

regimes, have also found little if any effect on overall demand.<sup>64</sup> What has been found, as was described earlier, is that a partial ban on cigarette advertising can adversely affect the development of improved cigarettes and the ways in which consumers select what brand to smoke.<sup>65</sup>

We also noted earlier some of the effects of bans on advertising for other products—on food ads that contain health claims, for example, and on price advertising for prescription drugs. The usual pattern is that consumer information is substantially reduced in the absence of advertising, with adverse effects on choices, but not necessarily a reduction in consumption.

### **Advertising and GNP**

Advertising is a major industry. In recent years it has comprised about 2.3% percent of the gross national product, a proportion that is substantially increased over what it was at the start of this decade.<sup>66</sup> Assessing the overall importance of advertising is a difficult matter, however. The real issue is not the proportion of GNP directly accounted for by advertising, but how advertising affects the rest of the economy.

A very small number of studies have attempted to assess the impact of advertising on total consumption of all products. An early effort concluded that advertising tended to reduce savings and increase consumption.<sup>67</sup> Two

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<sup>64</sup> McLeod (1986) on the Australian cigarette advertising ban; also see the brief survey by Boddewyn (1986).

<sup>65</sup> Boddewyn (1986) contains some preliminary results on how advertising restraints affect tar and nicotine content of cigarettes.

<sup>66</sup> Source: National Association of Broadcasters, based on data from Bob Coen of McCann-Erickson, New York, NY.

<sup>67</sup> Taylor and Wieserbs (1972).

more recent studies used standard data on advertising and various measures of the national economy, combined with a sophisticated statistical technique designed to separate cause from effect. The authors found the data to be generally inconsistent with the hypothesis that advertising causes consumption.<sup>68</sup> Finally, a very recent work based on the Wharton Econometrics large-scale model of the U.S. economy found that increases in total advertising tend to decrease consumers' saving rate and this in turn would increase GNP.<sup>69</sup> The Wharton approach has been extended to analyze the effects of state taxes on advertising, and found that by limiting the scale of advertising, such taxes would decrease consumption.<sup>70</sup>

A basic problem with these studies is that GNP is a highly imperfect measure of the satisfaction that consumers derive from their purchases. The primary effect of advertising appears to be to provide information. The effect of information is not so much to cause consumers to spend more as to cause them to spend their money more wisely, with secondary effects in the form of improved products. To assess the total economic impact of advertising, one would wish to measure, not total dollar value of goods, but such things as product quality and the mix of products sold to consumers. The few studies cited here tell us little about the effect of advertising on overall material wealth. Far more enlightening is the large body of research cited in previous sections on how advertising improves markets generally.

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<sup>68</sup> Ashley, Granger, and Schmalensee (1980) and Sturgess (1982). The former noted that the data suggested that in fact, increased consumption tends to lead to increased advertising.

<sup>69</sup> Schink and Fishman (1986).

<sup>70</sup> Godshaw and Pancoast (1987).

## DURATION OF ADVERTISING'S EFFECTS

The scholarly debate over advertising and competition gave rise to concern about the duration of advertising's effects. Several analysts attempted to assess how long advertising affects consumer demand for specific brands or products. Unfortunately, little attention has been paid to certain theoretical problems that are important in measuring advertising durability in some contexts. An example of such a problem is the possibility that advertising induces trial purchases that in turn induce lasting brand loyalty based on customer satisfaction. In that case, what produces the "long run effect:" advertising or investments in product quality? One might ask the same question about informative advertising that enables consumers to find the products they would have preferred all along if they had known about them. In general, many of the implications of the advertising-as-information scholarship have not been brought to bear on the question of advertising durability, perhaps because this issue turned out not to be as important in the barrier-to-entry controversy as was once expected.

Nonetheless, some empirical research has been attempted on the duration of advertising's effects. The results are strongly contradictory. This is unsurprising. Advertising in different contexts has quite different effects. The direct effects of a campaign promoting temporary price reductions cannot endure long beyond the end of the sale. Another reason for the mixed results seems to be the use of different kinds of data. A wide-ranging 1976 survey by Clarke found that studies using annual data yielded relatively long durations for the effects of advertising on sales, whereas studies based on weekly, monthly or bimonthly data found durations

of less than one year. He concluded that "the cumulative effect of advertising on sales lasts for only months rather than years."<sup>71</sup> Later criticisms of his work may indicate somewhat longer durations, but others have confirmed the finding of a short duration.<sup>72</sup> The matter remains largely unresolved.<sup>73</sup>

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<sup>71</sup> Clarke (1976).

<sup>72</sup> See, for example, Ehrlich and Fisher (1982), Weinberg and Weiss (1982), and McAuliffe (1987), pp. 68 ff.

<sup>73</sup> McAuliffe (1987) surveys recent results.

## CONCLUSIONS

During the early and middle twentieth century, most scholars argued that advertising was of doubtful value to consumers and was probably an anti-competitive force. The 1960s and 1970s saw a vigorous debate over these points, and scholarly opinion has strongly shifted. Substantial theoretical and empirical research has now accumulated in support of the view that advertising is a force for improved market performance. Much work has addressed the mechanisms by which advertising was once considered to have inhibited competition. The results have tended to demonstrate that advertising is as likely to facilitate market entry and enhance competition, as it is to impede competition. Thus theoretical and empirical developments have cast doubt on the original conjecture that intensive advertising tended to suppress competition by creating barriers to entry.

In the 1970s there also arose an "advertising as information" school of thought in the economics profession. This approach has largely transformed scholarly views of how advertising affect consumer markets. New theoretical insights have demonstrated that much advertising previously thought to be "persuasive" or wasteful can serve an important informational role. The incentives for advertisers to be truthful are more pervasive than once believed, and the mechanisms by which consumers infer information from advertising are remarkably complex and effective.

Most impressive has been a series of empirical studies on how markets change when advertising is introduced, removed, or restricted. Scholars have found that advertising tends to reduce, rather than increase, consumer prices. Similarly, advertising tends to increase consumer information,

improve product quality, expand the scope of available choices, and encourage a better fit between consumer preferences and consumer purchases.

Government regulators have increasingly recognized the informational benefits of advertising. The FTC now routinely opposes legal restrictions on advertising, and recently the National Cancer Institute welcomed the advent of health claims in food advertising as an important adjunct in the effort to prevent cancer.

Research has also cast light on other controversial topics, such as the duration of advertising effects and the influence of advertising on overall markets consumption. Attempts to measure the longevity of advertising effects have been hampered by the fact that different kinds of advertising can be expected to differ enormously in the immediacy of their effects, and that the largely informational nature of advertising implies that longer term effects probably derive more from product quality itself than from advertising per se. Nonetheless, most studies find that most advertising effects last for a year or less.

Studies relating advertising and consumption in entire markets have focused on mature products, such as cigarettes and alcohol. The results almost always suggest at most a very small increase in consumption associated with increases in advertising. Indeed, for cigarettes, restrictions on advertising have sometimes been accompanied by increases in consumption.

Finally, the few studies that attempted to assess the influence of advertising on total GNP produced mixed results, some finding a significant positive effect and some finding no effect. This is unsurprising because the fact that the dominant role of advertising is to provide information suggests that its influence will be felt mainly in improved product quality and better

informed consumer choices (factors that are not captured in standard national statistics) rather than in the total dollar value of purchases.

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**CERTIFICATE OF SERVICE**

I, Karen M. Koon, do hereby certify that a true and correct copy of the Reply Comments of the National Association of Broadcasters in MM Docket No. 93-254, was sent, via first class mail, on this date, February 4, 1994, to the following:

Angela J. Campbell, Esquire  
Sharon Webber, Esquire  
Citizens Communication Center Project  
Institute for Public Representation  
Georgetown University Law Center  
600 New Jersey Avenue, N.W.  
Suite 312  
Washington, D.C. 20001

Andrew Jay Schwartzman, Esquire  
Gigi Sohn, Esquire  
Media Access Project  
2000 M Street, N.W.  
Washington, D.C. 20036

Mark E. Chopko, Esquire  
Katherine G. Grincewich, Esquire  
United States Catholic Conference  
3211 4th Street, N. E.  
Washington, D.C. 20017

Jeffrey E. Baker  
Cassette Productions Unlimited Inc.  
6 Commerce Way  
Arden, NC 28704

Paul Kerstetter  
West Telemarketing Corporation  
9910 Maple Street  
Omaha, NE 68134

Michael Drayer, Esquire  
Silver King Communications, Inc.  
12425 28th Street, North  
St. Petersburg, FL 33716

John R. Feore, Jr., Esquire  
Suzanne M. Perry, Esquire  
D'wana R. Speight, Esquire  
Dow, Lohnes & Albertson  
1255 23rd Street, N.W.  
Suite 500  
Washington, D.C. 20037

Professor Rodney A. Smolla  
Institute of Bill of Rights Law  
The Marshall-Wythe School of Law  
The College of William and Mary  
South Henry Street, Room 100  
Williamsburg, VA 23185

Richard Zaragoza, Esquire  
Fisher, Wayland, Cooper & Leader  
1255 23rd Street, N.W.  
Suite 800  
Washington, D.C. 20037

James J. Popham, Esquire  
Association of Independent Television Stations, Inc.  
1320 19th Street, N.W.  
Suite 300  
Washington, D.C. 20036

Dawn M. Sciarrino, Esquire  
Haley Bader & Potts  
Suite 900  
4350 North Fairfax Drive  
Arlington, VA 2203-1633

Richard Cotton, Esquire  
Ellen Shaw Agress, Esquire  
National Broadcasting Company, Inc.  
30 Rockefeller Plaza  
New York, NY 10112