



TIME TO GIVE ADMEN A BREAK

Some say advertising is manipulative and harmful to consumers. But is this true? **CHRISTOPHER J. COYNE** and **RACHEL L. COYNE** investigate...

Advertisements pervade our daily lives – and businesses invest a significant amount of resources in attempting to attract customers.

Consider Figure 1 which shows the advertising spending per person across ten countries.

Given the prevalence of advertisements, it makes sense to step back and ask what role they play.

Do advertisements lead consumers to spend their money frivolously, or do they communicate important information? As this question indicates, there are two different schools of thought regarding the role that advertising plays.

Advertising as manipulation

The first school of thought views advertisements as either manipulative or wasteful.

The idea that the central purpose of advertising is to manipulate consumer preferences was popularised in Vance Packard's 1957 book, *The Hidden Persuaders*.

Packard argued that advertisers attempt to "channel our unthinking habits, our purchasing decisions,

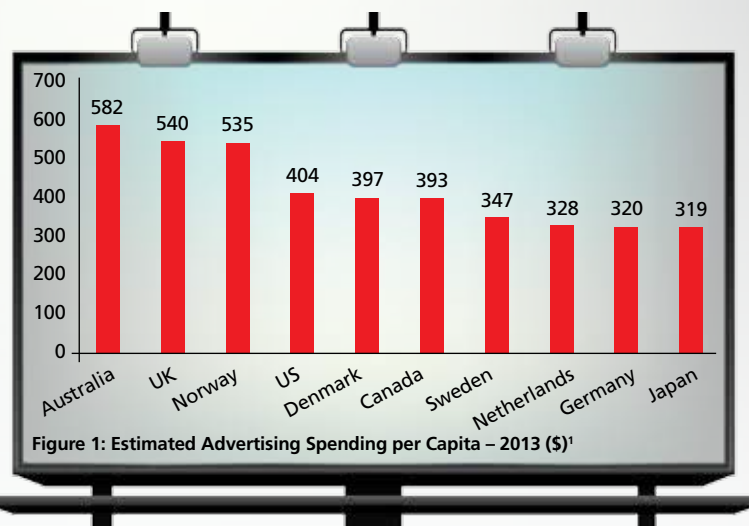
and our thought processes by the use of insights gleaned from psychiatry and the social sciences."

A year later, in 1958, economist John Kenneth Galbraith published his book, *The Affluent Society*, in which he argued that corporate advertising created a "dependence effect" whereby the "direct link between production and wants

is provided by the institutions of modern advertising and salesmanship."

From this perspective the producer controls the consumer in markets by manipulating their preferences and "creating desires" for products they would not otherwise want.

More recently, Fritjof Capra and



Hazel Henderson (2009) argue: "Since human needs are finite, but human greed is not, economic growth can usually be maintained through the artificial creation of needs through advertising. The goods that are produced and sold in this way are often unneeded, and therefore are essentially waste."

The common theme of the manipulative view of advertising is that it is a harmful practice that adds no value to the lives of private citizens. In stark contrast, it makes consumers worse off because it manipulates them into wasting their money on things they do not want or need.

Advertising as information

An alternative school of thought views advertising as providing information that allows consumers to make informed decisions.

This view emphasises consumer sovereignty, meaning that it is the wishes of the private consumer which are the ultimate determinant of market outcomes.

Producers must constantly compete for consumers and one

way of doing this is to inform consumers about their product or service.

By providing this information, producers are attempting to accomplish two things. They are alerting consumers to the existence of their good or service. Secondly, they are attempting to engage in product differentiation which entails convincing consumers that their product or service is different from, and superior to, those offered by others.

From this perspective, advertising is a value-added activity that exists precisely because consumers control market outcomes through their purchasing decisions.

In contrast to the manipulative view of advertising, the informational view contends that producers have no ability to control the decisions of consumers.

Advertising exists precisely because producers feel constant pressure from competitors and realise that the only way to maintain, or gain, market share is to inform consumers of the beneficial aspects of their product or service.

Which school is right?

Given the two competing views on advertising, how are we to determine which is more accurate? A recent IEA publication, *Advertising in a Free Society*, reviews the available evidence (Harris and Seldon, 2014). There are a number of key insights in the book.

There is little evidence that producers can manipulate consumer preferences so that they purchase their product. Most businesses spend relatively little on advertising. This would be an odd strategy if producers really could profit simply by shaping consumer preferences at will through advertising.

If this truly were the case, businesses would spend much more on advertising to manipulate consumers to buy more of their product and at higher prices.

Also, the available empirical evidence fails to find support that consumers can be manipulated through advertising.

As David Stewart and Michael Kamins write in the 2006 publication *Handbook of Marketing*: "both the empirical evidence and logical deduction offer compelling evidence that marketing communication does not create demand; it is a response to demand."

In other words, the existing evidence indicates that consumers purchase goods and services because they choose to buy them, not because they are tricked or manipulated into doing so.

In addition, there is no evidence that advertising leads to monopoly power. Proponents of the manipulative view of advertising often contend that, by creating brand loyalty, advertising creates artificially high barriers to entry.

According to this logic, it is difficult, if not impossible, for smaller or newer firms to compete with those that are already established and well-known to consumers.

The result, critics contend, is that established firms can act like a monopolist (artificially raising prices and restricting output) due to the weakened competition. There are three responses to this line of reasoning.

The first is that while advertising can be seen as a means of establishing a brand, it can also be seen as a means of communicating information about alternative

¹ Includes advertising through digital, directories, magazines, newspapers, outdoor, radio, and television. Source: eMarketer through Statista, <http://www.statista.com/chart/1492/ad-spend-per-capita>



products and services. That is, advertising is a means of facilitating competition by providing information to consumers about new choices available to them.

Further, with improved technologies, such as social media, it has become easier and cheaper for smaller and newly founded businesses to reach consumers around the globe with new products and services, thus increasing competition.

Secondly, there are numerous instances of firms with well-established brand names and reputations losing significant market share or going bankrupt.

Consider, for instance, the case of Eastman Kodak. Founded in the late 1880s, this US-based company dominated the market for photographic film for much of the 20th century. The company also invested in advertising and brand building.

However, starting in the early 2000s, Kodak began to lose market share because of innovations in digital photography. In 2012, the company filed for bankruptcy. Consumers had spoken, and no amount of advertising or marketing

could save the company despite its once dominant market share.

Furthermore, the empirical evidence indicates that advertising is likely to reduce prices which is fundamentally at odds with the predictions of monopoly and market power and manipulation theories.

The reason for the fall in prices is that advertising expands the extent of the market for producers, resulting in lower costs due to

greater economies of scale – though it can also increase competition as there are more companies competing in a more widely-defined market.

The informational role played by advertising is at the centre of this process because it allows consumers to become more aware of what producers have to offer.

Of course, understanding the informational role played by advertising in no way suggests that consumers are perfect and perfectly informed – far from it.

All consumers make mistakes, regret making certain purchases and engage in impulse buying at some point or another.

These imperfections are not the result of manipulative advertising, but rather they are a result of being human and living in a society where free choice is valued.

Human flourishing involves allowing individuals to discover what makes them happy even if others disagree with their decisions.

As this discovery process evolves, each individual is aided by having more information as compared with less.

In this regard, advertising can be seen as playing a key role in improving our well-being, even if one person's choices are at odds with the preferences of others •

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