Advertising, Promotion, and Competition: A Survey with Special Reference to Food

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Abstract

This article surveys the theoretical and empirical literature on the economics of advertising during the last decade. The survey notes several promising advances in theoretical modeling of the role of advertising in consumer choice and social welfare. Numerous empirical investigations of food and other consumer products have established relationships between advertising and market structure or performance indicators. Less progress was found on selected socioeconomic advertising issues that are difficult for traditional economics to handle.

Keywords

Advertising, Sales promotion, Market structure, Performance, Welfare economics, Consumer choice

Introduction

The study of the economic role of advertising began only 30 years ago with a seminal paper by Kaldor (14). Analytic modeling of advertising and related forms of sales promotion has proved arduous and nearly intractable. The first crude empirical tests of hypotheses about advertising began only 15 years ago. During the last 10 years, substantial progress has been made in both the theoretical and empirical economic literature.

In this article, I survey recent analyses of the economic role of advertising and other types of sales efforts, focusing especially on the socioeconomic and welfare effects of advertising. I consider the role of advertising in determining the quality of competition in markets for food and other grocery products. The most recent survey of the welfare effects of advertising is an article by Doyle (10), written in 1968. Shaffer has also thoroughly surveyed the role of advertising in food marketing firms (38). However, both articles are in part dated.

After examining the conventional distinction between advertising as information and advertising as persuasion, I discuss several socioeconomic issues surrounding advertising and survey the evidence regarding five separate welfare economics issues. I conclude by assessing the literature and making suggestions for future research.

Information versus Persuasion

Sellers differentiate their products from those of rival sellers in four main ways: space, form, service, and image. Spatial differentiation occurs through selecting convenient plant or store locations. Form differentiation occurs when products are altered physically to create differences in shape, flavor, color, durability, storability, ingredients, or packaging. Service differentiation is common in retail trade or in a product that requires repairs during its usable life. Image differentiation involves the subjective impressions of consumers about a particular product, such as the kind of person who typically uses that product. Image differentiation often occurs in conjunction with one or more of the other three kinds of differentiation. Labeling, packaging, and advertising are the principal means of image differentiation of products.

It is true that some, perhaps most, advertising provides information about the tangible, objective characteristics of products or services offered for sale, facts that aid buyers in conscious, rational decision-making. Informational cues on ingredients, durability, points of purchase, and price are characteristics of classified advertising, trade publications, and catalogs. However, much advertising content appears to be primarily "persuasive" messages that are highly subjective, emotive, or even subconscious in their appeal. Most advertising through the mass media (particularly the electronic"

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Electronic media) is preponderantly persuasive. Other mass-media advertising contains a more equal mixture of informative and persuasive elements, newspapers, billboards, and magazines are often of this type. Some forms of sales promotion are largely persuasive (coupons, sweepstakes, and incentives), whereas others are partly informative (free samples and sales demonstrations).

The proportion of information contained in advertising varies not only by medium but also by type of product. Some products have been associated with historically intense and uninformative advertising items relating to personal care (razors, soaps, and deodorants) are susceptible to advertisements emphasizing the product’s ability to reduce feelings of personal insecurity. The advertising of luxury products, like perfumes, furs, or jewelry, is oriented toward increasing social status. Some foods and beverages have lost their function as necessities or sources of nutrition alone. “Dietetic” foods and chewing gum, for example, are valued less for their life-sustaining attributes than for their organoleptic properties. Many foods are consumed in a convivial or ceremonial setting and are thus more prone to highly persuasive advertising. There is a world of difference between a sack of flour and a bottle of champagne in their potential for being image-differentiated.

Most packaged and branded grocery items have properties that lend themselves to substantial advertising expenditures relative to sales. One of the most comprehensive studies of the determinants of advertising intensity was recently published by Farns and Buzzell. Based on the internal records of 281 consumer lines of business, they found that the ratio of advertising and promotion expenditures to sales was positively and significantly related to standardization (not specialty ordered), infrequency of purchase, small unit-purchase value, proportion of sales to distributors (as opposed to direct sales to final consumers), and proportion of new products marketed by the business. Except for infrequency of purchase, all these characteristics are typical of packaged, branded grocery products. Consequently, the advertising intensity of processed food and tobacco products is relatively high. Media advertising by food manufacturers alone averages well over 3 percent of sales if one excludes highly perishable products, food retailers spend an additional 1 percent of their sales on advertising.

Other forms of sales promotion such as coupons, incentives, samples, and some direct sales force activity would probably raise the intensity of advertising to 8 percent of sales. The informative content of advertising is at the heart of discussions on the social and economic value of advertising. Theories of advertising developed by Stigler, Telser, and Nelson assume that consumer experience with a product should either reinforce correct pre-purchase information or invalidate false information. The market will immediately discipline all false advertising through a loss of market share to sellers. Moreover, these theoretical models conclude that firms with unknown products and those offering the best quality-price combination are the ones that advertise most. With purely factual or informative advertising, the effects of advertising are uniformly welfare-enhancing. Consumer search costs would be significantly lower with informative mass advertising than with searches involving individual trial consumption or testing. As sellers have no incentive to deceive with advertising, the Stigler-Telser-Nelson models imply that competitive market performance is enhanced if consumers simply choose the most heavily advertised products.

Little empirical evidence exists on the informative content of advertising, but one initial effort indicates very low levels for television advertising. Resnik and Stern examined 378 randomly selected television commercials (76 percent of which were grocery products) for 14 different informational cues. Only 45 percent of the commercials for grocery products contained even one informational cue, the rest were devoid of informative content. Preliminary results of research by the same authors on other media indicate a higher proportion of informative advertisements. Empirical evidence combined with more recent theories cast some doubt on the sanguine conclusions of the Stigler-Telser-Nelson research. More recent models generally assume that consumers cannot costlessly and immediately validate the quality of a purchased product with absolute certainty.

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3These expenditures included media advertising, catalogs, exhibits, premiums, coupons, free samples, and special promotional discounts. The costs of field sales forces were not included.
Mathewson (15) have investigated the relationship between "correct" (nondeceptive) advertising and monopoly. Their theoretical model assumes the existence of a nondiscriminating monopolist and consumers whose consumption is affected positively by the consumption of other consumers (the "demonstration" effect). Under these conditions, the equilibrium result is that the seller expends more than the socially optimal amount on advertising and simultaneously provides too little total information to consumers. This model demonstrates a key link between advertising, informative content, and the welfare effects of imperfect competition.

When consumers are imperfectly informed about products, the market does not maximize social welfare. Smallwood and Conlisk (39) have presented a model in which consumers know the price of products and the prices of all brands are held equal, but consumers are uncertain about product quality until use. That is, inspection prior to consumption cannot reveal quality, as is true of most packaged consumer goods. Smallwood and Conlisk's model, built on an adaptive dynamic search strategy, results in alternative equilibria, two of which are interesting. First, even though prices are the same, equilibria exist for which several different quality levels of products survive in the market. Second, it is possible, under some reasonable conditions, for a brand of "inferior" quality with an initially high market share to capture the entire market over time.

A second article by Kotowitz and Mathewson (16) is also based on a consumer adaptive-search strategy. Their model assumes that (1) rational consumers are ignorant, but tractable, about product quality; (2) tastes are formed and fixed with respect to product attributes; and (3) advertising does not alter tastes, but does alter perceptions about a quality attribute that requires continuous, prolonged experience to evaluate. In this model, while false advertising claims are eventually invalidated, the speed of discovery depends on the consumer's ability to learn and remember. It can be profitable in the long run for a monopolist to mislead consumers, at least for a period of time, by giving them incorrect quality information. Although the authors cannot make any unambiguous welfare conclusions for marginal consumers, all inframarginal consumers experience a loss because the monopolist substitutes advertising claims about product quality for true quality.

**Unresolved Issues**

There are several issues related to the perceived social effects of advertising. Some lie outside the traditional domain of economics. The rest are basically unresearched questions. In general, less progress can be cited in settling these issues than the welfare economics issues I discuss later. However, the topics are sufficiently important to be considered here.

First, it is sometimes claimed that advertising increases macroeconomic stability because of countercyclical advertising expenditures by sellers and the resulting stabilization of consumer aspirations over time. Scherer's (35) survey of this issue finds that advertising expenditures show a definite procyclical pattern. Moreover, empirical studies of the effects of advertising on aggregate consumption have yielded inconsistent results. Thus, the evidence on dynamic stabilization is inconclusive.

Second, some of the "information" conveyed by advertising is deceptive or at least misleading in a legal sense. There are voluntary U.S. industry groups whose regulations limit deceptions, such as the National Advertising Review Board. State and Federal Government agencies enforce laws against deceptive and fraudulent advertising claims. Although these efforts have largely eliminated blatant deception, omission of relevant facts, innuendo, obvious exaggeration, and puffery are typical features of modern advertising. Preston's book on puffery (29) cites scores of examples of food advertisements containing puffery statements like "Milwaukee's finest beer," "the biggest little treat in all the land," and "everybody needs milk." Such phrasing is not illegal, but Preston argues that it may mislead some consumers and must have some effect on purchasing patterns. At least, the frequency with which such seemingly irrefutable phrases appear in advertising copy arouses cynicism among some sellers and consumers about the truthfulness of advertising (35, p. 380).

Third, advertising is criticized sometimes for instilling or entrenching hedonistic values. Food advertising, for example, often omits facts about health or nutrition but includes assertions about sensual characteristics. Some critics perceive a connection between the rise of hedonism and the appearance of modern advertising in Western societies. Yet counter-examples also abound (wartime exhortations, antismoking campaigns), and Seltovksy (37) has woven an elegant argument that, despite high levels of advertising, U.S. consumers habitually underachieve in pleasure-seeking relative to citizens of other countries.

Fourth, advertising may substantially affect national food choice. By raising prices on heavily advertised products, many consumers are forced to substitute less desirable brands in the same product category. Advertising probably shifts...
internindustry demand as well as interbrand demand in the long run. Advertising may be partially responsible for the notable shift in preference away from milk, fruit juices, and water (which are less advertised) to artificially flavored drinks, soft drinks, tea, and alcoholic beverages (all of which are heavily advertised). Indeed, Mottern (19) has presented some evidence suggesting an association between heavy advertising and poor nutritional characteristics of foods.

Finally, there is the question of interdependent utility functions. Much advertising seeks to lead consumers to compare their own well-being with that of other consumers, it urges them to emulate the consumption patterns of those they admire. Consumer utility thereby depends on others' perceived consumption habits as well as on the intrinsic characteristics of the products or services, thus generating external effects in consumption. Thus, some advertising first creates dis-satisfaction in potential consumers which can only be removed by purchasing the advertised commodity, bringing consumers back to their original level of satisfaction (prior to the assault on their preference structure by the advertising). It is doubtful that advertising which contains only messages of status discontent can ever result in a net increase in consumer satisfaction.

Issues of Welfare Economics

Doyle (10) has identified five major issues of welfare economics involving commercial advertising, especially the persuasive kind.

1. Its relationship to monopoly market structures, especially barriers to entry, and concentration.
2. Its impact on profits, prices, market share stability, and other indicators of market power.
3. Whether it stimulates or retards technological progress.
4. Its relationship to guarantees of product quality.
5. The extent to which it cross-subsidizes the entertainment media.

Market Structure

Here we consider the relationships of advertising and promotion to concentration, economies of scale, and other barriers to entry. Empirical tests of relationships have frequently used the ratio of media advertising to sales as a proxy for the degree of product differentiation, assuming that other sales promotion efforts are correlated with advertising. The advertising-concentration relationship is one of the oldest and most frequently examined topics in industrial organization research. A recent survey by Comanor and Wilson (5) concluded that the direction of causality depends on the samples or time period studied. A recent test by Ward and Behr (44) found a strong positive relationship for consumer nondurable industries in several time periods, an examination of the food industries failed to find any difference from the consumer nondurable industries. Using a simultaneous-equations model of structure and performance in the food manufacturing industries in 1967 and 1972, Pagoulatos and Sorenson discovered that advertising intensity was strongly and positively associated with market concentration (25). Analyses of concentration and advertising intensity are incomplete in indicating the level of competition because the level also depends on the existence of nonadvertising barriers to entry.

Advertising may be related to another element of market structure—economies of scale in production. It has been argued that advertising expands a firm's sales and thereby allows attainment of the optimal scale of production. Neither Scherer (35) nor Doyle (10) believes there is any empirical evidence for this hypothesis, indeed, given that advertising intensity is related to physical product differentiation, numerous product varieties, planned obsolescence, and consequent short production runs, the reverse is likely true. Connor (6) has established that brand proliferation among processed foods is significantly and directly related to media advertising intensity. However, these findings refer to single-plant economies; it is possible that advertising and promotion may give rise either to pecuniary advantages to size or to multiplant economies of scale. Scherer and others suggest that, for two grocery-products industries, optimal U.S. multiplant scales are reached at the two- to five-plant level due to advertising and image differentiation alone.

Most research points to substantial economies of scale in advertising itself. That is, as the amounts of advertising and promotion inputs in a firm are increased proportionately with other production and marketing inputs, output (sales) increases more than proportionately over a certain range. Strong evidence exists for substantial economies of scale for beer (27) and cigarettes (2) 5. For a large sample of consumer-product lines of business, Farns and Buzzell (11) found that market share was inversely related to the intensity of advertising.

5 Advertizing capital is used in these studies For foods and most consumer nondurables, annual depreciation rates were found to be in the range of 30-80 percent.
Significantly lower areas permitting advertising, whereas cities with different rules governing advertising prices are more likely to exceed market share. Economies of scale in advertising arise from two principal sources: pecuniary and technological economies. First, volume discounts appear to persist for specific kinds of media advertising, particularly the electronic media and national magazines. Also, some media events—such as the Olympics—are lumpy (infrequent and unusual), which can give advantages to the leading firms in an industry when bidding for choice advertising slots. Second, advertising effectiveness (the number of messages of equal buyer impact) may be less expensive at larger volumes than smaller. Sometimes this effectiveness can be attributed to the use of national rather than local media, to the existence of a threshold effect in advertising, or to the advantages of having a “full line” of products over which the advertising of a limited number of brand names can be spread.

Economies of scale in advertising imply substantial barriers to entry by small firms. Their successful entry will require much higher advertising-to-sales ratios initially than those for the established firms in a market, the costs may be so high that entry is unprofitable for months or years. Moreover, introducing one brand into a consumer goods market on a national scale may require an initial advertising and promotion budget of several million dollars. Financial institutions will not usually lend a newcomer for this purpose, hence, new-product launches can constitute an absolute capital barrier to entry. Large or diversified firms are the principal sources of new food products, and their relative ease in overcoming promotional entry barriers is doubtless one of the reasons.

The general conclusion about advertising as a cause of high entry barriers must be modified for retail and service operations. This qualification rests mainly on research comparing prices and quality of optometry services across cities with different rules governing advertising prices. There are significantly lower in areas permitting advertising, whereas few differences existed in the quality of the goods and services. Thus, advertising by food retailers may aid entry, but there are as yet no specific studies on this subject.

Ultimately, the most important impact of advertising on competition may be on the long-run alteration of market structures. In one detailed study, Mueller and Rogers examined the relationship of advertising to changes in seller concentration in the U.S. manufacturing industries. Recently replicated for the food industries by Rogers, these results indicate that, ceteris paribus, advertising (especially on radio and television) caused concentration to rise over the 1958-72 period. Without advertising, “natural” competitive forces would have eroded market concentration. Mather’s study in 1979 provides some insight into one type of conduct associated with concentration change. His study of 68 mergers of food firms during the 1967-76 period confirms that advertising expenditures rose more than 50 percent in the 2 years following the merger, especially after product-extension type mergers. Taken together, these last two studies suggest why conglomerate mergers involving consumer goods firms may restructure markets.

Price and Profit Performance

Advertising intensity, while not an entirely satisfactory proxy, has been used to represent the extent of product differentiation in a market. It is also associated with basic product characteristics, such as durability, consumer versus producer goods distinction, industry media choices, and manufacturer-retailer power relationships. The most rigorous studies indicate that both brand and industry price elasticities of demand are lowered by advertising. That is, advertising creates consumer loyalty, reinforces repeat-purchasing patterns, and allows firms to raise prices (within limits) relative to those of rivals with little erosion of sales. Over time rival firms may respond with advertising campaigns of their own to preserve their share of the market and maintain their profits. In an oligopolistic market, strategic considerations lead to a situation in which firm advertising expenditures are made largely to cancel out rival advertising messages. Under pure monopoly or perfectly coordinated, joint-profit maximization, total advertising expenditures would be much lower than in a loose oligopoly. Some of these considerations may undermine the voluntary advertising restrictions in some industries, such as the U.S. liquor industry.

Firm or brand loyalty combined with effective market-entry barriers can insulate firms from competition. The existence of market power can be inferred from studies showing that high profits are positively and significantly related to concentration, advertising, and other market structure dimensions. Many such “profits-structure” studies have been performed for the manufacturing industries, four of these have examined the advertising-profits relationship for the food manufacturing.

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6One in which a few sellers dominate
industries. Parker and Connor (26) found that advertising intensity had significant, positive effects on the 47 food industries' price-cost margins for 1972. Using 1950–54 data, the Federal Trade Commission (FTC) (12) found the same strong relationship from the 97 largest food manufacturing firms. Using 1967–72 data, Rogers (33) replicated these results for a similar sample of 60 firms. A fourth preliminary study, using a simultaneous equation model, estimated a significant, positive impact of advertising and concentration on profits for the food processing industries in 1967 and 1972 (25).

The available evidence supports the hypothesis that high advertising intensity leads to above-normal profits in food manufacturing, however, comparable studies are not available for other stages of the food marketing system. These strong results are consistent with an important analysis by Porter that found that both the concentration-profits and advertising-profits relationships were strongly positive in those manufacturing industries marketing their products through self-service stores like grocery stores (28).

By conferring market power on firms, advertising should lead to higher prices in the affected markets. Price enhancement has traditionally been more difficult to establish because appropriate price data are lacking. However, one empirical test relates the 1976 prices of a large sample of advertised processed foods to market structure and other factors. The standards of comparison were the prices of equivalent private-label foods, which were assumed to be produced by sellers and distributed through channels devoid of market power (26). Results showed that, ceteris paribus, media advertising intensity had a significant, positive impact on wholesale prices, for each 1-percentage increase in the advertising-to-sales ratio, wholesale prices rose about 0.9 percent. Furthermore, the proportion of network television advertising relative to total eight-media expenditures had a significant and positive impact on prices. On average, processed, branded food prices were approximately 8.5 percent higher than private-label equivalents because of media advertising alone. This is considerably less than the price differentials for specific, highly advertised, high market-share grocery products cited by Scherer (35). It is more than the 2-percent differential to all consumer produce reckoned by Doyle (10).

Market share mobility is an indicator of industry performance. Generally, data on market-share changes are difficult to obtain, when employed, they should be confined to a single market and should represent a total firm's share of the market. Using reliable data, Reekie found that market share instability among 34 finely defined, food product classes was significantly and positively related to advertising intensity (30). This study's results are contrary to all the other findings on profit and price performance quoted above, but because Reekie used brands rather than firm shares and failed to control for new product introductions, the findings should be verified with others before being accepted.

**Technological Progressiveness**

The consensus of the most recent, rigorous empirical studies of technological progressiveness is that a low to moderate amount of market power optimizes the rate of progress (35). These studies typically measured technological output by research and development (R & D) expenditures (really an "input" measure), patent awards, scientific publications by employees, or similar measures. Moderate firm size and some degree of market concentration are held to reduce the risk associated with returns to R & D effort, these factors may also enhance a firm's cash flow, part of which can be diverted to R & D uses. Of course, factors other than market structure, such as technological opportunity, also play a role in determining technological advancement.

To the extent that advertising reduces unpredictability in a firm's market environment, it may also encourage technological output, especially advertising associated with the introduction of new products (35). Doyle (10) argues that nonadvertising factors are stronger influences over all.

Only one empirical study is available on the progressiveness-advertising relationship for food manufacturing firms. Mueller, Culbertson, and Peckham (20) used individual firm data from two periods, 1950–56 and 1967–74. They employed three measures of progressiveness: R & D expenditures, R & D

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7 The FTC study found that profits on assets were raised by about 1.1 percentage points for each 1-percentage increase in advertising-to-sales ratio. Rogers' results were about 1.5 points on assets. Pagoulatos and Sorensen calculated a 1.6- to 1.0-percentage point increase in sales, whereas Parker and Connor's results were 2.3 percentage points of sales. These elasticities were calculated at the approximate mean values for the advertising-to-sales ratios.

8 Average four-firm media advertising-to-sales ratios were 2.7 percent, and the average network TV proportion was 0.35 percent (26, table 3).

9 The examples mentioned by Scherer include, Realemon (30 percent higher), Clorox bleach (45 percent), and a study of 217 drugs (67 percent higher)
employment, and patent output. Their results showed that the advertising-to-sales ratio had a significant, positive influence on progressiveness in the latter period. For patent output, advertising intensity peaked at about 7 percent. As expected, firm size, diversification, and concentration were consistently significant factors, firms with about $125-$150 million total assets (1967 dollar value) had the highest rate of technical output.

Product Quality

Some image differentiation may be necessary to motivate manufacturers or distributors of consumer goods to maintain adequate quality standards. Simple trademarking or labeling may be sufficient to ensure minimal quality standards for repetitively purchased goods (35). But mere brand identification or familiarity require only minimal levels of advertising or sales promotion. Whether consumers can use heavy promotion as a guide to high-quality products is seriously doubted by most economists (10). No doubt, for some products, many consumers use heavy advertising as well as high prices as a sign of high quality. Double-blind experiments of some food products have shown that consumers usually cannot distinguish average-priced from premium-priced items (35). Thus, their willingness to pay higher prices for more expensive equivalents is apparently due to the aura, image, or status associated with the brand. Shaffer has called this the placebo effect of advertising (38).

If price differences between national brands and first-line, private-label food products are any guide, consumers are willing to pay 10-15 percent more for the national brand (17). Some consumers may choose more expensive versions because of perceived risk-aversion, that is, private-label products may be of equivalent quality on average, but their quality may be more variable. Some consumers may try one of the earliest brands to appear on the market, identifying its particular configuration of characteristics as the standard of quality, and continue to purchase the original product because succeeding brands seem “different.” Such habituation processes are well understood in the field of psychology, but have not been well integrated into economic models of consumer behavior (40).

Evidence on quality differences among brands of foods in the same product categories is scanty, moreover, such data as do exist depend on subjectively chosen weights for each characteristic comprising the overall quality index. One way of calculating quality is to compare national brand foods with private-label imitations. Parker and Connor (26) reviewed data from laboratory-type tests and found no systematic quality differences. Another source of quality comparisons is the Consumers Union (8), whose tests combine objective physical measures of food quality (size uniformity, color intensity, and viscosity) with blind tastings by a consumer panel (for flavor retention and ingredient balance). Test results over the years have indicated few differences in average quality between national brands and the first-line, private-label products. The main differences appear to be price, packaging, and advertising.

Media Cross-Subsidization

The subsidization of news and entertainment in the mass media is perhaps advertising's major benefit to consumers. In the United States, about 70 percent of gross newspaper revenues, over 50 percent of general periodicals revenues, and virtually all revenues of the commercial radio and television networks come from advertising (35). After deductions for increased costs due to producing the advertising space or time, these media still have a net subsidy.

Cross-subsidization is not a net loss to consumers who pay for advertising through their purchases, it is primarily a transfer payment. Doyle (10) believes that income is transferred from the rich to the poor through the cross-subsidization of television, but the redistribution is regressive for newspapers. Nonusers of the mass media lose the most. Heavy users of subsidized media who enjoy advertising as a craft or diversion gain the most.

Finally, because advertising is a joint product with the media, there is no separate market for evaluating advertisements. Excessive social investment in advertising is likely in some media (28), especially those associated with oligopoly (9).

Conclusions

Theoretical models of consumer choice, monopoly, and welfare and their relationships to advertising became increasingly rigorous during the seventies. Along with analytical rigor has come the necessarily restrictive assumptions that blunt the generality of the models' conclusions. Notable advances have been made in modeling the psychological process of habituation within an adaptive-dynamic framework, but other psychological aspects of consumer choice have not yet been incorporated, the “placebo” effect of advertising is an example. The concept of advertising as...
fecting consumer perception of product-quality attributes seems more promising than were earlier treatments of advertising as an influence directly affecting the structure of individual tastes. Finally, further refinements may be needed for the distinction between the informative versus the persuasive content of advertising and the treatment of product quality.

The empirical tests of the past decade have filled a void. Most previous research on advertising, including that by the U.S. Department of Agriculture (for example, 23) dealt with measurements of the sales-increasing effect of advertising. Research on advertising effectiveness is currently carried on by marketing economists in business schools, corporate economists, or researchers concerned with generic advertising (for example, 45). Research on the industrial organization aspects of advertising has reached fairly sophisticated levels regarding data reliability and methodological refinements. Attempts to measure the informative content of advertising, however defined, and the welfare benefits of advertising are still rudimentary. It may be that the "liberal" (Paretoian) foundations of welfare theory are unsuitable for such inquiry.

The theoretical and empirical studies published thus far offer no more than the most general policy guidelines. We know that intensity of advertising is associated with high concentration, high profits, and prices, and increasing concentration. But this knowledge does not help us much in policy formulation. Even if the standard welfare analyses conclude that advertising is "wasteful" or "excessive," the answer may not be to restrict expenditures. Advertising is but one form of product differentiation, a highly fungible and multifaceted phenomenon. The recent U.S. experience with restrictions on cigarette advertising demonstrates the folly of a single-medium approach. Our inability to arrive at a consensus on how to identify the informative content of advertising is another impediment to policy formation. If the problem is one of too little information, public programs can supplement or supplant private ones, if there is too much information, counter-advertising activities may be a solution.

Perhaps, as Shaffer (38) has suggested, researchers have been asking the wrong questions about the economics of advertising. Even if advertising does convey useful information for rational decisionmaking, the more relevant question may be how advertising compares with other channels of dissemination. Similarly, if advertising and sales promotion do fuel market power, how can society deal with the income-redistribution effects of advertising? Given that advertising affects social beliefs and values, the more basic questions might be: Who should control advertising content, and are the present values projected by advertising consonant with the ideals of a democratic society?

References


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