles. (Portes, 1973, p. 270-271, emphasis added)

It is on the basis of this view that one can formulate an alternative interpretation of the implications of the demonstration effect — an interpretation that will rely upon, rather than eschew, the ideas of Veblen and Hirsch.

4. AN ALTERNATIVE INTERPRETATION OF THE DEMONSTRATION EFFECT: THE TRANSFER OF POSITIONAL TASTES

Following Maslow’s (1954) concept of a hierarchy of needs, the striving for status (or the acquisition of high standing relative to others) becomes a predominant motivation only after other, more basic needs (for hunger, thirst, safety and belongingness) are satisfied. In this sense, Hirsch’s positionality or Veblen’s “conspicuousness” may be described as a “high-income” taste that is indulged principally by those with incomes sufficient to have satisfied their more fundamental needs. Yet, according to the alternative interpretation of the demonstration effect that this section will present (that corresponding to Figure 1b) it is precisely this high-income taste that (among other things) is transferred by the demonstration effect to the poor countries of the Third World. This alternative formulation differs from that described in the previous section not in its view of the set of variables that are thought to be important to the modernization process, but rather in the manner in which they are said to contribute to this process. It is to the elucidation of this crucial distinction that we now turn.
(a) The instruments and mechanism of positional taste transfer

(i) Education and work in large foreign factories

In the alternative view the role of education and work in large foreign firms is to transfer developed country values, including positional values, to developing countries. Wilson's social anthropological study of the English-speaking societies of the Caribbean provides a fascinating example of this view. Wilson found that for these communities, "The reference group — for high social status and for respectability is the urban middle-class Afro-American and white community of the United States or the Panama Canal Zone. This is the model where proper English is spoken, where manners come naturally, where a house is immaculate and furnished to the best taste to the utmost convenience, where sophistication has its roots and modernity its zenith" (Wilson, 1972, p. 14). Wilson shows how this role orientation produces a pattern of consumption that can only be described as highly positional. For instance, "Economic differentiation becomes a public and social matter through the assumption of a life style, marked in part by the acquisition, use, and display of goods... Economic differentiation is clearly a large and vital part of social differentiation — the reclassification of people in terms of their status" (Wilson, 1972, p. 94). Or again, and more specifically, "Respectability at its material level, at its level of signification, is a show of luxury. It is a grand, well-furnished home, well equipped with modern appliances, fine furniture, china and linens, good stylish clothes, an expensive education, manners and deportment. These signifiers are also the foci of ambition for the population as a whole" (Wilson, 1972, p. 226).

What drives the patterns described in the previous paragraph according to Wilson is primarily the system of education. "Euro-American ideas and ideals enter the society most pervasively and influentially through the educational system. Here they are instilled, often obliquely, as the standards of right and wrong. It is here that youthful hopes and ambitions are engendered and directed — but are all too often left unfulfilled" (Wilson, 1972, p. 231). A similar role appears to be played by the church and in the professional standards and moral expectations that Euro-American institutions, firms, hotels, and employers impose on their employees, beginning with standards of dress and address and going deeper by nurturing ambitions and setting the terms by which those ambitions might be realized, including a "respectable" outlook on life and business. To the extent that companies and employers do this, they invade the value system of the Caribbean, and the more powerful they are, the more successful their invasion. (Wilson, 1972, p. 233)

More generally, Sauvant (1976, pp. 68-69) has suggested that

the ability of foreign affiliates to influence and shape a host country's business culture — and through it the entire cultural and social system — is based on two factors: first, on their direct capacity to add to and shape the production apparatus of the host country and to introduce, promote, and disseminate new modes of operation and behavior; and, second, on the impetus they give to the creation of a supporting (foreign-controlled) business service structure geared to meet the needs of foreign affiliates. The crucial common element in these factors is that the capital investments underlying international business are accompanied by sociocultural investments, that is, values and behavioral patterns associated with the parent enterprise (or agency) and its home country.

(ii) Advertising

Advertising is likely to contribute to an enhanced preference for the positional component of demand for two reasons. First, as Hirsch points out, it tends to "encourage the strengthening of self-regarding individual objectives and makes socially oriented objectives more difficult to apply. The reason is that interests of self-concern and self-regard can be enlisted much more effectively in support of commercial sales efforts" (Hirsch, 1976, p. 82). Second, the appeal to self-interest is often made with direct reference to positionality — that is, through linking consumption of the advertised product to "getting ahead" of the rest of society. Together, these features of advertising foster not merely the existence of an individualistic ethic (which would remain true, incidentally, even if only information is conveyed), but also the notion that self-interest is best pursued with respect to advancing one's rank order in society.

In developing countries much of the advertising and sales promotion that is undertaken by multinational corporations remains essentially unaltered from its original, host country form. As a result, these techniques are likely to have the same effect on the positional component of tastes that was described in the previous paragraph. For example, in the context of the promotion of tonic foods in the Third World, Jelliffe has noted that "The content of advertising and the techniques used are those widely employed in the Western World, with emphasis on status and convenience. The tropical mother is in many cases even more vulnerable to these motivating forces... She is as anxious to emulate the well-to-do elite, both local and foreign, as is any Western mother"
(Jelliffe, 1972, p. 201). A very similar process is described by Ledogar (1975) in the case of the marketing of soft drinks.

(iii) Direct historical contact: The impact of colonialism

A study of occupational prestige and social status in Northern Rhodesia by Mitchell and Epstein provides some interesting observations on the impact of colonialism on urban consumption patterns and in particular on those that might be described as positional. The authors point, for example, to the acceptance in urban communities of the prestige scale introduced by the Europeans. “In other words, the social grading of occupations reflects the more generalized prestige system which manifests itself as the emulation of the way of life of the socially dominant Europeans. . . . Success in achieving this ‘civilized’ way of life is demonstrated conspicuously by the physical appurtenances of living. The most important of these is clothes, but personal jewellery (especially wrist-watches), furniture, and European-type foodstuffs are also important” (Mitchell and Epstein, 1959, p. 32, emphasis added).

It is important to note that the propensity for this kind of positional consumption in the urban (as opposed to rural) areas of developing countries may derive not merely from more numerous contacts with the developed world (the factor that in Nurkse’s formulation endows the city with its modernizing influence), but also from pressures that are inherent in the process of urbanization itself. In this regard Veblen himself believed that “the serviceability of consumption as a means of repute, as well as the insistence on it as an element of decency, is at its best in those portions of the community where the human contact of the individual is widest and the mobility of the population is greatest” (Veblen, 1899, p. 87). For this reason he asserted that “Conspicuous consumption claims a relatively larger portion of the income of the urban than of the rural population and the claim is also more imperative” (Veblen, 1899, p. 87). It is also worth noting his insistence that it is not that the city population is by nature much more eager for the peculiar complacency that comes of a conspicuous consumption, nor has the rural population less regard for pecuniary decency. But the provocation to this line of evidence, as well as its transient effectiveness, are more decided in the city. This method is therefore more readily resorted to, and in the struggle to outdo one another the city population push their normal standard of conspicuous consumption to a higher point. (Veblen, 1899, pp. 87, 88, emphasis added)

So far in this section fragments of evidence have been adduced in support of the interpretation that the demonstration effect occasions a change towards positional tastes and behavior on the part of (some of) those who live in the Third World. But as Figure 1b was concerned to demonstrate, the welfare effects of this change depend on the type of good that is used to give effect to the new tastes. And in order to get some sort of analytical handle on this issue it is clear that one needs to convert the concepts of positional and nonpositional characteristics (representing the two axes of Figure 1b) into more concrete categories and to investigate how these categories are combined into the different goods that are available for the satisfaction of enhanced positional tastes.

(c) Mapping positional demand into its constituent categories of product characteristics

We have already taken note that visibility is a part of the definition of positional consumption and it is also a characteristic that forms an essential part of the promotional activities (packaging, advertising and brand differentiation) of multinational firms in developing countries. But though it is necessary, visibility is not a sufficient characterization of positional demands. It requires, as an essential complement, the quality of “superfluousness.” In Veblen’s words, “Throughout the entire evolution of conspicuous expenditure . . . runs the obvious implication that in order to effectually mend the consumer’s good fame it must be an expenditure of superfluities. In order to be reputable it must be wasteful. No merit would accrue from the consumption of the bare necessities of life” (Veblen, 1899, pp. 96–97). Or again, “The consumption of expensive goods is meritorious, and the goods which contain an appreciable element of cost in excess of what goes to give them serviceability for their ostensible mechanical purpose are honorific” (Veblen, 1899, pp. 154–155).

Taken together, these two components of positionality imply the direction of change in tastes over characteristics that is broadly indicated by the northwesterly movement from the second to the fourth quadrant of Figure 2.

The question that now needs to be addressed in assessing the welfare implications of the transfer of positional taste, is the nature of the means that are available to consumers to obtain the bundle of characteristics represented in the
fourth quadrant of the figure. More specifically, one is required to ask whether and to what extent this bundle can be obtained without a sacrifice in other, nonpositional characteristics (for it is this that determines whether the consumer reaches L or L₁ in the example of Figure 1b).

Two general considerations would appear to be of special significance in answering this question. The first has to do with the historically distinctive condition of contemporary under-development and in particular the near total dependence of developing countries on goods developed in and for advanced countries. New goods in the latter, whose members on average enjoy a rising standard of living, come to acquire an increasingly high proportion of “high-income” characteristics over time (including those such as sophisticated packaging, advertising and brand differentiation that may be described as highly visible) and a lower balance of low-income characteristics (Stewart, 1977). In so far as these developments continuously cause existing products to become outdated (Ironn, 1972), it follows that consumers in poor countries are able to buy the bundle of characteristics that we described as positional, at an increasingly high cost in terms of nonpositional characteristics.

The second general consideration has to do with the closeness of the link that often exists between the way in which positional tastes are created and the manner in which they need to be met. The promotional activities of multinationals, for example, may simultaneously alter tastes in favor of positionality and require the new tastes to be met by the specific products that are the subject of promotion. To the seemingly frequent extent that these products are transferred unaltered from the form in which they are sold in developed countries (e.g., Coca-Cola, infant formula), the result is again that in order to acquire the package of positional characteristics, a high price has to be paid in terms of foregone nonpositional characteristics.

These two general arguments amount to positing a substantial discontinuity in the process by which the consumer is able to give effect to the taste change depicted by (the direction of the arrows) in Figure 2. This discontinuity, and the welfare loss with which it is associated, bears contrast with the more continuous process that seemed to occur during the historical experience of the now developed countries. Towards the end of the 19th century in the United Kingdom, for example, when powerful pressures to emulation were given by increasing urbanization, the growth of advertising and mass media and the awareness of social class, “There could have been no large shift towards the range of ‘new’ commodities associated with the ‘high mass consumption’ of the twentieth century” (Supple, 1981, p. 137). Emulative desires appear instead to have been indulged at that time through a relatively continuous or smooth process of enhancement to traditional patterns of consumption: “new instead of second-hand clothing, leather footwear, gas instead of candles, coal instead of wood, commercial instead of home-made soap, improved types of linoleum floor-covering, arm chairs instead of kitchen chairs” (Supple, 1981, p. 137).
(d) Giving the appearance of modernity

So far, our argument has been concerned with the type of embodiment of the characteristics combination that was earlier defined as positional. We have tried to show that the range of goods available is rooted in the historical conditions of "latecomer development" and that the welfare implications of positional consumption in the Third World have to be understood in these terms. Implicit in our analysis, however, is the assumption that the positional package of characteristics can only be obtained by consumption of a more "positional-intensive" good. To some (unknown) degree, this assumption will not hold because consumers are able in some circumstances to acquire the positional characteristics of goods without actually consuming the goods themselves. That is, they merely give the appearance of so doing. Consider, for example, the situation described by Figure 3.

Goods A and B represent two alternative writing instruments: respectively, a pencil and a ballpoint pen. If the consumer were to switch to the latter because of its higher balance of positional elements, the welfare consequences would be those described earlier in relation to Figure 1b. Let us assume, instead, however, that the consumer is able to acquire a discarded ballpoint pen top, which, when inserted into his pocket, effectively gives the appearance of consumption of this good. If we assume, further, that this ploy enables him to obtain an amount equal to RS positional characteristics, he can reach the indifference curve I₁, while continuing to consume good A. In this case, therefore, the taste change towards positionality leads to no loss in welfare.

That something like the process described in the previous paragraph actually occurs in developing countries is very nicely illustrated by the following description of the variation in the choice of building materials in a region near Buenos Aires.

The principal variation was constituted by the nature of building material, the poorest huts being made of mud mixed with straw and reeds, the "richest" being bricks and mortar. In between these two extremes . . . there was a series of combinations in which efforts were made to give the impression of brick construction, either by white-washing the mud walls in a way that made them appear to be rendered, by laying the bricks in mud rather than mortar and subsequently white-washing them, or by constructing the front wall which faced the roadway of bricks, and making the others, which were out of public view of mud. (MacEwan, 1974, p. 212, emphasis added)

(e) Low-income positional consumption and the squeeze on essential characteristics

In so far as the device of giving the appearance of modernity is limited (and consumers have therefore to purchase good B in Figure 3 in order to satisfy their positional demands) and to the degree that the lowest deciles of the population in developing countries indulge in positional consumption, the problem of a "squeeze" on low-income, or essential, characteristics is raised. In a different context, and in a somewhat different form, this problem was of concern also to Veblen because of his belief that "No class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption. The last items of this category of consumption are not given up except under stress of the direst necessity" (Veblen, 1899, p. 85). As a result, and especially in certain lines of consumption, he perceived that the outcome would be pressure on the essential elements of consumer demand. In particular, "It is true of dress in even a higher degree than of most other items of consumption, that people will undergo a very considerable degree of privation in the comforts or the necessaries of life in order to afford what is considered a decent amount of wasteful consumption; so that it is by no means an uncommon occurrence, in an inclement climate, for people to go ill clad in order to appear well dressed" (Veblen, 1899, p. 168, emphasis added).

For the poor consumer in a contemporary developing country, the problem that gives rise
to the squeeze on essential characteristics can be described as in Figure 4.

Figure 4. The squeeze on essential characteristics.

Following the alteration in his tastes between positional and nonpositional characteristics, the low-income consumer faced only with modern good B imported from the advanced countries suffers a decline in essential characteristics equal to $L'L$ as a result of the consumption of this good. Only with an income level that would enable him to reach point R along the ray representing the modern good, would he be able to maintain the original level of essential characteristics OL.

The extent to which the process described in Figure 4 actually occurs is impossible to assess on the basis of available data. The most that can be pointed to is fragmentary evidence that the process seems to occur primarily in urban areas of the Third World. In the case of infant formula, it seems to be due in part to promotional activities that extend even to the poorest groups (Ledogar, 1975) and in part to emulation by these groups of the positional values and behavior of the relatively affluent. In the case of food advertising, a process very similar to that described in Figure 4 has been observed by nutrition experts. The following quotation is perhaps the clearest statement of this view of the consequences of advertising of imported food products:

> even with their limited means, the poor buy highly preferred or "fashionable" foods at a premium in price. The urban poor may buy them for their status value, although they may be uneconomical from the nutritional standpoint. Foods that have low prestige in rural areas, such as fruits and vegetables which are gathered and not cultivated, may not be eaten by newcomers to urban areas because they cost money and are not thought of as “valuable.” On the other hand, foods may be eaten for status reasons. An example of such behavior is the purchase of expensive commercial formula products, and other “prestige” foods such as bread, soft drinks, sugar, tea, infant formulas, and canned milk. The acquisition of these foods by the poor may have a nutritionally detrimental effect due to the economic drain they place on the meager food budgets. (Austin et al., 1976, p. 98)

(f) The interstatus-income ratio compression effect of positional consumption by the poor

In the degree to which positional consumption by the poorest groups in developing countries does take place in the manner described above, the result, paradoxically, may be to induce additional consumption of this kind by the richest groups in these societies. This effect, which has been well-documented by labor economists, and which has been used by Leibenstein to explain fertility decisions, can most easily be explained with the aid of Table 2 (adapted from Leibenstein, 1975, p. 5).

The table shows a status hierarchy — the mean

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<th>Table 2. The interstatus-income ratio compression effect and positional consumption</th>
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<td><strong>Status</strong></td>
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income of each successive status group is higher than its predecessor. Three status-groups are assumed in a two-period framework (the two periods may be viewed as being roughly 15 years apart). The interstatus-income ratio compression effect is shown by the numbers in column 4 compared to those in column 1. For example, in a developing country an engineer might earn 20 times the income of an agricultural laborer, while in a high-income country the ratio might be reduced to three” (Leibenstein, 1975, p. 5).

It is further assumed that the income distribution remains roughly constant as per capita incomes rise. “Thus, if households move disproportionately to higher statuses between the two periods, and simultaneously interstatus-income ratios fall, then it is possible to retain approximately the same income distribution. The relative income compression effect will be compressed all the more if the income distribution becomes more equal as development occurs” (Leibenstein, 1975, p. 6).

By making it easier for low-status households to emulate higher ones, the compression effect forces the latter to sharply increase positional expenditures in order to maintain status differentials. This squeeze on nonpositional expenditures in period 2 is illustrated in the table. If those in status 1 spend the same amount on positional consumption in the second period as did status-2 families in the first period, then status 2 families have to double their positional expenditures to maintain the differential (i.e., a ratio of 2 to 1).  

5. CONCLUSION

That spending patterns in poor countries are susceptible to influence from the consumption behavior of the richer societies has always seemed self-evident. But just how this influence is transmitted and with what effect on the welfare of the individual consumer in the Third World are questions that admit of much less certainty. In a well-known contribution in the late 1950s, Ragnar Nurkse suggested that the process works through an “international demonstration effect.” By this he meant essentially the exposure of the poor to modern products — “demonstration leading to imitation” — and he explicitly eschewed the notion that international emulation of the rich had anything to do with status seeking, or, to use Veblen’s phrase, with conspicuous consumption.

This paper has argued that there are a number of reasons why Nurkse’s contribution needs to be reassessed. First, in the light of recent analyses of the advanced countries (by Hirsch, Frank and Scitovsky) showing the powerful welfare implications of consumption based on status seeking, the issue of whether and to what extent this form of consumption behavior also applies internationally takes on a much greater significance than might earlier have seemed to be the case. Second, it is contended that Nurkse’s approach is inadequate to appraise this important question and that a much broader framework — encompassing sociological as well as economic variables — is required.

On the basis of this expanded framework, it was shown that underlying the different views of the way in which preference functions are related to the income distribution is a set of quite distinct hypotheses concerning the influence of a range of socioeconomic variables on taste formation in developing countries. Although a fairly substantial body of sociological and other evidence was brought to bear on the assessment of these competing causal mechanisms, and though there seemed sufficient material to cast doubt on Nurkse’s eschewal of status-seeking consumption behavior at the international level, a clear verdict was not able to be reached. In part, this lack of conclusiveness is due to the inherent difficulty of conducting (and for this reason also the lack of) research that is able to elicit the “true motivations” of consumers. It is now known from social psychology, for example, that direct and indirect methods of uncovering human motivation sometimes produce different results (McClelland, 1976). But the lack of conclusiveness is probably also a reflection of the fact that the competing views should be regarded less as universal truths than as descriptions of consumption behavior that are applicable to different socioeconomic circumstances. Much may depend, for example, on the extent to which group values are retained to exert a countervailing influence on positional consumption behavior during the modernization process. The importance of the group in this respect has been emphasized by Douglas and Isherwood (1979, pp. 36–37):

A strong group has its own characteristic ways of controlling the envy that might spoil the relations of its members and so threaten its permanence.

The group imposes group values and so prevents deviant individual spending, defines what counts as too much conspicuous individual consumption, and proposes punishments.

The Japanese experience represents probably the clearest example of the workings of a social (the “Japanese ethos”) rather than a positional ethic during the modernization process. As Sen (1984) describes it, “If the invisible hand does a great deal of visible good in Japan, the hand does
not seem to work through the relentless pursuit of self-interest” (p. 104). Specifically, what the Japanese model suggests is that self-interest based objectives can be more effectively achieved by an alteration in group attitudes (to, for example, team work). Indeed, “when one considers how production takes place in a modern industrial establishment, it is quite incredible to think that being actively self-interested can be such a virtue. Success in production depends greatly on team work, and while that interdependent picture provides incentive for a group, it is not an incentive that can be effectively translated into rewards and punishments related to individual work and performance” (p. 104).

NOTES

1. Another good example is provided by Beckford’s description of plantation economies of the Third World. “Social aspirations of all groups in plantation society are in the direction of the life style of the planter class. And the demonstration effect of this metropolitan-oriented group . . . sets the stage, in the society as a whole, for patterns of consumption” (Beckford, 1972, p. 205).

2. Mattelart (1983, p. 38) quotes a suggestion from Business International regarding the sales promotion of Western products in the Third World that contains clear positional implications. The suggestion is to “try and give your products a Westernised appearance to give them social standing in regions undergoing rapid development wherein ideas of modernization and Westernization are linked.”

3. In urban Upper Volta, for example, it has been observed that “many women cultivators are impressed with the fact that high-status women, whose babies are considered by all the town’s women to be the best cared for, use the bottle. (A corollary of this . . . is that low-status women use preserved milk because by so doing they feel and become un peu civilise.)” See Skinner (1974, p. 189).

4. In Brazil a decline over time in nutritional status among the urban poor has been associated with the substitution for food expenditure of durable goods consumption (Wells, 1977).

5. It is interesting in this regard to note that the predominant reason often given by individual urban women for weaning in formal interviews (viz. milk insufficiency) differs from the motivations that are elicited during more informal discussions (Austin et al., 1976).

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