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The Justification of Advertising in a Market Economy

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The first virtue of a market economy is its efficiency in allocating economic resources, capital, and labor to satisfy collective needs and wants for products and services. In theory, maximum efficiency obtains given certain ideal conditions of pure competition. These conditions include: (1) competition within in-dustries among firms, each of which is too small to dictate prices to the market; (2) fluidity of labor and capital; (3) perfect knowledge on the part of consum-ers of prices and features of various products and services; and (4) knowledge on the part of producers of consumer demand for various goods. Given such conditions, the market, through its price mechanisms, guides profit seeking producers to allocate economic resources in ways that optimize the aggregate satis-faction of demand—that is, the sum total of wants in society. Goods are distributed in turn to those with greatest demand, the degree of demand being mea-sured by willingness to pay. The result approximates to maximization of utility, understood as the greatest sum of the satisfaction of wants over the whole society. Those goods are produced and distributed that yield the greatest surplus of value over economic costs. The market mechanism theoretically underlying ef-ficiency of resource allocation was first described by Adam Smith. When a certain good is under-supplied in relation to the demand for it, its price is bid upward. Consumers are willing to pay more for a product they want when it is in short supply, and producers can im-prove their profits by selling the limited supply at a higher price. The possibility of higher profits will at-tract new resources (that is, capital and labor) to the in-dustry, until supply is increased and the margin of profit falls again to approximate that of other industries. Thus supply adjusts to demand. Conversely, oversupply of a good means that some of it will have to be sold at a loss, driving resources from the industry and adjusting the production downward. The tendency is toward an equilibrium at which the marginal value of all goods is equal and, taken collectively, maximal in relation to the relative social demand for the various goods. This process is dynamic and progressive. At the same time as optimal efficiency is achieved in al-locating resources so as to satisfy particular wants at particular times, competition generates progress through improvement of productive techniques and processes. Each competitor is motivated to modern-ize production so as to increase volume and cut unit costs of products. The price a producer pays for ob-solescence is being undersold by the more efficient competition and thereby driven out of business. Thus the free market is theoretically efficient over time. It guarantees not only the most efficient use of re-sources in the present, but the production of more and more goods and services in the future. A further virtue of the competitive market econ-omy, given ideal conditions, is its maximization of individual freedoms. All transactions within this economy are to be voluntary. Individuals are free to choose their occupations, investors to invest where they like, and consumers to buy or refuse what is of-fered for sale. For a transaction to take place, given the ideal condition of full knowledge of its features and alternatives, it must be perceived as mutually beneficial to the parties involved. If we accept this model as a morally defensible eco-nomic system, where in it can we find a place for the institution of advertising? The ideal requires relevant knowledge on the part of consumers of the existence, quality, and prices of products, and it is unclear that advertising, at least as we know it, accomplishes this goal. Second, the model also assumes that consumer demands are given and judges the efficiency of the market by the extent to which they are satisfied. Ad-vertising, however,

sometimes aims to create desires in the consuming public, and it is unclear whether the satisfaction of these desires should likewise be counted as a gain in utility or social value. An even more fundamental difficulty may be explained as fol-lows. Our model assumes that consumer demand for a product dictates prices to individual firms, which then manufacture goods until the marginal costs equal the price (that is, until no more profit can be made from additional units). But some economists have argued that advertising contributes to conditions in which producers can control prices, by creating demand to match planned levels of supply at fixed prices. Simi-larly, advertising often seeks to create consumer loy-alty, which arguably makes it more difficult for new competitors to enter the market—specifically, more expensive, since it requires extensive advertising cam-paigns to overcome consumer loyalty. Brand loyalty may also be inefficient in itself, since it leads con-sumers to perceive differences among products when there may be no real differences in quality, which might cause them to forgo savings in price among identical products (for example, chemically identical aspirin tablets), thereby diminishing maximum utility. More recently, however, economists have taken
the opposite stand on this issue. Some have argued that advertising actually facilitates entry of new competitors by allowing them to publicize their products and lure customers away from established firms. The purpose of ad campaigns, it is now said, is to create brand disloyalty. Campaigns are typically directed not at those who already are customers, but at potential new customers. In response to the claim that ads lead consumers to make ungrounded and costly product differentiations, it is pointed out that brand recognition and even brand loyalty create benefits for consumers as well. When shoppers can identify products and their manufacturers, the latter are pressured to maintain quality. At the same time comparison shopping is facilitated among retailers, so that they must sell within price limits.

In assessing this debate, it appears that the claims
of the opposing sides may all be true, showing only that advertising produces both positive and negative effects upon competition and prices for consumers. It seems clear, first, that there have been success-ful advertising campaigns of both sorts, those that reinforce brand loyalty and help to retain a clien-tele (perhaps by reinforcing a favorable image of the brand in consumers' minds), and those that lure new customers away from established brands. Fur-thermore, while brand loyalty may raise successful entry costs, advertising may simultaneously ease entry for those with the capital to mount extensive campaigns. Finally, while ads may create the illu-sion of product differences where none exist and hence prevent choice of cheaper alternatives, brand recognition, achieved through exposure to ads, does facilitate comparison shopping among retailers. In the absence of data weighing these opposing ten-dencies across many industries, it seems impossible to justify or condemn advertising by its effects on the degree of competition in various product mar-kets. There is no good reason at present, in short, for believing that advertising is inconsistent with the free market's aims of eliminating monopolies and encouraging competition.

Principal among the direct benefits claimed to result from advertising is the benefit of consumers' having relevant knowledge of the existence, quality, and price of products. How well advertising provides this benefit will concern us shortly. First, though, let us consider an indirect social benefit attributed to the institution of advertising: namely, that it sub-sidizes the media. Commercial radio and television, as well as most newspapers and magazines, could not survive without this subsidy, certainly not in the forms we know them and at the prices we are used to paying. It can be argued, then, that since these media themselves add much to the social environment in the way of

information and entertainment, the in-stitution of advertising is indirectly but importantly valuable in making this possible. Once again, however, one must recognize as well
the negative influence of advertising, especially upon the broadcast media. The main problem, of course, is the desire of the stations, pressured by the sponsors, to appeal to the largest possible audience with every show. The result is the reduction of con-tent and style to the lowest common denominator of taste. Commercial television can be held responsible for debasing American taste, certainly for failing to elevate it and contribute culturally and aesthetically as it could. Advertising sponsors are the main cul-prits. Not only the "highbrow," but also the innova-tive, daring, or controversial is shunned as possibly
offensive, when sponsors exercise effective censor-ship over programming. This is true not only of cultural and entertainment shows, but perhaps more seriously, sometimes of news and information pro-grams as well. . . . Thus once more we find a mixed blessing at best
in the social effect of advertising. Here we can begin to draw some morals for advertisers. The service provided by advertising in subsidizing the media seems clearly preferable when sponsors do not act as censors. When commercial considerations come first, this priority is clearly detrimental to the aes-thetic value of programs. This may be even more clearly true of the informative value of news and information programming. Very large audiences can be expected to be attracted only to the familiar and aesthetically un-innovative. But the judgment of artistic merit, as well as that of newsworthiness, ought to be made on intrinsic grounds by those with some expertise, rather than on strictly commercial grounds, if the media are to realize their poten-tial for educating and not simply tranquilizing the public. In order to accomplish this, self-restraint, sometimes at the expense of the short-term self-interest of particular advertisers and their business clients, is required. If advertising is to be ethically justified, given the
free-market approach, it is not enough to argue for its consistency in a free-market economy, or that it is not wasteful of economic resources, or even that it provides certain indirect social benefits. The positive justification must include the direct benefit that al-legedly accrues from this institution: namely, the pro-vision of relevant information. Maximal value can be obtained by consumers only if they know all the al-ternative ways of satisfying their desires and the costs of doing so. For any beneficial transaction to occur, people must be acquainted with products available. Advertising so informs them, also often providing data on product features, changes, and prices. Such information must be continuously provided because of the arrival of new consumers, new products, and new product features. So advertising seems justified in a free market as a valuable source of information. Even when it attempts mainly to persuade rather than to inform directly, it will tell of a product's availabil-ity and perhaps of its prominent features.

Certain moral demands appear to follow quite obvi-ously from this justification. If advertisements are to be justified as sources of information for consumers then they ought to be truthful and avoid deception. If, in the area of consumer decisions, free choice is most likely to satisfy genuine desires and maximize welfare, then lies in the marketplace tend to subvert the entire rationale of the free-market economy. If consumers are misled, they will no longer be free in
their choices and will no longer be maximizing util-ity; the virtues of the free market will be lost. A central function of much advertising is to per-suade people to buy products. One method of persuad-ing someone to buy something is simply to inform him of its features and availability. This suffices when the object is known to satisfy some pre-existing desire. A slightly more complex method that better fits our usual concept of persuasion consists in show-ing someone that he

should desire, something because it is a means to achieve something else that he desires. This is still a typical form of rational persuasion—one provides reasons for desiring that are to be con-sciously weighed by the person addressed. A more controversial method of persuasion by-passes reason and even conscious thought processes, attempting rather to create an association in the con-sumer's mind between the product and some image that expresses a subconscious wish or desire. A pos-sibly more sinister variation on this persuasive strat-egy seeks to establish an association between the lack or absence of the product and some unconscious fear or anxiety. The consumer is then to choose the product as a way of fulfilling his unconscious wish or avoiding the object of his unconscious anxiety. The psychological theory behind typical varia-tions on this method is eclectic, a mixture of Freud-ian ideas and behavioral conditioning methods. Notions of subconscious wishes, fears, and sublima-tions combine with techniques to induce association by conditioning. Methods of advertising (like simple repetition of a brand name or slogan) that make little sense if we think of them as means of providing information become intelligible under this alterna-tive analysis. But though economically successful at least some of the time, such advertising might be condemned on moral grounds. Why? Persuasion by rational means respects the right
of the intended object of persuasion to free and in-formed choice. But when the influence is intended to be subconscious, the persuasion appears similar to deception. The method appears then to violate a cen-tral requirement of at least one major moral tradition, the imperative to treat other persons as equals and to respect their rationality and freedom of choice. It also seems to contradict a major justification of the free economic market: that the system permits all economic transactions to be voluntary. A consumer's decision to buy is not voluntary, it can be argued, when he has been unduly influenced in this way. Suppose we grant that there is a right to advertise. Businesses have the right to promote their products and services, and advertisers have the right to pro-vide this service to them. Advertising is a form of speech, and as such it seems to require no further jus-tification than appeal to the right of free expression. There remains a constitutionally supported distinc-tion between commercial and other relevant forms of speech, that is, political and literary. Congress is granted the right to control commerce, but not to abridge other forms of speech. Granted that certain economic freedoms are central—for example, the freedom of individuals to work, invest, and consume as they choose—even in these areas there are limi-tations to protect others as well as the agents them-selves. One cannot buy dangerous explosives or work on certain jobs without wearing safety equipment; one cannot invest in the heroin trade. In the realm of speech, the right to advertise does not include a right to defraud, or moral license to mislead people into buying harmful products. Legally, the Federal Trade Commission requires that advertisements be truthful and that their factual claims be substantiated. Such requirements, of course, would not be tolerated in other realms of discourse. We would not trust the government to prohibit political speech it judges to be untrue or literary works it holds misleading or even subversive. . . . In endorsing regulation of advertising we must
recognize certain negative consequences. First, strict scrutiny of factual claims may lead advertisers to reduce their content, relying instead upon nonra-tional methods of persuasion. One could argue that the net result is less information to consumers. We can reply that less information is better than false or misleading information. In addition, information that gives good reasons to prefer the product remains valuable for use in ads. The public can still recog-nize substantiated claims of superiority in product features, and such claims are likely to be more per-suasive than

meaningless jingles, with less repetition required. Second, it has been argued that regulation makes ads more believable in the eyes of the public, which only makes it easier for the less scrupulous to deceive. But to argue in that way against holding ad-vertisers to the truth suggests more generally that we ought not to encourage honesty, since honesty as a rule makes deception in particular cases easier. This argument is absurd. We must recognize, secondly, that not all mor-ally objectionable practices on the part of advertis-ers can be made illegal or regulated. Fair regulation requires objectively verifiable criteria on which to base enforcement. It must therefore center on fraud and deception in factual claims and upon limiting promotion of obviously harmful products such as cigarettes. Non-rational persuasion that creates false associations or insecurities, or that encourages pre-tentious and unfulfilling patterns of consumption and lifestyles, cannot be prohibited, since enforce-ment of the prohibitions could not be fair and non-controversial. Such practices nevertheless remain morally objectionable. . . . Despite the limitations on regulation, then, it is
clear that the right to advertise does not include a moral
right to deceive, mislead, or harass, or to
create or foster insecurities or self-defeating values. The legal right to advertise is narrower than the cor-responding right to free non-commercial speech. The moral right to engage in specific advertising practices is narrower still, not including certain ac-tivities that cannot be legally sanctioned (because of the costs involved). . . . The social effect of advertising subsidies to print and broadcast media is optimized when sponsors restrain their inclinations to censor program mate-rial in order to appeal to uniformly large audiences and avoid offending them. Only uncensored media can educate public taste rather than accommodating to its lowest common denominator. Here is the first case of a moral demand that may run counter to the profit-maximizing motive of the advertiser and his client. The injunction against censorship is a genu-inely moral requirement since the social effect of commercial censors seems no less pernicious than that of government censors. A function more intrinsic to advertisements them-selves is the provision of information to consumers enabling them to make more rational choices among products so as to better satisfy their desires. The performance of this function requires that adver-tisements be truthful and verifiable in their explicit and implied factual claims. "Puffery" or hyperbole must be clearly distinguishable from factual claims by the audience, this requirement becoming broader and stricter when the product is potentially harmful and the intended audience less worldly wise (for ex-ample, children). While the advertiser is not morally required to aim at providing complete information, material omitted must not negate claims made or im-plied, or relate to probable harm from the product. . . . The basic principle regarding effects of per-suasion is that advertisers ought not to create desires whose fulfillment would be more harmful than ben-eficial to consumers. More broadly, the principle we propose would prohibit encouraging irrational desires. Desires are irrational if their targets are falsely be-lieved to be means to ends sought, if their satisfaction blocks that of other more important desires, or if the costs of their satisfaction are too high. Proscribed are desires for specific products known by the advertiser to be harmful, as well as yearnings for a lifestyle out of reach or ultimately low in overall satisfaction. The ad-vertiser's ignorance of the harmfulness of the product he advocates is normally no excuse. Since he shares responsibility for the consumer's buying the product, he must share the blame for the harm that results. To avoid such blame he is obligated to find out, within rea-sonable limits, the nature of the products he sells. . . . Turning to the methods of non-rational persua-sion, important moral

considerations include the resistibility of the appeal to the audience, that is, whether the choices under its influence remain free, and the importance of the choices at stake. The former is especially relevant in the case of children, where the advertiser must exercise extreme caution and restraint. . . . Weaker moral demands relate also to the aesthet-ics of advertising. The advertiser ought not to harass or irritate us intentionally or pollute our natural or aesthetic environments in order to get our attention.