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The Sales Effort and Monopoly Capital

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On the eightieth anniversary of the 1929 Stock Market Crash that led to the Great Depression, the United States is once again caught in a Great Financial Crisis and deep downturn of an order of magnitude comparable to the 1930s. At the center of this crisis is plunging consumer spending, caused by the destruction of household finance as a result of decades of wage stagnation and the piling up of debt. Consumer spending in today's economy, dominated by giant firms, is significantly dependent on the sales effort, i.e., marketing as a whole, with advertising as its most conspicuous form. But the sales effort is also ebbing in the crisis, contributing to the general decline. So integral is the sales effort to the regime of monopoly capital that one cannot be understood without the other.

Our goal in what follows is to provide a broad introductory sketch of the sales effort under monopoly capital (and more specifically the monopoly-finance capital of today) based on what we believe to be the most comprehensive foundational work on contemporary advertising: Paul Baran and Paul Sweezy's *Monopoly Capital*. It built upon the pioneering economic scholarship on this subject in the middle third of the twentieth century. Among the questions we wish to address are:

1. The historical connection between the emergence of advertising and the rise of monopoly capital;
2. Tthe importance of the sales effort in propping up an economy prone to economic stagnation arising from a lack of effective demand;
3. The role of the advertising system in the creation of the dominant corporate media and the shaping of modern journalism;
4. The social costs of marketing; and
5. The political struggles to arrest commercialism.

Our analysis focuses principally on advertising as the most transparent form of the sales effort. Unlike most analyses of advertising, we are not concerned primarily here with advertising techniques, but rather its economic and social functions.

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Much has changed since *Monopoly Capital* was published in the 1960s, yet it remains the definitive starting point for any effort to grasp advertising's contours and significance. Since the middle of the last century, with only a few exceptions, as advertising has consolidated its role in the political economy, orthodox economists have shown little interest in pursuing the subject.3"Modern economics," Baran and Sweezy observed, "has made its peace with things as they are, has no ideological or political battles to fight, wants no confrontations of reality with reason."4 In recent decades, what little research has been done is trivial and based on the idea that if an industry is making profits, it is, *ipso facto*, a socially necessary industry and it is beyond the purview of economics to question its legitimacy. Advertising is simply taken as a given, much like the Rocky Mountain range, a neutral institution there to connect businesses to consumers with the information they need to make buying decisions.

We begin with two simple points. First, any advanced and complex economy needs an information system to allocate goods and services effectively. Contemporary advertising is not the result of providing this necessary service—if it were, the information for consumers would be far more useful and intelligible than that provided by advertising. Rather, it is aimed principally at fulfilling the profit needs of advertisers themselves. Advertising thus reflects the balance of forces in the monopoly capitalist economy. It is, as James Rorty once put it, with regard to business power, "our master's voice."5 This voice is more powerful in the United States, where the power of capital versus labor is stronger than it is in the other advanced economies. It was, as we shall see, not coincidental that when labor was strongest in U.S. history that the "master's voice" faced its most serious challenge. Second, advertising as we know it, or the sales effort more broadly, is not the result of free markets or "free enterprise" or capitalism per se; it is the result of a certain type of capitalism, best exemplified by the United States; one typified by large corporations competing in oligopolistic markets. Indeed, advertising even in mainstream economics is seen as related to what is called "monopolistic competition."6

Advertising and Monopoly Capital

In a freely competitive capitalism dominated by mostly small family firms and competitive markets, such as those found in the United States through most of the nineteenth century, advertising played a much smaller role. What advertising existed at that time was primarily aimed at providing retail price and product information to prospective customers. Under these conditions there were innumerable firms competing in the economy and in each given market. Hence, the typical firm in this freely competitive economy was unable

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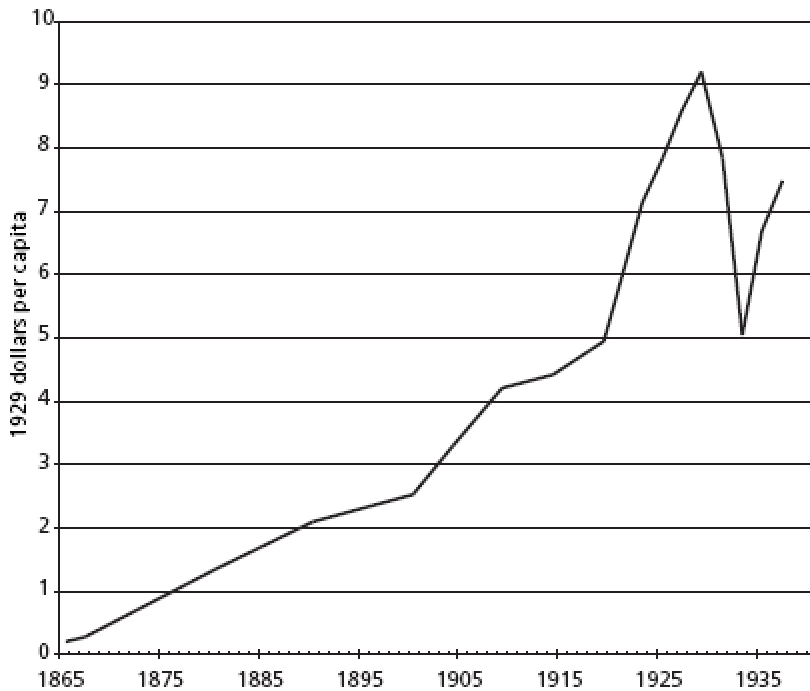
to exert significant control over price, output, or investment levels, which were imposed by the market as a whole. Price competition was the key form of competition, output was normally maximized, and the economic surplus generated within production tended to be automatically reinvested since investment outlets were not a problem.

The main constraints that faced firms with respect to growth in these circumstances were on the supply (cost) side rather than on the demand (sales) side. Advertising, which is aimed at expanding effective demand, made little sense under these conditions, and was kept to a minimum. Put another way, under freely competitive capitalism full-capacity output was the general tendency and prices normally fell to the point that the market was cleared, i.e., all goods were sold. Hence, there was little room for the management of consumption through advertising. Consequently, during the nineteenth century total expenditures on advertising were a fraction of what they would become with the rise of big business in the twentieth century.

In contrast, under the monopoly capitalism of the twentieth century and today the typical economic unit is not the owner-operated small firm, but the giant corporation. Here the playing field is not the mostly local or regional competitive markets of countless small firms, but a national or global oligopolistic market, where a handful of dominant firms control output, and barriers-to-entry limit new competition. In this context the giant corporation is not a price-taker, but a price-maker. The industry price tends to gravitate to the optimum point for profitability, closer to what one would find in a monopoly than in a freely competitive market. As all the main players tend to be large and do not want to put their large investments at risk, serious price competition aimed at driving competitors out of business is irrational and rarely undertaken.

During the transition to the regime of big business, in the early decades of the twentieth century, it was learned that profit maximization was better achieved by indirect collusion, whereby firms—often following a price leader, typically the largest firm in the market—raised prices in tandem. Competition between firms remained ever intense but shifted from price competition, which was effectively banned, to competition over cost and market share. The economy tended to be constrained on the demand-side, unable to absorb all of the surplus that it was capable of generating. It was therefore plagued by a chronic problem of effective demand, in which the role of advertising in promoting demand became crucial, both for the individual firm and the economy as a whole.

Chart 1. Print advertising per capita, 1865–1937 (constant 1929 dollars)*



*The figures for total U.S. advertising expenditure become most reliable starting in 1935, when complete census data is available. Before this, analysts have made estimates based on various industry sources.

Sources: Neil H. Borden, *The Economic Effects of Advertising* (Chicago: Richard Irwin, Inc., 1942), 48, table 1; "The Inflation Calculator." http://www.westegg.com/inflation/ (accessed February 28, 2009).

Under monopoly capitalism advertising (and in general the "sales effort") therefore moved front and center as one of the chief ways firms sought to compete. Advertising permitted large corporations, in particular, to expand or protect their market share without engaging in destructive price competition. It allowed firms to build brand identity and loyalty. Chart 1 illustrates how advertising exploded into prominence between 1865 and 1929, the period in which competition gave way to oligopoly in so many industries. The chart measures (in constant 1929 dollars) the per capita expenditure on newspaper and magazine advertising, the predominant media of this period.

To illustrate, with a simple example, why advertising became so important in the monopoly era, consider a hypothetical company and brand, the Acme Hammer Company. In this fictional account, Acme was a late nineteenth-century, owner-operated hammer company based in Exploit, Michigan. Acme

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Hammer provided little advertising, and what they did provide was simply geared to informing prospective customers that the Acme Hammer was an "all steel" hammer. Acme faced a highly competitive market and ran all of its hammer-making factories at full capacity 24–7. But together with the numerous other small hammer-making companies it ended up producing so many hammers that there was a glut and the price was driven down. To sell all of its hammers Acme was thus forced to engage in fiercer price competition with the other hammer companies. The price of hammers dropped to the point that it became a common saying that "hammers are now as cheap as nails." Labor and other costs did not fall anywhere to the same extent so profit margins simply vanished.

In the end, most of the small hammer-makers went belly up or, like Acme itself, were absorbed by larger tool-making corporations, such as the National Tool Company, a new oligopolistic enterprise that arose through the buying up of smaller companies. National Tool, which now faced three other similar large tool firms (American Tool, General Tool, and United Tool), no longer engaged in price competition, but colluded with its main rivals, generating higher prices and wider profit margins. The big four tool corporations used some of their increasing gross economic surplus to compete with each other for market share through large advertising budgets, which soon became a mandatory cost for each firm. National Tool's best known brand was the Acme Hammer, which was said to "never miss its nail."

Of course no such fictional example can capture the actual historical complexity of the development of monopoly and the sales effort in the transition to monopoly capitalism. Advertising itself is only a component of the larger sales effort, which has become part of the system's DNA from the firm level all the way up to the economy as a whole. Firms today plan and develop new products to meet marketing criteria. Differentiation of the product from other brands is built into the entire process from production to sales. For this reason, it is much more difficult to determine total marketing costs, as opposed to advertising expenses, which are more transparent.

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Table 1. Estimated advertising as percentage of sales, various commodities, 2009

Product	Company	Total ad as % of sales (manufacture & retail)	Price per unit (dollars)	Advertising per unit (dollars)
Ultra Palmolive Original Dishwashing Soap (90 oz.)	Colgate	12.1%	$8.99	$1.09
Budweiser, case of cans (24-pack)	Anheuser-Busch	9.7%	$21.99	$2.13
Levi's 501s (men's jeans)	Levi-Strauss	11.2%	$44.99	$5.04
Tylenonol Extra Strength Rapid Release Gels (100 count)	Johnson & Johnson	6.3%	$13.29	$0.84
Crest Pro Health Toothpaste (6 oz.)	Proctor & Gamble	11.3%	$4.49	$0.51
Irish Spring bar soap (4-pack)	Colgate-Palmolive	12.1%	$5.49	$0.66
Kraft Easy Mac (macaroni & cheese)	Kraft	5.1%	$3.98	$0.20
2009 GMC Sierra 1500 (pick-up truck, crew cab, short box, 4-wd)	General Motors	3.8%	$37,655.00	$1,430.89
Tonka Bounce Back Racer (toy car)	Hasbro	15.1%	$34.99	$5.28
Lord of the Rings—*Conquest* Video Game for X-Box 360	Electronic Arts, Inc.	9.1%	$59.99	$5.46
X-Box 360 Arcade System	Microsoft	6.3%	$199.99	$12.60
Dell Laptop XPS 16 (w/Intel Centrino processors)	Dell	4.1%	$1,099.99	$45.10

Sources and methodology: see appendix.

Following Thorstein Veblen's brilliant early discussion of advertising and marketing in his 1923 book *Absentee Ownership*, Baran and Sweezy argued that the sales effort often penetrated into the production process, with enormous costs of packaging, cosmetic changes in products, new models and fashions, branding, and product obsolescence—all aimed at increasing the consumer's propensity to buy a particular product. As Veblen himself wrote, "much of what appears on the books as production-cost should properly be charged to the production of saleable appearances." Marketing was built into every product, often comprising a very substantial, even in some cases the

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largest, “cost of production.” Advertising (together with sales promotion and direct marketing) is therefore the final commercial-propaganda arm of a commodity-sales system governing all aspects of production and consumption. The sales effort is a necessary expense for a firm under monopoly capital, although, as we shall see, a dubious one from the vantage point of society.

How much of the price of final products is accounted for by advertising? This question is extremely difficult to answer. Such information is treated as proprietary knowledge and closely guarded by corporations. Nevertheless, we provide a snapshot view in table 1 based on rough approximations for some common retail products.

Note that these estimates only specify *advertising* per unit sold. If we were to use the broader category of *marketing* (which also includes expenditures on targeting, motivation research, product management, sales promotion, and direct marketing) the amount per unit would be substantially higher. Because marketing costs are notoriously more difficult to determine we stick to the more conservative but acknowledged measure of advertising. Our estimates for advertising per commodities suggest that the share of advertising in sales price for various goods from soap and toothpaste to blue jeans and cars are significant portions of the whole, varying from, say, 4 percent of sales for a GMC Sierra pick-up to 12 percent of sales for certain brands of soap. Advertising as a percentage of sales thus often rivals profits as a percentage of sales. (Needless to say, advertising costs as a share of unit sales are sensitive to price changes, so that, with any given level of advertising expenditures, the advertising share of sales will fall as prices rise and rise as prices fall.)

The core contradictions of advertising and product differentiation (branding), and their ultimate asininity, are encapsulated in two paradoxes. First, it is said, that the more products are alike, the more the prices are similar, the more the firms must advertise to convince people they are different. Rosser Reeves, the legendary adman who is regarded as an inspiration for the popular *Madmen* TV series, which looks at life at an advertising agency in the 1960s, was reputed to have repeated the same presentation for years for newly hired copywriters at his Ted Bates advertising agency in the 1960s. He would hold up two identical shiny silver dollars, one in each hand, and would tell his audience in effect: “Never forget that your job is very simple. It is to make people think the silver dollar in my left hand is much more desirable than the silver dollar in my right hand.”

The second paradox of advertising is that the more firms advertise to distinguish themselves from their competition, the more commercial “clutter” there is in the media and culture. As a result firms are forced to increase their advertising that much more to get through the clutter and reach the public. Commercialism in this sense is not unlike a hurricane picking up speed as it

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crosses the warm salt waters of late summer. Monopoly capital begets advertising begets hyper-commercialism.

With the consolidation of the advertising system under monopoly capitalism in the early twentieth century, the advertising agency system, Madison Avenue in shorthand, developed. By 1920 advertising accounts for over 2 percent of the Gross Domestic Product, and it remains at that level to the present day, growing in tandem with the overall economy. The average annual share of advertising in GDP from 1920 and 2007 was 2.2 percent. As Baran and Sweezy stated, advertising becomes "as much an integral part of the system as the giant corporation itself."

Stagnation and the Sales Effort

If the microeconomic role of advertising is made clear by the transparent economic necessity of oligopolistic firms, the other core function of advertising at the macroeconomic level under monopoly capital, as described by Baran and Sweezy, is less obvious. The central problem facing monopoly capitalism in the United States is that it has a strong tendency toward stagnation. Unlike orthodox neoclassical economists, who view full employment as natural and stagnation as the exception, Baran and Sweezy argue that stagnation is the normal tendency of contemporary U.S. capitalism. It is the boom periods (and not the bust periods) that are the exceptions that need to be explained. The system has the capacity to produce more gross surplus (or gross savings) than can be absorbed as investment spending. If these surpluses do not find spending outlets, production will stall with rising unemployment and overall crisis. From this vantage point, much of economic policymaking over the past sixty years has been about finding ways to absorb economic surplus, so as to stimulate the economy, and then dealing with the side effects and consequences of such policies.

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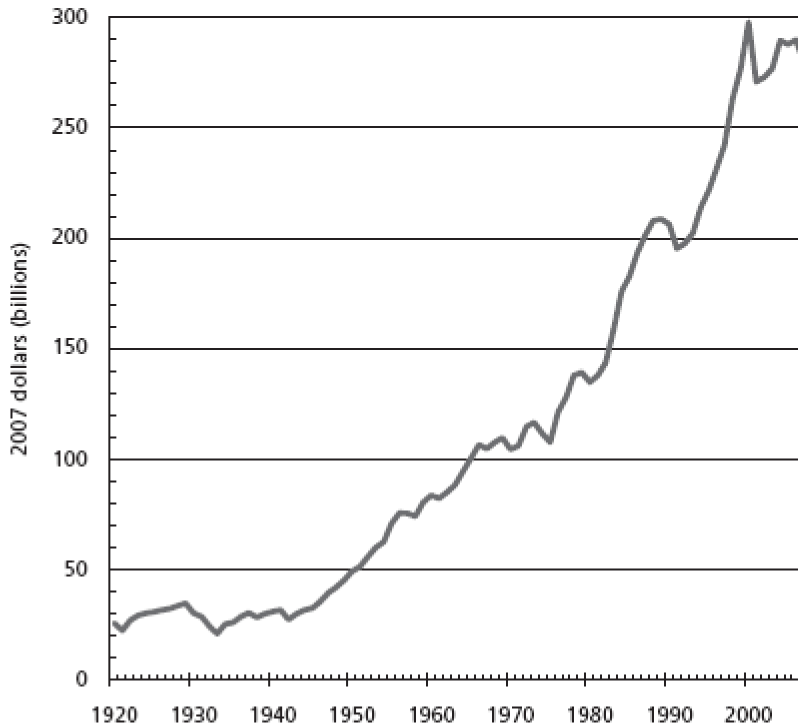
Chart 2. United States advertising expenditures, 1920–2007 in constant 2007 dollars (billions)*



*The figures for total U.S. advertising expenditure become more reliable in 1935, when complete census data is available. Before this analysts have made estimates based on various industry sources.

Sources: From 1920 to 1997: Daniel M. G. Raff, "Advertising Expenditures by Medium, 1867–1998," *Historical Statistics of the United States* (New York: Cambridge University Press, 2006), Table De482–515, data prepared by Robert J. Cohen of Universal McCann. From 1998–2007: Universal McCann, "Historical Cross-Media Ad Expenditures." Television Bureau of Advertising: TVB Online, (accessed January 1, 2009).

Baran and Sweezy were not alone among mid-century economists, especially those conversant with Keynes, in arguing that advertising was an important weapon in battling stagnation. As K. W. Rothschild explained in *The Economic Journal* in 1942, advertising not only stimulated effective demand, providing additional employment and increasing the "propensity to consume for *all* income receivers," it also had one singular advantage over most other forms of spending: it increased "effective demand without increasing the supply of goods." In this contest, Rothschild compared advertising to Keynes's famous claim that even digging holes in the ground could help an economy

with substantial excess capacity and unemployed labor. Similarly, economist Nicholas Kaldor observed, in discussing "The Economic Aspects of Advertising," that in an economy of chronic underemployment, "'waste' [such as advertising] is economical" since it raises the propensity to consume, retarding saving and lifting effective demand.

Hence, "the function of advertising, perhaps its dominant function today," Baran and Sweezy wrote, "…becomes that of waging, on behalf of the producers and sellers of consumer goods, a relentless war against saving and in favor of consumption. And the principal means of carrying out this task are to induce changes in fashion, create new wants, set new standards of status, enforce new norms of propriety." They regarded advertising as an "unquestioned success" in battling monopoly capital's tendency to stagnation.

That being said, while advertising can limit stagnationist tendencies, it does not eliminate them. The rise of advertising has helped to raise the propensity to consume and even the propensity to borrow, but the limits of consumption are set elsewhere in such factors as real wages, family income, and household debt.

It has long been known that although advertising serves to increase the propensity to consume and thus boost effective demand in the entire economy, it moves almost invariably in the direction of overall economic activity. It thus tends to push demand up in the upswing and down in the downswing, thereby failing to cushion the economy in a fall. As Rothschild noted in 1942, "the advertising habits of the business world tend to accentuate the movements of the trade cycle….Generally, business men prefer to curtail their advertising expenditure in a slump." Likewise, Neil H. Borden noted in his monumental 1942 study, *The Economic Effects of Advertising*, that advertising "has tended to accentuate fluctuations because expenditures for advertising have varied directly with business activity….As a stimulant to demand for products and services, it has been most extensively used in boom times and most lightly used in depressions."17 This tendency of advertising to move in the same direction as business activity in general can be seen in chart 2. Note that advertising spending has declined in every economic downturn since the Great Depression. Hence, advertising, rather than acting as a countercyclical force, follows the cyclical movements. Advertising is expected to decline in 2009 by the largest amount since the 1930s, thereby accentuating the general decline.18

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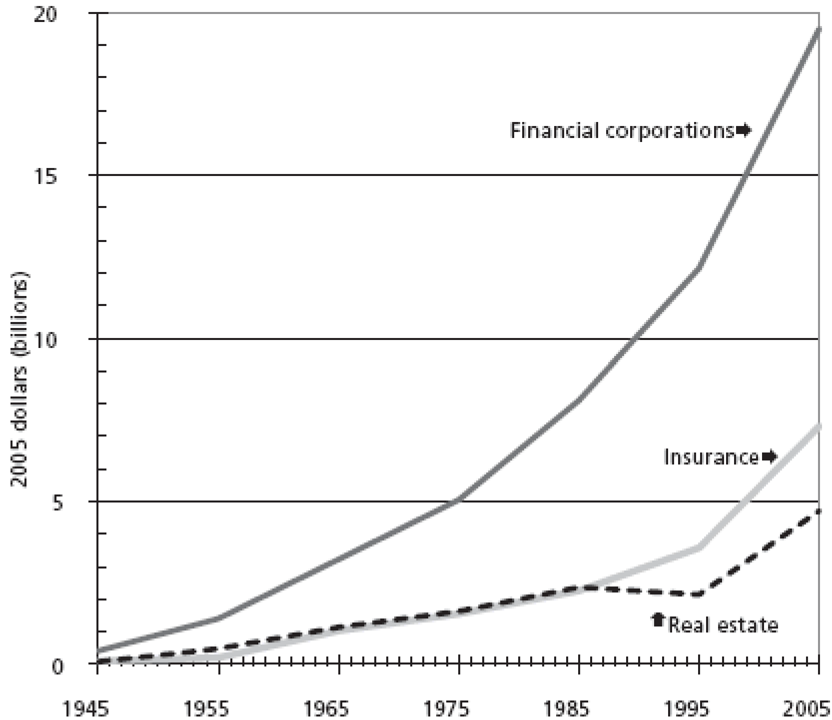
Chart 3. FIRE advertising expenditures by category, 1945–2005, in constant 2005 dollars (billions)



Sources: Internal Revenue Service, Sources of Income, Corporation Income Tax Returns, various issues; Sahr, "Inflation Conversion Factors for Dollars 1774 to Estimated 2018." See Sources note to chart 2.

Over the past three decades—in an epochal change so great that saw the evolution of monopoly capital into monopoly-finance capital (to be viewed as a later phase of the former)—the system has addressed deepening stagnation by dramatically expanding debt relative to the real economy of goods and services. The economy thus saw a sharp increase in size and significance of the FIRE sector (financial corporations, insurance, and real estate) reflecting the financialization of the economy (the shift in the center of gravity of the economy from production to finance). Advertising by its logic fit well with this debt-prone "buy now, pay later" ethos. What is noteworthy, too, is how advertising was used to reinforce FIRE by increasing the propensity to borrow and hence household debt.

Chart 3 highlights these developments. What is striking is that most of the increase in advertising in the FIRE sector actually was due to the rapid rise in

financial corporate advertising as a percentage of total advertising. FIRE advertising accounted for 2 percent of total ad spending in 1945, 6 percent in 1965, and 12 percent in 2005. This sharp upward trend in advertising by financial institutions disguises a considerable difference in the aims of such advertising over the period. In the 1950s and early '60s, in a time of high consumer liquidity, it was aimed at promoting savings; from the 1980s on, in a period of increasing consumer debt, it was aimed at accelerating debt.

The final phase of the financialization of the U.S. economy in the most recent period was built on the destruction of the household finances of the bulk of the population, who were desperately trying to maintain their living standards despite stagnant real wages, which had peaked in the early 1970s. Advertising and marketing in general (particularly direct marketing) meanwhile were being used to increase not only the propensity to consume but also the propensity to borrow. As anthropologist Brett Williams, author of *Debt for Sale*, wrote of the bursting of the subprime bubble and the so-called excesses of the poor:

> When the bubble burst, as bubbles always do, we were besieged with lies, mostly to the effect that lenders had relaxed their standards too much and borrowers had reached thoughtlessly beyond their means....But the truth is that this [financial services] industry has always had to grow—to look for more potential and vulnerable debtors, to look for borrowers who would not be able to pay their loans in full. The quest for capital accumulation, the need to grow and eliminate competitors in this quickly moving, high profit industry, spurred dogged efforts to acquire more debtors, to sell more debt....We also need to know more about how the cluster bombing by predatory lenders has affected the options and strategies of poor people, how the wave of foreclosures will lay waste to places where the loan hawkers were particularly active, and how these processes have been racialized.

There is no doubt that the hawking of subprime loans was based on a wealth of marketing data that had been collected on the population and that the message was delivered by a mass of advertising and, even more importantly, direct mail campaigns. Credit card companies and their associated banks pioneered in the collection of detailed credit and other information on the population, which could then be used to track and target segments of the population, and even individuals. The propensity to borrow on top of the propensity to consume was thus built into the way of life of an increasingly beleaguered population.

Advertising and the Media

The most visible manifestation of advertising is in the media system. On the one hand, advertising itself is one of the primary forms of content in the

media. It is ubiquitous. On the other hand, it is the primary means of support for much of the commercial media, and almost all of the news media, to the point that the press can be regarded as a necessary part of the broader advertising industry. Let's be clear: media would have emerged as major industries in the United States even without the assistance of advertising; motion pictures, recorded music, and book publishing come to mind. In the nineteenth century capitalist media existed but were a relatively small aspect of cultural production. With the regime of big business and advertising, communication empires flourished, first with the great newspaper chains, then with the broadcast networks and eventually with the contemporary transnational media conglomerate. Fueled by advertising, the media sector became a major area of economic activity and a source of tremendous profitability.

Defenders of the commercial media system applaud advertising for permitting the system to prosper without direct state support and political independence. Behind this veil of "freedom of the press," however, lies the fact that capitalist ownership and advertising support have made the U.S. media system (and U.S. society as a whole) decidedly less democratic than it would have been the case under other institutional structures. Volumes of research have demonstrated the nefarious influence of advertising over news, entertainment, and cultural fare. According to Baran and Sweezy, "the argument sometimes advanced in favor of advertising, that it enables the media to finance the production of high-quality musical and literary programs, is on a level with burning down the house in order to roast the pig."

In the case of journalism, the implications of advertising for content were widely understood as cancerous almost from the beginning of the monopoly capital era. If newspaper owners received their revenues from advertisers there would be tremendous incentive for them to doctor the news to satisfy their benefactors to the detriment of the public. This is one of the major reasons why professional journalism emerged in the first half of the twentieth century as the "solution" to the problem of capitalist news media supported by advertising. The principle of professional journalism was that it would erect a "Chinese Wall" between the editors and reporters on one hand and the owners and the advertisers on the other hand. Therefore the public could trust the content of the news and not be concerned by monopoly ownership or the omnipresent advertising in the media. Although professional journalism has its merits, it has hardly been a politically neutral enterprise. It has, instead, tended to internalize the dominant values and make journalists oblivious to them as they go about their work. In the media as elsewhere, despite the aura of professionalism, he who pays the piper ultimately calls the tune.

Nowhere are the contradictions of advertising-supported journalism more pernicious than in coverage of economics and capitalism. As news media rely

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largely upon advertising for revenues, and as advertisers are primarily interested in affluent consumers, journalism has gravitated to an out-and-out rah-rah attitude toward capitalism with nary a critical bone in its being. Poor people only register as meaningful in the news when they get in the way of rich people.

The problem has only been aggravated over time. As recently as 1950, there were several hundred full-time labor reporters and editors at U.S. daily newspapers; by the end of the twentieth century there were barely any. Concurrently, "business news" was the fastest-growing area in the field.

Business news has been pretty much a farce in the journalism department. Our news media missed the corporate scandals entirely, cheering on the debt bubbles in the midst of their mad worship of wealth. Today they are mostly asleep to the machinations of finance capital to have the Treasury and Federal Reserve shift public monies to their coffers, while trivial stories get widespread attention. The lesson is clear: a privately owned and advertising-supported media system is structurally incapable of providing an honest picture of the economy, and is therefore inadequate for a democratic society.

In the current depression, and with the emergence of the Internet, corporate media, and particularly news media, are floundering as advertising revenues are in sharp retreat. There are grounds to believe advertising will never return to "old media." It is unclear how well advertising will adapt to the Internet; there is little reason at present to believe that ad money will ever flood cyberspace to anywhere near the same extent it bankrolled newspapers, magazines, radio, and television. To some observers, the traditional sales model no longer works and will be junked. We will move on to a cleaner and more efficient market model for consumer information. Good-bye Rosser Reeves.

This perspective, in our view, is wrong-headed. Corporations were never wedded to advertising per se; it has simply been the most economically efficient way by far to engage in the sales effort. With the decline of the traditional advertising-media model, the need for the sales effort remains as powerful as ever, it only assumes new forms. What Thorstein Veblen called the progressive "blurring" of the relationship "between workmanship and salesmanship," characteristic of monopoly capitalism, is likely to become even more the case within communications, as traditional advertising declines.23 The main tendency in media, traditional and digital, has been for the elimination of the long-standing barrier between editorial content and advertising. They are increasingly merging, with ignominious implications for media content.24

The "infomercial" is an obscene example, as is the now common corporate sponsorship of once noncommercial public activities. But the latest

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developments are far more sophisticated. It is the complete elimination of the barrier between the advertising pitch and the actual sale. CBS founder William Paley once said that television was the ideal selling medium. Left to Madison Avenue, the interactive digital world will be the ideal medium for closing the deal altogether. As media, digital or otherwise, seek revenues from commercial interests, they will adapt whatever standards generate maximum profits. Indications are that the standards for editorial integrity will be low.

Another related tendency has been for explicit advertising to become a smaller portion of the sales effort than it has been in the past. Because non-advertising marketing expenses are not statistically tracked with a uniform standard and are often buried in other categories, this is a difficult argument to make with desired precision. But all evidence we encounter points in the direction of the sales effort continuing to grow while traditional advertising plays a smaller role. Advertising has grown, but now accounts, according to most informed industry estimates, for at most 30 percent of marketing, and the advertising share is still diminishing.25 Such estimates, moreover, consider only advertising, sales promotion, and direct marketing, not encompassing total marketing expenditures.26

The huge growth is in direct marketing. This refers to telemarketing, e-mail marketing, junk mail, and various and sundry other methods to sell without affixing the pitch to noncommercial media content of some kind. At current rates, direct marketing, which was minuscule compared to advertising just two decades ago, will account for more corporate spending than advertising itself within a few years.

If the assumptions of recent industrial research hold true, and advertising is now at most 30 percent of total marketing, then the amount of marketing in the economy would account for roughly 5.5 percent of GDP in 2007. As the present study uses only quantifiable categories, and does not include the marketing expenses hard-wired into production or other categories, this can be regarded as a very conservative estimate.

In this light, we are hardly entering an era in which the contradictions of the sales effort are in remission or decline, but rather, one in which they are spreading like a virus. If anything, the sales effort is ever more desperate to imprint itself on our brains, and any ethical standards are in an uphill battle for survival. It is striking that among the fastest growing sectors of marketing over the past three decades are prescription drug marketing and marketing to children. In the pharmaceutical industry annual spending on direct-to-consumer advertising and promotions to health professionals (including free samples) rose from 14.2 percent of total sales in 1996 to 18.2 percent of total sales in 2005. Real expenditures on direct-to-consumer pharmaceutical marketing increased by 330 percent over the period.28 In 1983 corporations

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spent $100 million a year marketing to kids. By 2007 this had risen to nearly $17 billion.29

Both of these areas were considered more or less off-limits to advertising for decades, or at least strictly regulated. The notion that pharmaceuticals would be promoted by persuasive advertising campaigns or that an avalanche of advertising would be directed at children was once considered dubious, if not obscene. Today it is business as usual.

Advertising and Social Costs

It is here that we turn to what are considered the "externalities" of advertising, meaning the social costs of advertising not reflected in the commercial transaction made by the advertiser or the consumer when purchasing the advertised product. What happens, for example, to a generation of children marinated in advertising and commercialism from their waking moments? We do not know exactly, because this is uncharted territory, but the evidence trickling in suggests the range of possible outcomes is all negative, and include issues like contributing to the epidemic in childhood obesity. And we know that the advertisers engaged in this practice do not care because they are out to maximize profit in the here-and-now. That is why it is an "externality."

What are some of the other externalized social costs associated with the sales effort? A large problem—one understood by feminists first and foremost—is that to convince people to purchase a product, an advertiser has to establish that there is a problem that only the purchase of the advertised product can solve. Since serious problems that can be effectively satisfied by advertised products are in short supply, this requires a willingness to create a new reality. Advertising becomes a perpetual omnipresent scoreboard telling people "you have problems, lots of them, and you can purchase the solution here." It is at best a half-truth, often a lie, and is in all cases, as Baran and Sweezy pointed out, "in essence subliminal."

It therefore contributes to two great crises of our times: the environmental crisis, because it encourages a wanton disregard for a sustainable use of resources; and the happiness crisis, because research demonstrates that even people who are successful in our commercial society are not especially happy or satisfied with their lives. Material commodities, after certain core human desires are satiated, have a decreasing relationship to our happiness, especially when they are sold as a way to a more fulfilling life.

Moreover, to satisfy the needs of advertising, some of the brightest and most talented minds in our nation devote their lives to the task of convincing people to purchase a particular beer or pain reliever; this is an irrational use

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of human talent in a world where the need for it is immense. "The *greatest* damage done by advertising," Baran and Sweezy wrote,

> ...is precisely that it incessantly demonstrates the prostitution of men and women who lend their intellects, their voices, their artistic skills to purposes in which they themselves do not believe, and that it teaches "the essential meaninglessness of all creations of the mind: words, images, and ideas." The real danger from advertising is that it helps to shatter and ultimately destroy our most precious non-material possessions: the confidence in the existence of meaningful purposes of human activity and the respect for the integrity of man.

In short, the sales effort is a deeply dubious enterprise which inflicts great damage upon our societies. "The trouble," Baran and Sweezy observed nearly fifty years ago, "is that advertising of necessity promotes conformity to norms that, by any rational standard, are worthless or humanly destructive."

There is one other aspect of advertising and culture that is rarely acknowledged, though of pressing import. Advertising is not a neutral form of communication, engaged in by nearly everyone for similar purposes; it is expensive and privileged communication conducted primarily by a small number of corporations to change the behavior of the vast majority of the population. Advertising is, in essence, commercial propaganda, and was understood that way by its pioneers. "Whatever Hitler has done," the trade publication *Printers' Ink* wrote in 1933, "he has depended almost entirely upon slogans made effective by reiteration, made general by American advertising methods." Nor was that all. "Hitler and his advertising man Goebbels issued slogans which the masses could grasp with their limited intelligence...Adolf has some good lines, of present-day application to American advertisers."

With time we have learned that commercial propaganda far exceeds the power of state propaganda. As Walton Hale Hamilton put it: "Business succeeds rather better than the state in imposing restraints upon individuals, because its imperatives are disguised as choices."

Baran and Sweezy's assessment of the sales effort acknowledged that "the prodigious volume of resources absorbed in all these activities does in fact constitute necessary costs of capitalist production." They were not afraid of drawing the logical conclusion from their analysis: "What should be crystal clear is that an economic system in which *such* costs are socially necessary has long since ceased to be a socially necessary economic system."

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Advertising and Politics

Advertising has been a politically contentious issue since the emergence of monopoly capitalism. As Inger Stole has chronicled, the consumer movement of the 1930s and early ’40s galvanized around the issue of eliminating or dramatically reforming advertising. The consumer movement wanted to see enforced consumer product standards that would make brand differentiation and most persuasive advertising irrelevant. It wanted strict regulation of advertising content, such that claims had to be verified in advance of publication or broadcast. The movement was a threat to the *modus operandi* of monopoly capitalism; the very first investigation of the group that would become the House Un-American Activities Committee (HUAC) in 1939 was of Communist influences at the Consumers Union. As a result the Consumers Union gravitated away from its radical origins and became a more respectable organization emphasizing product testing.

In the 1960s and ’70s consumer activism around advertising returned, although less radical in orientation. The great victory was the removal of cigarette advertising from television. The great defeats were the failed efforts to ban television advertising to children and pharmaceutical advertising in the 1970s. In general, consumer activists in all periods discovered that their adversaries were not simply advertisers, or big business, but the commercial news media, which was dependent upon advertising for revenue. This made the job of organizing mass support ever more difficult.

By the 1970s the advertising industry had hit on a public relations goldmine: it declared that advertising, or “commercial speech,” was entitled to protection by the First Amendment to the Constitution. This bizarre notion, dismissed categorically by the U.S. Supreme Court when it first considered the matter in 1942, has been accepted in part by the courts and largely embraced by liberals. The logic for this adaptation of the First Amendment was a clear recognition of the triumph of advertising: if the First Amendment did not protect commercial activities, there was not much left for it to protect. Once advertising becomes part of the Constitution, it is far more difficult to challenge.

The main political battles over advertising have focused on media policy. One of the overriding aims of media reform activists has been to limit the role of advertising in the media system. In the 1920s and ’30s this was the struggle to have a noncommercial broadcasting sector that would be the dominant element of American broadcasting. This was a popular demand, though the corrupt political process ruled in favor of commercialism. With no sense of irony, the government determined that only advertising-supported radio broadcasting would not be “propagandistic.” Any other type of radio station

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would have an axe to grind, and since there were not enough stations to satisfy all the axes, the entire system should be advertising-supported. By the 1940s the idea that freedom of the press equals capitalistic, advertising-supported media was a virtual civic religion. Media activists have struggled subsequently to carve out noncommercial niches on the margins, but in doing so they have tended to concede that at its center the U.S. media system is set up to satisfy the needs of Wall Street and Madison Avenue.

In the coming years, as journalism continues to disintegrate and hyper-commercialism extends, media reform activism will press forward and, one hopes, it will radicalize its demands to insist upon independent nonprofit and noncommercial media as the centerpiece of the press system. Concurrently, consumer activists need to press forward to abolish advertising to children and advertising for dangerous products. Consumer and media activists together will need to battle to limit commercialism and protect privacy in digital media. The consumer movement, ultimately, needs to return to its roots and devise means to spread necessary product information that serves, rather than confuses, consumers, and makes production efficient and less expensive. Both of these movements will need to generate alliances with progressive forces across society to be effective. These will be among the necessary social movements of the next generation, and much rides on their success.

What remains to be seen is how much space activists have to reform advertising within monopoly capitalism. The United States spends considerably more on advertising as a percentage of GDP than any of the other G-7 economies. (Many of these nations, for example, prohibit television advertising to children.) This suggests that the United States could corral its commercialism to a certain extent without jeopardizing the system. The counter to this argument is that these other nations have been moving toward U.S. levels of hypercommercialism for decades. The world is vastly more commercial today than it was a generation ago. Moreover, even if rates of growth in explicit media advertising level off or even decline there is little reason to doubt that the broad area of marketing will continue to play its historic role in monopoly capital, quite possibly in an even more destructive manner.

The logic here is inescapable. Monopoly capital and the sales effort are inseparable. To address one it is necessary to address the other.

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Appendix: Methods of calculation for table 1 and sources of data

Method

1. Advertising as percentage of net sales (or revenue) was calculated using data available from manufacturing corporations' SEC filings-10K forms. This information is available at: http://www.sec.gov/edgar.shtml.
2. Advertising as percentage of sales for retail stores by generic type was recorded from *Ad Age* (e.g., grocery, department store, etc.) using the 2007 Advertising to Sales Ratios by Industry figures. This information is available at: http://adage.com/datacenter/.
3. The advertising to sales percentages for both manufacturers and retailers were added to get advertising as percentage of sales combined.
4. The resulting figures serve as a proxy for advertising as a percentage of selling price per unit. Using this percentage, the hypothetical advertising expenditure per unit sold is calculated for each item.
5. Prices were obtained by going directly to where people would typically buy these products (e.g., soap, toiletries, and food prices were found at a local Safeway grocery store, blue jeans prices were checked at Macy's department store, toys and electronics were found on the Toys "R" Us and Best Buy Web sites).

Explanation

Advertising and marketing data for particular products is treated as proprietary data by companies and heavily guarded, requiring separate estimates based on publicly available data.

Main limitations of data

1. Advertising as a percentage of sales data for individual product lines and associated ad campaigns is not made publicly available by companies. Therefore, we use overall advertising as a percentage of sales published by companies to derive the relationship between price per unit and cost of advertising per unit of the products they produce.
2. Advertising as percentage of sales for retail stores is an average reported by *Ad Age* by generic store type.

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3. Data for advertising as a percentage of sales is for 2007, though prices are current (February 2009). This assumes the ratio of advertising to sales is stable.
4. Because advertising expenditures are a decreasing percentage of overall marketing expenditures, the true magnitude of the costs associated with marketing products cannot be represented here.

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Notes

1. For an analysis of the current financial and economic crisis see John Bellamy Foster and Fred Magdoff, *The Great Financial Crisis: Causes and Consequences* (New York: Monthly Review Press, 2009).
2. See, for example, John Kenneth Galbraith, *The Affluent Society* (Boston: Houghton-Mifflin, 1958), chapters 10 and 11. Galbraith promoted in *The Affluent Society* and other works the idea of the "dependence effect," claiming that what we consume depends on production and is determined primarily by giant corporations. He replaced the notion of "consumer sovereignty" with "producer sovereignty," and argued that "wants are now shaped by the advertising done by the producing firms that supply the products or services." John Kenneth Galbraith, *Economics, Peace, and Laughter* (New York: New American Library, 1971), 60–87, and *Economics in Perspective* (Boston: Houghton Mifflin, 1987), 290.
3. In general economists shy away from analyzing overhead costs in business accounting, of which advertising is a part. Overhead encompasses all the costs involved in maintaining the system, including managerial expenses and concealed forms of business income and benefits. Under monopoly capitalism corporate overhead costs are greatly expanded along with economic surplus. For an early radical critique of overhead costs in modern capitalism see Scott Nearing, *The Economics of the Power Age* (East Palatka, Florida: World Events Publishing, 1952), 102–18.
4. Baran and Sweezy, *Monopoly Capital* (New York: Monthly Review Press, 1966), 134.

5. James Rorty, *Our Master's Voice: Advertising* (New York: The John Day Company, 1934).
6. Edward Chamberlin, *The Theory of Monopolistic Competition* (Cambridge, Massachusetts: Harvard University Press, 1933).
7. It should be noted that under monopolistic or oligooplistic capitalism price competition may still be intense in newly emerging industries, such as computer-digital technology in recent years, where a shakedown process, resulting in the domination of a few firms, has not yet occurred.
8. Neil H. Borden, *The Economic Effects of Advertising* (Chicago: Richard D. Irwin, 1942), 53.
9. In the late 1940s Nicholas Kaldor in a major study of advertising stressed the close relation between oligopoly and advertising, arguing that "there is a presumption…that in trades where large-scale advertising is divided between a few firms there is also likely to be a high degree of concentration in the output of the commodity." Nicholas Kaldor, *A Statistical Analysis of Advertising Expenditure and of the Revenue of the Press* (Cambridge: Cambridge University Press, 1948), 35.
10. Thorstein Veblen, *Absentee Ownership* (New York: Augustus M. Kelley, 1923), 300; Baran and Sweezy, *Monopoly Capital*, 131–34. Veblen's analysis of the sales effort was integrated with his classic critique of conspicuous consumption as presented most famously in *The Theory of the Leisure Class* (New York: Modern Library, 1934).
11. One of us was told this story by a former advertising professional at Reeves's Ted Bates advertising agency. For somewhat different versions of the story see Reed Hundt, Chairman, Federal Communications Commission, "The Children's Emmy: An Award Worth Winning," November 19, 1996, and Richard S. Tedlow, *The Watson Dynasty* (New York: HarperBusiness, 2003), 118. Reeves was an advocate of such deceptive advertising stratagems as presenting as new and unique what was actually old and ordinary in a given product. See the discussion in Baran and Sweezy, *Monopoly Capital*, 129.
12. Baran and Sweezy, *Monopoly Capital*, 122, 141.
13. Borden, *The Economic Effects of Advertising*, 53.
14. See also Douglas Galbi, "U.S. Annual Advertising Spending Since 1919," (accessed January 1, 2009); and Robert Sahr, "Inflation Conversion Factors for Dollars 1774 to Estimated 2018," Oregon State University (accessed February 27, 2009).
15. K. W. Rothschild, "A Note on Advertising," *Economic Journal* 52, no. 205 (March 1942): 115; Nicholas Kaldor, "The Economic Aspects of Advertising," *The Review of Economic Studies* 18, no. 1 (1950–51): 9–10.
16. Baran and Sweezy, *Monopoly Capital*, 128.
17. Rothschild, "A Note on Advertising," 119; Borden, *The Economic Effects of Advertising*, 734–35.
18. See Robert Coen, "Insider's Report: Presentation on Advertising Expenditures," December 2008, http://www.mccann.com.
19. Brett Williams, "SANA Race and Justice Plenary I," *North American Observer* 11, no. 2 (October 2003): 3. See also Gregory D. Squires, "The New Redlining," in Squires, ed., *Why the Poor Pay More: How to Stop Predatory Lending* (Westport, CT: Praeger, 2004), 1–23.

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20. Brett Williams, *Debt for Sale* (Philadelphia: University of Pennsylvania Press, 2004), 17–18.
21. Baran and Sweezy, *Monopoly Capital*, 121.
22. On monopoly capital, the rise of professional journalism, and its subsequent decline see Robert W. McChesney, *The Political Economy of the Media* (New York: Monthly Review Press, 2008), 25–66.
23. Veblen, *Absentee Ownership*, 300.
24. "On 'Harlem Heights,' a new reality show on BET, the young and hip stars swish Listerine, treat their allergies with Zyrtec, and sweeten their coffee with Splenda." So begins a *New York Times* article on the increasingly "organic" weaving of commercial products into the story lines of television shows. In the words of Alvin Bowles, senior vice president for integrated marketing at BET Networks, "By being able to utilize story-line integrations and being able to embed their product or message within the environment that we have control of, it allows us to offer a different message than we've been able to offer before." That message is of course a commercial one that delivers commercial returns. "Product Placements, Deftlty Woven Into the Story Line," *New York Times*, March 2, 2009.
25. Jack Meyers, "Advertising's Share of Marketing Budgets Declines 12% in Past Decade" "What Happened to Advertising," *Business Week*, September 23, 1991; Naomi Klein, *No Logo* (New York: St. Martin's Press, 1999), 14; Michael Dawson, *The Consumer Trap* (Urbana: University of Illinois Press, 2003), 175.
26. Indeed advertising is in reality, by any complete accounting, considerably less than 30 percent of total marketing. Some marketing analysts have claimed that sales promotion alone is perhaps three times the level of advertising. Direct marketing, meanwhile, has increased by leaps and bounds with the number of catalogs mailed to consumers increasing at a 16 percent average annual rate between 1980 and 1994. Given that marketing also includes targeting, motivation research, and product management that are not even factored into the equation makes it even clearer that advertising is a relatively small and diminishing portion. One guess-estimate by a leading marketing analyst put total U.S. marketing expenditures at $1 trillion in 1992, while total advertising was only 133.7 billion. Kevin C. Clancy and Robert S. Shulman, "Marketing With Blinders On," *Across the Board* 30, no. 8 (October 1993): 38, and *Marketing Myths that are Killing Business* (New York: McGraw Hill, 1994), 140, 171–72, 221.
27. ↩ Bureau of Economic Analysis, "Gross Domestic Product," table 1.1.5, http://bea.gov/ ; Jack Myers, "Advertising and Marketing Forecast, 2006–2009," Jack Myers Media Business Report (2007), (available here).
28. John M. Donohue, Marisa Cevasco, and Meredith B. Rosenthal, "A Decade of Direct-to-Consumer Advertising of Prescription Drugs," *New England Journal of Medicine* 357, no. 7 (August 16, 2007): 673–81.
29. "Resources: Marketing to Kids," CBS News, May 17, 2007; Juliet Schor, *Born to Buy* (New York: Scribner, 2004), 21.
30. Baran and Sweezy, *Monopoly Capital*, 121.
31. On the inverse relationship between material goods and human happiness see Sut Jhally, "Advertising at the End of the Apocalypse," 27–39 in *Critical Studies in Media Commercialism*, eds., Robin Andersen and Lance Strate (New York: Oxford University Press, 2000).

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32. Baran and Sweezy, "Theses on Advertising," in Paul A. Baran, *The Longer View* (New York: Monthly Review Press, 1969), 232 (emphasis in original).
33. Baran and Sweezy, "Theses on Advertising," 233.
34. *Printers Ink*, July 20, 1933, 78.
35. Hamilton cited in James Rorty, *Order on the Air!* (New York: The John Day Co., 1934), 10.
36. Baran and Sweezy, *Monopoly Capital*, 141 (emphasis in original).
37. Inger L. Stole, *Advertising on Trial: Consumer Activism and Corporate Public Relations in the 1930s* (Urbana: University of Illinois Press, 2006).
38. Robert W. McChesney, *Telecommunications, Mass Media, and Democracy* (New York: Oxford University Press, 1993).
39. World Advertising Research Center. "Top 10 countries by advertising expenditure, 2007." (accessed January 26, 2009).

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