

# **Advertising: Some economic and social impacts**

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## **I. Advertising and the misallocation of resources**

Let's say Robinson Crusoe were to be marooned on a remote island with four other fellow seafarers. He would be responsible for catching fish, another would take care of making clothes and footwear, the third would till the land and the fourth would construct dwellings and do household chores. The fifth person would market and advertise their services to the three others. To what extent would the fifth person be contributing to the well-being of the community?

The well-known behavioural scientist and Nobel prize laureate Konrad Lorenz describes similar scenarios drawn from the animal world. Within a community of a certain species of pheasant<sup>1</sup> some male specimens grow increasingly larger and longer feathers because it allows them to attract females more easily. Thanks to this process of selection, the male pheasant with the largest and longest feathers produce the largest number of offspring. Over several generations, the males become increasingly unable to fly and are hence much more vulnerable to predators, exposing this species to the threat of extinction. Lorenz identifies a number of similar species-damaging selection processes for a whole range of animals and concludes that 'the evolution of the Argus pheasant has simply hit a dead end in that the males compete via wing movements that are as extensive as possible; in other words, this species will never do the sensible thing and "decide" to do away with this nonsensical behaviour.'<sup>2</sup>

Similarly, the phenomenon of advertising could be taken as an instance of such 'nonsensical behaviour', an ongoing series of inflationary actions that make our lives unnecessarily and progressively more expensive; one that could possibly be interrupted by a collective and rational decision to scale back such actions in future. This suggestion shall be the subject of the following deliberations.

Allow me to provide an illustrative example from Germany, where certain professions are subject to severe limitations concerning their ability to advertise their services. These include medical professions such as doctors, veterinarians and therapists, but also lawyers, tax advisors and architects.<sup>3</sup> What would happen if these limitations were relaxed or lifted? For some professionals, such as vets, lawyers or architects who are just establishing a business, it would make sense to advertise their services. They would start by running a promotional campaign. Some of their established competitors would have to respond in kind so as not to lose market share, causing advertising expenditures in these sectors to rise far beyond the current low levels.

How would this impact on the general public?

1. Spending more on advertising would presumably not lead to better-quality healthcare, legal or fiscal advice or architectural services.

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<sup>1</sup> Cf. Lorenz, p. 46f.

<sup>2</sup> Lorenz, p. 47

<sup>3</sup> Cf. BFB, Werbung in den freien Berufen, Berlin, January 20, 2005

2. Who would bear these increased expenses? The higher advertising spend would be passed on in the shape of higher prices for the services in question. Medical bills, invoices for legal services and architects' fees would go up because the doctors, lawyers and architects would have to mark up their prices to compensate for their higher advertising budgets. Rather than healthcare or construction plans, we'd be paying for glossy pictures and snappy slogans about healthcare or construction plans. Would we really prefer to have a pretty picture of these services, rather than the services themselves?

If the existing limitations on advertising were lifted, the **result** would be that life would become more expensive for practically all of us since consulting a doctor, employing the services of a lawyer or building a house would be more expensive yet not better. This would produce a genuine disadvantage for everyone because we would have less disposable income to spend on other things. Part of our budgets would be diverted to the advertising industry. Lifting the ban on advertising in these sectors either partially or completely would be collectively irrational even though it would be a rational decision for individual doctors, architects and lawyers as well as for the advertising industry.

The economic term for this is Prisoner's Dilemma, a problem that is approached using public choice and/or game theory.<sup>4</sup>

The underlying problem is that although each individual (market) player takes sensible and rational decisions, the outcome for the general public is unfavourable. Let me use a visit to the theatre or a concert hall to illustrate. For an individual member of the audience it may be a rational act to stand up to get a better view, for instance if there's a tall person sitting in front. If they do stand up, the person behind them has to stand up as well because their view will be blocked. The potential outcome of such a process is that in the end, the entire audience is standing.<sup>5</sup> For the individual spectator, standing up is the rational thing to do - but if everyone does it, everyone suffers. Whenever such a process takes place in economics or indeed in everyday life, a collective misjudgement is the result.

Applied to advertising, it's not just rational for each individual company to advertise its services, it's essential to their survival. If, for instance, a major car manufacturer were to suddenly stop running all of its promotional campaigns, the likely outcome would be a considerable loss of market share and in turn, a corresponding drop in profits, possibly even losses so severe that the continued existence of the company would be at stake.

The impressive scale of advertising becomes clear when one considers the statistics compiled by Martin Lindstrom, one of the world's leading experts on advertising: 'At the age of 66, most of us will have seen around two million TV adverts in our lifetime. That equals eight hours of advertising every day, seven days a week, for six years.'<sup>6</sup>

At the end of 2010 the German advertising industry employed 549,499 people, of whom 187,055 worked in the core advertising business (ad design, advertising clients, distribution of advertising material) and 362,444 worked in the supplier industry (e.g., printers, the paper industry and in telephone marketing).<sup>7</sup>

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<sup>4</sup> Cf. Kirsch, p. 176 ff. or Mueller, p. 498-500

<sup>5</sup> Cf. Hirsch, p. 5: 'If everyone stands on tiptoe, no one sees better.'

<sup>6</sup> Lindstrom, p. 47

<sup>7</sup> ZAW 2011, p. 86

In addition to these approximately 550,000 people, there are those employees who work in the marketing departments of their employers; for instance, all staff who work in marketing and advertising inside a large corporation. While it is very difficult to obtain reliable figures for this group, it is estimated that several million employees across Germany work mainly in advertising and marketing related jobs.

## II. Advertising and information

How much information does advertising contain? One of the assumptions that lets advertising appear in a positive light is that advertising is a source of information.<sup>8</sup> What kind of information would you expect to receive if you wanted to know more about, say, a soft drink? Presumably you'd want to know about its price, sugar content, number of calories, caffeine content, additives, and its impact on your well-being or health, for instance whether it puts you at risk of developing diabetes or becoming overweight. Now try to visualise a commercial by a large soft beverage producer. To what extent would it satisfy your need for information?

Standard scientific textbooks have shown<sup>9</sup> that the majority of advertising is not informative but emotional, and they provide detailed instructions on how to shape advertising messages in such a way that they have an emotional rather than informative impact.<sup>10</sup>

Impressive evidence that advertising overwhelmingly appeals to our emotions and our subconscious is furnished by Martin Lindstrom, an internationally renowned marketing expert and author of the best-selling book *Buyology*. He demonstrates that TV commercials for cars contain no product information; instead, they transport exactly the same kind of purely emotional message no matter what the brand.<sup>11</sup> It is no different when it comes to a highly successful promotional campaign for a well-known soft drink that is broadcast during commercial breaks of one of the United States' most popular TV shows; here, too, the message is pure emotion. No information is provided on the product itself.<sup>12</sup> Lindstrom provides several examples to demonstrate that product information has no role to play in successful advertising. That said, when questioned, 46.2% of Germans said that they considered TV advertising to be 'fairly informative',<sup>13</sup> suggesting an interesting misperception.

## III. Advertising and planned obsolescence

The impact of planned obsolescence – the policy of designing products with a limited useful life – is that of an artificial scheme that creates employment but depresses our prosperity. When lightbulbs, printers or other electronic devices only work for half as long as they actually could,<sup>14</sup> this requires double the number of employees (and double the amount of capital) than is actually necessary.

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<sup>8</sup> For instance, ZAW, the German advertising industry association, argues that, 'an empowered citizen has a right to receive information about a product'. ZAW 2011, p. 201

<sup>9</sup> Cf. Meffert, p. 740, probably Germany's leading scientific textbook on advertising.

<sup>10</sup> Cf. also Homburg, Krohmer, p. 795

<sup>11</sup> Cf. Lindstrom, p. 48: 'The brand and the model were different every time, but the actual commercial was the same. The same dynamic images. The same curve in the road. The same desert. The same cloud of dust.'

<sup>12</sup> Cf. Lindstrom, p. 57ff.

<sup>13</sup> Die Welt in Zahlen 2012, p. 95

<sup>14</sup> Danoritzer, Kaufen für die Müllhalde

Probably the most important economic variant of planned obsolescence is that which is produced through advertising.<sup>15</sup> Its effect is that millions of goods that still work have to be disposed of prematurely, creating enormous refuse heaps<sup>16</sup> and forcing us all to work more and for longer than we have to while pushing down real incomes beyond necessary levels.

#### **IV. Advertising and ethics**

In a publication entitled *Verbraucher nicht entmündigen*<sup>17</sup> (Preventing the disempowerment of consumers), the German advertising industry association ZAW argues that 'regulatory interventions' such as 'various labelling requirements (e.g., pertaining to food)<sup>18</sup> prevents the application of consumer-friendly solutions, one consequence of which, it states, is 'paternalism, if not the disempowerment of consumers'.<sup>19</sup>

What exactly does this refer to? According to Greenpeace, scientists have been warning for years of the dangers of certain colourants in food. In 2010 the European Union consequently decided to introduce a requirement (rather than impose a ban) to label such additives on food packaging in a move to provide consumers with information on the damaging effects of consuming these products.<sup>20</sup>

Is it this kind of labelling requirement that, as ZAW argues, 'prevents the application of consumer-friendly solutions' and leads to 'paternalism, if not the disempowerment of consumers'? What does ZAW really want? Should these labelling requirements be eliminated so that consumers, in this case children (one of the products mentioned was gummy bears), would have to rely exclusively on the 'information' provided by the manufacturers through advertising?

#### **V. Advertising and the media**

The main source of income for private-sector TV and radio stations is advertising.<sup>21</sup> However, several public broadcasters and much of the press are also financially heavily dependent on advertising revenue. In 2008, Germany's newspapers generated on average around 'two thirds of their revenue ... through advertising and one third through sales.'<sup>22</sup> What are the implications of this for the newspapers' content?

In the 1980s, an eco-hazardous incident occurred at a Munich-based, then fairly small pharmaceuticals producer of which Greenpeace in Munich was made aware. Greenpeace

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<sup>15</sup> Cf. Slade, p. 6: 'Vance Packard [...] revealed, how advertisers relied on motivational research to manipulate potential buyers [...] pointing out how the media create artificial need within vulnerable consumers.'

<sup>16</sup> On page 1ff. Slade examines how many hundreds of millions of working PCs, mobile phones and other electronic devices are thrown out each year in the United States.

<sup>17</sup> ZAW 2011, p. 196

<sup>18</sup> ZAW 2011, p. 197

<sup>19</sup> ZAW 2011, p. 197

<sup>20</sup> Cf. Greenpeace Magazin 4/2010: Zappelphilipp - Farbstoffe machen Kinder krank

<sup>21</sup> Cf. 2011 Annual Report of Pro7Sat.1 Group, p. 162: Revenue totalled around EUR 2.75 billion, of which 85.7% or around EUR 2.35 bn were attributable to direct advertising revenue. The remaining 14.3% or just under EUR 0.4 billion mainly consisted of indirect advertising revenue such as the marketing of rights, distribution agreements, value-added telephone services and the sale of broadcasting rights.

<sup>22</sup> Bundesverband deutscher Zeitungsverleger, August 27, 2009: Of the EUR 9.09 billion in total revenue that was earned by Germany's newspapers in 2008, advertising revenue alone accounted for EUR 4.37 billion.

subsequently contacted a large daily newspaper asking it to cover the story, but was told that the company in question was a major advertising client and it would not report on the case.<sup>23</sup>

Since virtually all media outlets are dependent on advertising revenue, they cannot be expected to report critically on any of their clients, since doing so would burn the bridges between them and their most important sources of income. Accordingly, it is safe to assume that a sizeable number of German (and international) media outlets provide biased reporting in certain areas, producing half, three-quarter or nine-tenths truths that are skewed in favour of industry and/or advertising clients. Owing to their financial dependence, they frequently prefer to maintain silence rather than cover the negative aspects or conduct a profoundly critical analysis of their advertising clients' actions.

## **VI. Advertising and health**

### Advertising for children's confectionery

In a 29-page brochure, ZAW states that advertising is not to blame for childhood obesity or unhealthy diets and that, rather than introduce laws to regulate such advertising, the advertisers themselves should exercise responsibility. It quotes several scientific studies in support of its claim.<sup>24</sup> Also, it states, the influence of advertising on children's lives is generally severely overestimated.<sup>25</sup>

However, independent studies, such as those conducted by foodwatch or the German Society of Pediatrics and Adolescent Medicine (DGKJ), have drawn diametrically opposed conclusions.<sup>26,27</sup> Advertising that is directed at children, they state, lead to unhealthy diets and obesity; for this reason, companies and manufacturers tend to reach out to ever younger target groups (including 2- to 5-year-olds) so as to shape their eating habits at as early an age as possible. Advertising doesn't focus on fresh fruit, they continue, but rather on far too sugary, fatty and salty products that contain hardly any valuable nutritious elements.<sup>28</sup> DGKJ bases its claims on over 200 surveys and studies from around the world and advocates the introduction of a ban on advertising aimed at children under the age of 12, such as in Norway and Sweden. The mentioned brochure by ZAW makes no reference to the DGKJ claims.

Essentially, the question is if advertising genuinely has as little impact as ZAW claims, why are confectionery manufacturers intent on advertising their products so heavily, and increasingly, to small children?<sup>29</sup> Why does confectionery, a particularly unhealthy food group, account for most of the money spent on food advertising, namely 23%?<sup>30</sup>

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<sup>23</sup> At the time the author of this paper was an active member of Greenpeace Munich and witnessed the incident at first hand.

<sup>24</sup> Cf. ZAW, Kinder/Werbung/Ernährung

<sup>25</sup> Cf. *ibid.*, p. 12

<sup>26</sup> One section in foodwatch's 2012 report is headed 'Advertising and marketing for children's foods – How the food corporations seduce children, manipulate parents and harass families' (Foodwatch Report, p. 29).

<sup>27</sup> Cf. DGKJ 2010.

<sup>28</sup> In 2010, 98% of the food ads shown on the popular kids' TV channels (MTV, Pro7, Nickelodeon) were for unhealthy products. 'TV ads for undoubtedly unobjectionable foods such as fruit and vegetables accounted for 1% and were hence "practically invisible", said Children Now.' Foodwatch Report 2012, p. 37.

<sup>29</sup> Cf. DGKJ 2010: A child TV viewer sees between 20,000 and 40,000 commercial ads each year. 'Over half of all commercials are for confectionery, carbonated soft drinks and snacks.' 'We're even observing that companies and manufacturers are reaching out to an ever younger target group' (Professor Berthold Koletzko, chair of the nutrition subcommittee of DGKJ).

<sup>30</sup> ZAW 2011, p. 208

## Advertising and the pharmaceuticals industry

The world's largest pharmaceuticals companies spend far more on advertising than on research and development.<sup>31</sup> Their profits, too, far exceed what they spend on R&D. That said, according to the respected physician and journalist Marcia Angell<sup>32</sup> the industry uses clever advertising to convince the public that the opposite is the case, namely that the high prices of pharmaceutical products are due to the companies' heavy investments in R&D.<sup>33</sup> The industry's large advertising budgets are used to create false public perception. Instead of spending the generous amount of money that is available on developing truly innovative drugs, says Angell, much of it is spent on marketing. The result is that we consumers are presented with glossy images and advertising campaigns about drugs and health, rather than actual good drugs and good health – a tragic misallocation of resources.<sup>34</sup>

In Germany, the pharmaceutical industry runs marketing campaigns that aim to instil fear in parents so they will vaccinate their children. These campaigns are the reason why parents rank the danger of tick bites 2nd, meningitis 4th, childhood diseases 6th and hepatitis 7th – risks that play a major role in advertising campaigns.<sup>35</sup> By contrast, experts, most of them doctors, 'ranked these risks 19th, 20th, 29th and 36th, respectively'.<sup>36</sup> This interesting example of how public perception can be formed illustrates the power of advertising to push public opinion in a certain direction, in this case to the advantage of the pharmaceuticals industry. The potential negative impacts that vaccination may have on children, such as allergies, rheumatic disease and immune deficiency, usually go virtually unmentioned.<sup>37</sup>

## **VII. Political conclusions**

As demonstrated above, advertising has a range of negative effects at a variety of levels in society. Accordingly, a reduction in advertising would have positive economic and social impacts.

One way to achieve this could be to introduce **restrictions on advertising** for various sectors of industry, as has been done in Scandinavia.<sup>38</sup> Naturally these restrictions should not apply to all kinds of advertising, since much of it is very useful in terms of raising awareness of, e.g., socially, ecologically or culturally valuable products and services.

Instead of bans, however, what would work even more effectively in a market system would be a mechanism involving economic incentives. For instance, a **higher rate of VAT** of initially, say, 25%, could be imposed on all advertising activities that would rise each year according to a preannounced schedule. This gradual increase in advertising cost would mean

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<sup>31</sup> Cf. Angell, *Der Pharma-Bluff*, p. 37f.

<sup>32</sup> Marcia Angell, a specialist for internal medicine and pathology, was 'editor-in-chief of the *New England Journal of Medicine*, one of the most prestigious medical journals in the world', Angell, p. 2

<sup>33</sup> Cf. Angell, p. 59ff.

<sup>34</sup> Cf. Angell, p. 72ff.

<sup>35</sup> Cf. Hirte p. 22, in reference to a study by Bavaria's state agency for health and food safety from 2005.

<sup>36</sup> *Ibid.*

<sup>37</sup> Cf. Hirte p. 85 and 88

<sup>38</sup> Many independent experts are calling for such restrictions to be imposed on advertising that is targeted at children. 'In light of existing scientific insights, facts and figures, the Frankfurt-based Future Think Tank is calling for a ban on TV advertising for unhealthy foods that is targeted at children, echoing similar demands from medical associations' – *Foodwatch Report*, p. 45

that advertising activities would slowly but surely be scaled back, giving the advertising industry plenty of time to roll back its activities systematically and in a socially responsible manner.

The gradual decrease in advertising, the spend on which depresses our real income, would cause many products and services to become cheaper, real wages would rise, and living standards and quality of life in this country would increase.

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