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The Ignored Manipulation of the Market: Commercial Advertising and Consumerism Require New Economic Theories and Policies

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ABSTRACT *One of mainstream economic theory's blind spots is its neglect of the manipulation of preferences, for example through advertising. Another flaw concerns the market economy's ineffectiveness at increasing welfare in affluent societies. Indeed, a principle reason for this ineffectiveness is the loss in consumer sovereignty caused by the dominance of commercial preference manipulation. This article outlines a theory of preference manipulation, and describes a policy framework to restore consumer sovereignty by creating countervailing power against commercial manipulation. The suggested policy will improve the welfare outcomes of affluent economies and reconfigure the balance between consumerist and non-consumerist attitudes in modern democracies.*

1. Two Flaws in Mainstream Economic Theory

Contemporary free-market oriented economic policy has its roots in neoclassical economic theory and in neo-liberal ideology. Mainstream economics contends that the market is the most efficient allocation system. Until the recent global crisis, its mechanisms seem to have acquired the status of indisputable laws.[2] This article examines two essential flaws in mainstream economic theory and a corresponding tunnel vision of current economic policies. The aim is not to

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[2]As the contemporary philosopher and sociologist of science Bruno Latour (2007) astutely notes: 'No one imagined that something like the climate would become an object of politics. … The great obstacle is that we cannot do the same with the economy. It remains, in the beliefs of the old left and the old right, a system obeying laws in a way that nature no longer is. The contemporary paradox is that nature is clearly politicized whereas the economy remains rigid to the extent where laws are put into effect without anyone being able to express his opinion. … It is an amusing paradox of the era that the economic nature resists more than nature itself.'

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dispute the claim that the market is efficient, but to show that it is ineffective at generating people's welfare. The word 'effectiveness' will be used in the narrow sense of generating the desired results, while the word 'efficiency' will refer to the minimization of the means used in generating results. In suggesting measures to restore the effectiveness of the market, the article aims at extending its success as an efficient system of economic organization.

Mainstream economic theory assumes preferences to be exogenous. It is typically assumed that subjects act autonomously, behave rationally and are adequately informed about markets. If these assumptions are met, consumer's behaviour generally leads to maximization of welfare. The essential postulate is that behaviour reveals preferences, which implies that behaviour maximizes utility. Consequently, this theory excludes the problem of ineffective or sub-optimal behaviour. Therefore, mainstream economics lost sight of the measure in which the economy is effective at creating welfare and this is the theory's first flaw.[3]

This flaw is far from trivial. There is now overwhelming empirical evidence that in societies with a per capita GDP of above €15,000 happiness does not substantially increase with GDP. If happiness does not increase, a substantial increase in welfare is unlikely.[4] Some research in the United States even suggests that welfare and happiness decrease while income grows. Schor (1998) concludes that middle-class Americans at the end of the 20th century were feeling increasingly poor while their real income and consumption had increased unprecedently. Easterlin (2001) finds that Americans would be happier if they spent less time on earning money and more on family life and health. Veenhoven (2007) finds that over the past half century the trend in happiness is very slightly positive in the US, not positive in Japan and slightly positive in the EU. Comparing these trends to the tripling or quadrupling of GDP and consumption during the second half of the last century, he concludes that 'Economic growth is not likely to add much to happiness' (Veenhoven, 2007, p. 25). Layard (2005) arrives at the same conclusion.

The fact that the tripling or quadrupling of consumption and GDP did not lead to a substantial increase in welfare, is an anomaly in mainstream economic theory because it implies that consumer behaviour does not lead to maximization of welfare. This anomaly suggests that the assumptions of autonomous, rational and adequately informed subjects are far from realistic, and thus that the postulate of 'revealed preference' is unrealistic, a conclusion that is confirmed by behavioural economics.[5] Sections 3 and 4 below take steps toward developing more realistic theories.

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[3]In a powerful critique of the idea that behaviour reveals preference, Amartaya Sen (1973, p. 254) notes: 'The rigid correspondence between choice, preference and welfare assumed in traditional economic theory makes the analysis simpler but also rules out important avenues of social and economic change.'

[4]A detailed discussion of the concepts of welfare and happiness lies beyond the scope of this article. Essentially, welfare (or utility) can be defined as happiness (wellbeing or satisfaction) in so far as it depends on the use of scarce means (or 'economic goods').

[5]Elsewhere I have analysed how mainstream economics, official statistics and economic policymaking are trapped in a common inadvertent deformation of reality (Van Tuinen, 2009).

The second flaw concerns market power. The standard analysis assumes competition (the absence of market power) among suppliers. If markets fail or if they are not competitive, governments ought to intervene. The core notion is that when consumers are free to choose among competing suppliers, they steer the supply side to produce the basket of consumption goods that maximizes consumers' utility. This principle of 'consumer sovereignty' is based on two pillars: exogenous preferences as discussed above and competition among suppliers.

In economic theory, the existence of profits indicates the existence of power at the supply side. In the theoretical case of perfect competition, profits in excess of a normal return to capital and entrepreneurship are zero. But statistics show that in Western economies profits are substantial and have been growing as a share of GDP in recent decades. But this is not the only indication of considerable (and growing) economic power. If power is defined as the ability to manipulate other subjects, marketing expenditures like manipulative advertising are another indication of power. And if consumers are effectively manipulated, they are not entirely autonomous. Later sections will illustrate that this offers a major explanation of the anomaly in mainstream economic theory mentioned above. However, this article does not claim that this is the only explanation, and it does not aim at a complete explanation of the anomaly.

The first flaw in mainstream economics pushes preferences across the boundary of economic theory: because preferences are treated as exogenously given, the theory pays no attention to how they are formed. The second flaw—ignoring that preferences are subject to commercial manipulation—is therefore related to the first.

2. The Soaring Manipulation of Preferences

The global economy spends more than $500 billion yearly on advertising; half of this amount is spent in the United States; until recently, this amount grew by 5% yearly (Barber, 2007, pp. 11–13). Two of the traditional functions of advertising are to present relevant information to the consumer and to attract her or his attention. This kind of advertising can be said to promote consumer sovereignty (information) and competition (if many suppliers attract the same consumer's attention). But the budgets are so huge because the bulk of modern advertising is devoted to other functions, especially to manipulate consumers' preferences. This section shows how this emerged.

If incomes are barely sufficient for subsistence, consumers are only interested in the basic goods and services needed for survival, and most markets can be easily surveyed.[6] But if goods or services are complex, it is unrealistic to assume that consumers have complete information and act autonomously. The consumer of medical or legal services is faced with a 'market' that is far from transparent and she or he feels highly dependent on the supplier. The case of technologically

[6]Bowles (1998, p. 77) remarks: 'Grocery markets approximate this ideal (a fact which may explain why fruit stands and fish markets figure so prominently in economics textbooks).'

complex goods is not really different, especially if technical specifications change rapidly or product lifecycles are short. It is fair to conclude that for major items in the consumer's basket the assumptions of mainstream economics are unrealistic. In an analysis of consumer behaviour in different types of markets, the marketing scholar Theo B.C. Poiesz (2004) concludes that most markets do not meet the formal conditions for rational consumer behaviour; in the modern world, these conditions are only fulfilled in exceptional markets.

Neuroeconomics and behavioural economics have shown that shopping produces emotional reactions, rather than rational decisions and that humans are liable to manipulation (Shermer, 2008). Because disposable incomes in affluent societies have grown far above subsistence levels and shopping has become a favourite pastime, a growing part of consumers' budgets is spent on impulse purchases. Spending has become an increasingly competitive activity for these more affluent consumers; the old phenomenon of 'keeping up with the Joneses next door' evolved into keeping up with higher earners known from the workplace and, increasingly, the media (Schor, 1998, pp. 8–11). These trends suggest that consumer behaviour has become less rational.[7] Increasing complexity, affluence and irrationality have paved the way for the soaring manipulation of preferences, and this manipulation, in turn, fans these trends.

In recent decades, marketing developed into a sophisticated discipline; for example, effectively stimulating impulse buying in supermarkets (Hanson & Kysar, 1999b, pp. 1444–1449). Advertising developed in connection with trends in media and information technology. Media play a more important role in our lives than before television became dominant; commercial messages are more pervasive and more penetrating. Brands are now marketed as representations of lifestyles or 'meaning' (Klein, 2005). The media introduced the elite into our living-rooms and many of us are effectively stimulated to follow the newest trends set by celebrities as shown in marketing messages.[8] The marketing messages have become effective in stimulating impulsive and irrational behaviour, rather than in creating transparency.

Marketing activities addressed to children are strikingly illustrative. In a well-documented book, Schor (2004) analyses the present marketing culture that makes children 'believe they are what they own'. Children have become major marketing targets, not only because they have substantial amounts of money of their own to spend, but also because they influence much of their parents'

[7]Mainstream economists implicitly assume that impulse purchasing and the zero-sum game of keeping up with higher earners are elements in the utility function. But this article takes the stand, along with common sense as well as behavioural economics, that such behaviour is irrational.

[8]Julie Cresswell (2008) concludes: 'If consumers believe that a certain star or singer might actually use the product, sales can take off.' And she quotes the branding strategist Eli Portnoy: 'The reality is people want a piece of something they can't be. They live vicariously through the products and services that those celebrities are tied to. Years from now, our descendants may look at us and say, "God, these were the most gullible people who ever lived."'

expenditures. Schor describes how children are systematically and successfully manipulated through commercial messages. Along the same lines, Barber (2007, p. 13) analyses 'how markets corrupt children'. The world described here is very different from that of the sovereign consumers in mainstream economics.

3. Effects of Commercial Manipulation

This section briefly outlines four theories concerning the effects of commercial manipulation on preferences. Analysing these effects requires distinguishing unmanipulated and manipulated preferences. But if preferences are manipulated, unmanipulated preferences do not exist in reality, which poses a fundamental problem for empirical research and for descriptive theory. Therefore, the four theories employ meta-economic notions concerning authentic human preferences.

Theory 1: Effects on Maslow Preferences

More than 50 years ago, the psychologist A.H. Maslow wrote an influential book entitled *Motivation and Personality* (1954) in which he put forth a theory of motivation grounded in a hierarchy of needs. The theory remains a prominent feature of modern marketing textbooks. Maslow classified needs into five categories running from lower order to higher order needs. The lowest, or most basic, category of needs are Physiological Needs; these include the need for food, drink, shelter and sleep. One step higher are Safety Needs; they include feeling safe from natural disasters, criminal assault and tyranny, job security and medical and social insurance. Next come Belongingness and Love Needs; they include social relations and love. One step higher are Esteem Needs; they include the needs for a sense of achievement and competence as well as for prestige and appreciation. At the highest level is the Need for Self-Actualization or the sense of living to one's potential ('to become everything that one is capable of becoming'). Maslow posits that once the lowest needs are relatively well gratified, the next higher category of needs emerge and that this process repeats itself until the highest level (self-actualization) is reached. In more recent work, Maslow has put less emphasis on this stepwise gratification of needs and leaned more to distinguishing Deficiency Needs (the first four steps in the hierarchy) and Growth Needs (the fifth step).[9] The updated Maslow is more prominent in the 'humanistic economics' of Lutz & Lux (1988) than in modern marketing textbooks.

In Theory 1 it is assumed that consumers' authentic preference orderings are in agreement with the original Maslow model, that consumers' preferences can be manipulated and that producers have the power to manipulate preferences through marketing activities such as advertising. We consider two stages of economic development. In the first stage, incomes from full-time work are just sufficient to purchase sustenance and shelter; government provides safety; and other

[9]Maslow related this classification into deficiency and growth needs to a basic duality of the human being, which corresponds better to Sloterdijk's dichotomy (theory 3 below) than to the duality developed by Shermer (theory 4 below).

needs are satisfied more or less outside the market, because subsistence absorbs available budgets. In the second stage, incomes far exceed subsistence levels. What developments can be expected to occur between the first and the second stage?

In the first stage, marketing budgets are low. Only basic goods and services are produced, markets are transparent and marketing activities are limited to attracting attention and presenting elementary information. Consumers buy only what they need. Their preferences are hardly susceptible to manipulation; they consume food because they are hungry, but they do not have the money to purchase more—or more expensive—food.

As incomes grow, consumers will gradually shift attention to the higher needs in Maslow's hierarchy. As love, acknowledgement, self-expression, etc are not for sale, consumers will seek to reduce their working hours in order to spend more time on the higher needs. The supply side will react with at least two strategies.

- Sellers will try to stimulate consumers to buy more of the 'traditional goods' (food, drink, shelter). More luxurious variants of these goods are produced; tastes are manipulated, e.g. by suggesting that social relations improve by serving the latest luxury drinks, or that one's prestige is enhanced by living in a luxury home in an upper-class neighbourhood, etc. Lifestyle-marketing develops, stimulating a 'keeping up with the Joneses' mentality. Among the results are: increased expenditure on food, drink and shelter; and a much less than proportional increase in welfare, first, because of diminishing marginal utility of food, drink and shelter, but also and especially because the average consumer does not attain the anticipated improvement of her or his relative position because the Joneses are as successful as their imitators. And there is more obesity.
- Suppliers will also produce new goods intended to satisfy higher needs directly. In the first stage these goods were unmarketable because consumers had no money to spend on anything but subsistence. After some time, the new goods are marketed in the same way as the traditional ones and this results in a further increased pressure to spend. Although more is invested in the satisfaction of the higher needs, which results in higher welfare, it is doubtful if welfare will increase overall. Negative factors are: the law of diminishing marginal utility; the fact that competitive spending substantially reduces or may even undo the direct positive effects of consumption; and the fact that consumption of new goods and services may be an ineffective investment in the satisfaction of higher needs, far less effective than spending time on these needs. Social relations or self-actualization are often not enhanced by the possession of new goods; Layard (2005, p. 86) reports, for example, that British and American consumers with long working weeks spend 3.5 hours a day looking at television, and 40 years ago Linder had already observed the emergence of The Harried Leisure Class, being increasingly busy because a growing number of consumer goods compete for attention (see Hirsch, 1976, pp. 72–73).

In the second stage, productivity, wages and consumption are much higher. Producers spend huge amounts on marketing, fanning the pressure on consumers to spend money. The direct opportunity costs of spending time on higher needs increases and the pressures to spend money encourage workers to work full time, and even to incur debt. This prevents consumers from spending more time and attention on the higher-order needs. Consumers are not significantly happier (1) because their spending of money and time did not follow the optimal path dictated by their authentic preferences; (2) because of diminishing marginal utility and especially because of the disappointments that follow on the illusions created by lifestyle marketing; and (3) because competition in spending reduces increasing consumption to a psychological zero-sum game.

In the first stage, a rise in income and consumption may generate a corresponding rise in welfare because consumers act in accordance with their authentic (elementary) needs; the standard assumptions of mainstream economics may be realistic. But in the second stage a significant rise in income does not generate a significant rise in welfare; the manipulation of preferences explains the anomaly of mainstream economics. In Maslow's theory, subjects become psychologically healthier (happier) when they have progressed further on their way to self-actualization. But the manipulation of preferences, including the stimulation of competition in spending, leads people to stick to the needs the markets can fulfil, which are biased towards the lower-order needs in Maslow's hierarchy.

Theory 2: The Market versus Res Publica

Benjamin Barber's *Consumed: How Markets Corrupt Children, Infantilize Adults, and Swallow Citizens Whole* (2007) offers a perceptive critique of the cultural implications of free markets. A short and necessarily incomplete summary of his arguments concerning private versus public goods provides a first step towards a theory on how preferences for public goods are suppressed.

Following Freud and many others, Barber associates impulsivity and greed with infantilism. Maturity is associated with reflection on choices—in the private as well as the public sphere. Barber argues that marketing stimulates obsessive shopping and impulse purchasing and thus infantilizes people. Marketing likewise stimulates private consumption at the expense of public interests and it discourages citizenship. Authentic preferences for public goods are pushed into the background in two ways. First, the preferences for private consumption are directly pulled into the foreground since the manipulation of preferences is absolutely dominated by the private sector. Second, because marketing stimulates impulsive and irrational behaviour, it undermines reflection. But preferences for public goods (including the willingness to pay tax for them) require reflection on the interests of the group (the society)—more reflection than the individual's impulsive spending on private goods. Therefore, stimulating impulsivity and irrationality pushes preferences for public goods further into the background.

The change in preferences predicted by this theory is reflected in a tendency in modern Western societies to privatize public services and in a decline of trust in politics and in social engineering.

Theory 3: Thymos versus Eros

The contemporary German philosopher Peter Sloterdijk recently published a book entitled *Zorn und Zeit* [Rage and Time] (2006) from which we may derive the elementary components of a theory of how the manipulation of preferences makes people discontented. Sloterdijk discusses two ancient Greek concepts: eros and thymos. Eros concerns the general motive of desire, resulting in utility and pleasure or, if the desire is not adequately met, in privation. Thymos concerns other motives, such as 'the Good', the ambition to assert oneself, authenticity, justice. It results in pride or rage, honour and dignity or negativism, feeling respected or disdained, sovereignty or destructivity. Sloterdijk observes that last century's psychology neglected thymos and that the anthropological premises of economics are no exception. Homo economicus is a human without thymos, and consumerism is 'buying off human dignity in exchange for material benefits' (Sloterdijk, 2006, pp. 31–32).

Applying these notions in a theory on how marketing effects welfare is straightforward. Commercial marketing fans desires and manipulates preferences so that people concentrate on the domain of eros, neglecting their thymotical motives. Lifestyle marketing connects consumer goods to feeling proud or respected and so tempts the consumer to mistake desires (concerning commodities, available on the market) for authentic thymotical preferences. This stimulates consumerism and, according to Sloterdijk, the 'buying off of dignity'. The induced consumption may create welfare but, just as in the case of Maslow's hierarchy, the manipulation of preferences necessarily limits the system's ability to generate wellbeing, because following authentic preferences may be expected, *ceteris paribus*, to produce better welfare outcomes. More importantly, the negative welfare effect of the loss in dignity cannot be ignored. Moreover, marketing stimulates competition in spending. In an affluent society, this may lead to a category of winners who foster and display their luxury, feeling proud and respected.[10] But the reverse of the coin is that a majority of losers feel angry and disdained.[11]

This theory provides a mechanism that explains how the manipulation of preferences leads to discontentment, thus offering an explanation of the ineffectiveness of the free market to create welfare.

Theory 4: Evolutionary Economics

In *The Mind of the Market*, Michael Shermer (2008) rejects the conventional assumptions concerning homo economicus. Shermer summarizes evidence from

[10]Frank & Cook (1996) explain why there are only a few winners and a lot of losers.

[11]Richard Sennett (2006) argues that globalization stimulates capitalism to discard craftsmanship. For centuries, craftsmanship has been a major source of pride and respect; discarding it causes corresponding rage (or grief) and feelings of being disdained. Sennett's point concerns the supply side of the modern free market economy and for that reason this article will not elaborate on it. But connecting this argument to Sloterdijk's analysis, adding to the account of human dignity which must be bought off, or to the Maslow hierarchy, especially the categories of esteem and self actualization where craftsmanship used to play a major role, would strengthen the explanation of the ineffectiveness of the free market to create welfare.

behavioural economics and neuroeconomics, which draws on psychology, biology and primatology, and he analyses the results in an evolutionary context to provide the grounding for a realistic theory of economic behaviour. Shermer concludes that while the brain functions as a powerful computer, 'we are remarkably irrational creatures, driven as much (if not more) by deep and unconscious emotions that evolved over the eons as we are by logic and conscious reason developed in the modern world' (Shermer, 2008, p. xviii). Our history as ancient hunter–gatherers provided us with a brain of a dual nature: it is wired for group survival as well as for competition with foreign groups. Shermer (2008, p. 12) concludes: 'it is a myth that the economy is driven exclusively by selfish intentions, and that people are exclusively greedy, self-centered, and competitive. The fact is, we are both selfish and selfless, cooperative and competitive, peaceful and bellicose, prosocial and antisocial'. Behavioural economics has shown that humans routinely implement strategies that focus on fairness rather than on profit maximization and that economic subjects often behave in ways that are not consistent with economic 'rationality'. Neuroeconomics has shown that emotions and unconscious processes play major roles in economic decision making. And the evidence that 'Group level differences in economic organization ... explain a substantial portion of the behavioural variation across societies', suggests that human nature is 'sensitive to tweaking by cultures and institutions' (Shermer, 2008, pp. 189–190).

The last point, about the sensitivity of human nature to cultural and institutional tweaking, suggests that manipulation is potentially effective. This is explicitly concluded by Hanson & Kysar (1999a, p. 192) from their impressive analysis of the implications of behavioural economics: 'Consumers are subject to a host of cognitive biases which ... appear to render them vulnerable to manipulation.' In determining the effects of manipulation, the dual nature of the human brain may be key. This suggests commercial manipulation, fanning greed and competition in spending, will suppress selfless and cooperative intentions, and that lifestyle marketing, focusing on lifestyles of celebrities or high earners, will suppress the egalitarian prosocial intentions that evolved to promote ancient group survival. This does not contradict any of the first three theories and it explicitly supports the second. The idea of a dual nature of the human brain, which is 'sensitive to tweaking', supports all three.

Interim Conclusion: Commercial Manipulation of Preferences leads to Consumerism and Induces Ineffectiveness in the Creation of Welfare

Section 2 showed how the manipulation of preferences has become pervasive and that the effectiveness of this manipulation may be expected to grow with the complexity and affluence of modern societies. Increasing the pressure to spend creates a cultural imperialism by commercializing human motives or values (see Hirsch, 1976, Part II), undermining collective interests and buying off human dignity. Four rudimentary theories have been briefly explored, providing mechanisms to trace the effects of manipulation. The first and the third, based on notions developed by Maslow and Sloterdijk respectively, explain the ineffectiveness of the free market at improving welfare in modern affluent societies. The second, based on

Barber, explains this ineffectiveness if the reader assumes the satisfaction of the infantile private consumer to represent less welfare than the satisfaction of the mature citizen.[12] The fourth, based on behavioural economics, neuroeconomics and evolutionary economics, supports important elements of the first three.

4. Towards a New (Genuinely Market-economic) Theory

More than 50 years ago, John Kenneth Galbraith described the 'creation of wants' or 'the manipulation of consumer desire', and its negative effects in the public sphere (Galbraith, [1958] 1998, Chs 11 and 17). Since then, the manipulation of preferences has been ignored by mainstream economists and by a majority of economists beyond the mainstream.[13] Exceptions are David George (2001) who introduced the concept of metapreferences[14] to distinguish between good and bad preferences, and Jon D. Hanson & Douglas A. Kysar (1999a, 1999b) who took stock of the findings of behavioural economics, and developed theories (and showed evidence) of manipulation applying these findings, focusing on problems of product liability.

Sections 1 and 2 pointed out that the mainstream economic model has become too unrealistic and that a less misleading economic theory should incorporate theories of the effects of the manipulation of consumers' preferences, like those outlined in Section 3. The present section will describe a few characteristics of this theory.[15]

In this theory, the competitive character of the manipulation deserves attention. In Section 3 the focus was on the macro effect of all marketing on consumers' preferences, but at the micro level individual suppliers compete with each other,

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[12]This stand has the support of a long philosophical tradition, including the epicurists and utilitarians themselves (see McMahon, 2005).

[13]Even Bowles's impressive stocktaking of research on endogenous preferences ignores the manipulation of preferences by marketing (Bowles, 1998). Authors who do pay attention to this manipulation often write from a perspective that is broader than purely economic. Examples are Barber (2007), Frank & Cook (1996, pp. 139–142), Hamilton (2004, Ch. 3), Hirsch (1976, pp. 82–83), Klein (2005) and Schor (1998, 2004).

[14]Metapreferences, or second-order preferences, are preferences about preferences, for instance a preference for healthy food while there is a direct or first-order preference for sweet or fatty food, which tastes better. Although these concepts allow for interesting analyses of how manipulation works and offer arguments for creative economic policies (see 'The Elephant in the Room', 2003), we will not elaborate on them for two reasons. First, both categories of preferences are liable to manipulation, so distinguishing them does not add much to our main argument. Second, we do not aim at specifying good and bad preferences.

[15]A full-fledged economic theory incorporating the manipulation of preferences would have as an essential element an analysis of the extent to which preferences can be effectively manipulated (and at what costs), including short- and long-term effects (including cultural effects over generations). This will require cooperation with other behavioural sciences and a great deal of empirical research. Available marketing research concerns the micro sphere and not the macro effect of all marketing on preferences (the increased pressure to spend, outlined in Section 3). Empirical research on the macro effect is complicated, because it is impossible to observe choices stemming from unmanipulated preferences.

practising the manipulation of preferences in order to increase their market shares. In many markets it is not the technical superiority of the product or its price, but the effectiveness of its marketing that decides which product or which brand will survive.[16] This is obvious in markets that are dominated by big business, where huge marketing budgets are available for promoting brands. But Hanson & Kysar (1999a, p. 193) rightly argued that also in markets with small businesses 'the competitive forces of the market will lead, in an evolutionary fashion, to a state in which manufacturers behave *as if* they had the requisite knowledge and training to manipulate consumer perceptions, whether or not they actually do' (emphasis in original). This suggests that the manipulation of preferences is an essential activity in a market economy. Ignoring this activity leaves a major element in the market mechanism unanalysed; incorporating it yields a more 'genuinely market-economic' theory.

Incorporating the manipulation of preferences in economic theory requires an expansion of the economist's toolbox to broaden the analysis of power. By definition, manipulation is a way of wielding power. Important kinds of marketing (e.g. branding) reduce competition and thus further increase market power. That is an intended effect at the micro level. The macro effect, a general increase in the pressure to spend on consumption, is usually unintended. But this macro effect, too, must be analysed in terms of power.

We have seen how the manipulation of preferences encourages private consumption and work at the expense of spending time with one's family, social activities, self actualization, philanthropy or the provision of public goods. These effects stem from the superior power of the commercial sector in the manipulation of preferences. If advocates of the other purposes wielded the same power and ingenuity to manipulate preferences, the macro effects would be different. In other words, if Galbraithian 'countervailing power' existed in the manipulation of preferences, the economic and social evolution of modern societies would be different. We therefore need to analyse the manipulation in terms of the relative power to manipulate preferences for private consumption as opposed to other purposes. This manipulation overrules the sovereign consumer as the ultimate constitutor of the evolution of the economic process in so far as it causes actual preferences to differ from authentic preferences. Genuine consumer sovereignty can be restored if sufficient countervailing power is wielded in the manipulation of preferences, so as to reduce the difference between actual and authentic preferences. In theory, if all relevant elements in the subject's motives and intentions are stimulated or provoked to the same extent, actual and authentic preferences may coincide, as will be explained at the end of this section. That is the situation in which consumer sovereignty is completely restored. In that situation no superior power exists in the manipulation of preferences and, consequently, no power can be identified as countervailing. Paradoxically, this theoretical case can be considered perfect competition in the wielding of manipulative power.

[16]This is not to say that market manipulation is infallible (remember New Coke), or that the marketing of traditional products is always capable of stopping demonstrably superior substitutes in the long run.

In a 'genuinely market-economic' theory, the essential concept of 'authentic preferences' deserves special attention. This concept is applied in Section 3, based on meta-economic notions. Such notions determine authentic preferences as exogenous, just as mainstream economics assumes actual preferences to be exogenous. In the theories discussed in Section 3, biased manipulation causes actual preferences to differ from these exogenous authentic preferences. These theories are more realistic than the mainstream model with exclusively exogenous preferences, but they suffer from a serious shortcoming. As both actual and authentic preferences are the result of nature and nurture, or evolution and culture, both are affected by manipulation. Therefore, a further step should be to adopt a concept of endogenous authentic preferences.

The concept of endogenous authentic preferences should be developed, stressing the differences between economic subjects as well as the dynamics in the development of preferences. Quoting Shermer (2008, p. 236): 'Although our genes, environments, and historical pathways on some level do determine our actions, every individual set of genes is unique, each environmental setting is distinctive, and every historical pathway that each of us has taken belongs to us alone. In this sense, each of us is unique and different from all others.' In theory, a subject's authentic preferences may be defined as those preferences that perfectly correspond to the subject's uniqueness. Biased manipulation will cause actual preferences to differ from authentic preferences. That will certainly be the case if the manipulation is dominated by the commercial sector. But if all relevant elements in the subject's motives and intentions are stimulated or provoked to the same extent, she or he will be able to continue developing authentic preferences following her or his unique pathway. Subjects able to develop their authentic preferences may be considered potentially sovereign consumers. This case corresponds to the proposition, mentioned two paragraphs earlier, that perfect competition in the manipulation of preferences can lead to a situation where actual and authentic preferences coincide.

Summing up, subjects have manipulated preferences. In the case of biased manipulation, actual preferences will be biased. In the theoretical case of perfect competition in the manipulation, preferences will be unbiased (although they are manipulated). These unbiased preferences may be considered (endogenous) authentic preferences because they perfectly correspond to the subject's uniqueness. In this case, actual and authentic preferences coincide, and consumer sovereignty is completely restored in so far as the supply side is competitive.

5. Strategies for Combating Consumerism. Swimming against the Tide?

This section will summarize some strategies that have been put forth to combat consumerism and comment on their effectiveness.

One strategy focuses on reducing advertising. In many countries advertising is regulated by law or by codes of conduct. Concerning advertising aimed at children, special restrictions are set and proposed.[17] These regulations are effective in

[17] For example, Schor (2004, pp. 194–198) discusses concrete regulations and proposals.

banishing particular excesses but they are not intended to substantially weaken the general pressure to spend. Taxing advertising would reduce the volume of the manipulation of preferences, but forbidding advertising (except for harmful goods) seems to be unrealistic.[18] Advertising is a globalized phenomenon that is vitally important to commercial suppliers and media who may be expected to vigorously and effectively oppose policies to ban advertising.

A creative strategy to reduce the impact of advertising tries to turn advertising against itself. It employs the techniques of advertising to neutralize the effect of commercial ads by issuing parodies that unmask the original ads or by issuing ads for 'buy nothing days', 'credit card condoms', etc (see De Graaf *et al.*, 2005, pp. 214–220; Klein, 2005, Ch. 12). These actions have had limited effects; commercial marketing is almost invulnerable because of its huge budgets and its impressive creativity. Advocates of this strategy have 'become disillusioned with the jujitsu theory' (Klein, 2005, pp. 295–297) and the strategy has been unable to create substantial countervailing power in the manipulation of preferences.

Another category of strategies takes aim at the demand side. Some strategies propagate alternatives for consumerism, such as 'downshifting' and part-time work. A lot of books, articles and magazines are devoted to this, and the formation of local organizations to promote 'sustainable living' or 'high fulfilment, but low environmental impact' is advocated (De Graaf *et al.*, 2005, pp. 181–187). A feature of these strategies is a conscious limiting of media exposure (Schor, 2004, pp. 203–210). For the people involved these are satisfying strategies, although excluding commercial culture will be an ongoing struggle, especially for parents with young children. For the society as a whole these strategies do not carry much weight because only a small minority is involved, and large-scale marketing has shown its effectiveness in seducing majorities to consumerism.

A special strategy focusing on the demand side aims at educating consumers to act more rationally.[19] This has proved to be somewhat effective in cases where people have got into financial trouble by spending more than they can afford. But it may be doubted whether general campaigns for consumer literacy or empowerment will be effective in the abatement of consumerism for at least three reasons. First, behavioural economics and neuroeconomics have demonstrated that there are essential limits to consumer rationality. Second, commercial marketing systematically fans irrational behaviour, so the education efforts will permanently be on the defensive. Third, general campaigns for consumer literacy may be perceived as paternalistic, and this would undermine their effectiveness.

Various strategies concern government policies. Since the emergence, some decades ago, of the idea that there might be limits to growth, policies to curb production and consumption have attracted adherents. But these policies have not led

[18]France recently forbade advertising in public broadcasting. The effect on the manipulation of French preferences will be limited because so many other media, including commercial broadcasting, are available for advertising.

[19]The recent subprime mortgage crisis has led the US Commission on Thrift to recommend the establishment of a pro-thrift public education campaign (Dafoe Whitehead, 2008, p. 9).

to serious political action for many reasons. The small number of actions that have been carried out in this direction were aimed at goods and behaviours with particular unfavourable effects, rather than at production and consumption in general. Looking forward, there is even more reason for pessimism. The trends in policy-making in affluent societies favour the liberalization and deregulation of markets, privatization of public activities, and (except for recent concerns about the banking and financial sectors) tend to resist efforts to increase government intervention in the economy. Policy-making still focuses on the growth of GDP and, as soon as a fear of a recession emerges, most competing ends are shifted further to the background and policy aims at aggressively stimulating spending. To expect governments to take the lead in abating consumerism seems an unrealistic strategy. Only under extreme circumstances will governments be able to promote restrained consumption, for example by rationing during wartime.

All of the strategies mentioned above are efforts to swim against the economic and ideological tide. There seem to be no mechanisms on the current scene that will turn the tide spontaneously.[20] The soaring manipulation of preferences commercializes the culture in affluent societies and, like all fundamental changes in culture, this trend is likely to increase its impact over generations. Those who wish to combat consumerism seem to be fighting a losing battle. But there may be a way to turn the tide.

6. Towards an Effective Market-economic Policy

Modern affluent societies are increasingly dynamic and complex and they have populations that are increasingly heterogeneous; their inhabitants' capabilities and preferences vary more than ever.[21] Growing complexity and heterogeneity decrease the probability that preferences can be effectively expressed through parliamentary elections. So, these trends further weaken the case for government intervention as a substitute for the market. Economic policies focusing on the improvement of the market system may be more effective. If they aim at enhancing the market's effectiveness to create welfare, or at turning the tide of consumerism, these policies must take account of the commercial manipulation of preferences.

This section puts forward a market-economic policy that draws on the theoretical notions developed in Section 4. In order to enhance the market's effectiveness to increase welfare, this policy aims at the restoration of consumer sovereignty by decreasing the difference between actual and authentic preferences. Therefore, it seeks to increase countervailing power in the manipulation

[20]Even authors who stress the ability of capitalism to accommodate itself to changing circumstances and who speculate explicitly about that in view of fatal trends connected with consumerism, fail to specify mechanisms that could adjust this commercialization of culture. See, for example, Bruckner (2002, Ch. 10) who confines himself to speculations about a growing general unease with consumerism and Barber (2007, Ch. 8) who concludes his book explicitly without a recipe.

[21]In Van Tuinen (2009) I discussed these trends at some length.

of preferences. This is an unconventional policy and policy-makers will not immediately feel familiar with it.

In designing a policy aimed at countervailing power in the manipulation of preferences, two questions are essential.

- Who is motivated to wield countervailing power or, in other words, who is motivated to manipulate preferences so that non-commercial values and motives are pulled back to the foreground?
- Who has the power to create countervailing power or, in other words, who can make available the huge funds needed to effectively counteract the macro impact of more than $500 billion spent each year by the commercial sector on consumer manipulation?

Only two sectors in the world economy are able to channel half a trillion dollars into the manipulation of preferences—the commercial sector and government. For reasons mentioned in Section 5 it is unrealistic to expect governments to be motivated to manipulate preferences in an anti-commercial direction. Moreover, in a democratic society this is undesirable. Modern democratic governments do not (openly) propagandize; they respect a broad range of individual lifestyles. They may be responsible for producing reliable information, such as official statistics, but they are expected to refrain from manipulating the choices of individuals. The commercial sector obviously has no motive to encourage preferences that run counter to its own economic interests. Corporate social responsibility initiatives are common nowadays because corporations like to be seen as good citizens. But corporations' sensitivity to favourable public opinion will not lead them to propagandize non-commercial attitudes.

In two other sectors, non-government organizations (NGOs) and private persons, motivated actors exist but they lack the resources needed to mount an effective counter-effort against corporate manipulation of preferences. And even if they have substantial resources, most of them will prefer to use these resources to advance their specific organizational missions or their individual interests, rather than for a general anti-consumerism campaign. This explains why substantial countervailing power is not created spontaneously.

In monopolistic markets, in non-transparent markets or in markets where subjects suffer from a lack of countervailing power, government intervention is often advocated and carried out. This leads to forbidding monopolies and cartels, protective legislation (e.g. consumer protection), founding or subsidizing organizations that wield regulatory or other countervailing power, etc. These government policies intend to improve the efficiency or the effectiveness of the market and many of them are broadly accepted by mainstream economics. The question therefore arises why governments should shrink from intervention to counterbalance the dominant commercial manipulation of preferences, just to improve the effectiveness of the market. Because a restoration of consumer sovereignty is a clear case of enhancing the market, a government policy directed to this goal may be considered a 'genuinely market-economic' policy.

The preceding sections of this article argued that the lack of countervailing power in the manipulation of preferences may cause the whole economic system to be ineffective in the creation of welfare and that enhancing countervailing power is an essential element in the restoration of consumer sovereignty. Government itself need not be the countervailing power, for reasons mentioned earlier, but its task is to facilitate that power, which includes arranging that the required funding is made available to NGOs and other organizations solely for the manipulation of preferences. It is essential that this manipulation appeals to values that compete with consumerism and that the manipulation is carried out as professionally as commercial marketing. Sufficient funding will stimulate the founding of a variety of new organizations that are motivated to manipulate preferences so that non-commercial values and motives are pulled back to the foreground. Professional advertising agencies, currently working for commercial companies, are certainly motivated to work for well-funded non-commercial organizations as well.[22]

This unconventional policy would have to be developed carefully and piecemeal, because in modern complex and dynamic societies any new policy can have unexpected outcomes.[23] The final details of such a policy cannot be foreseen. The best way to start depends of a variety of circumstances, and different roads may lead to Rome. The suggestions below are intended to stimulate the invention of better alternatives.

Core elements to be considered are:

- a fund for the promotion of non-commercial values and motives to compete with consumerism;
- legislation stating the conditions that must be met by beneficiaries of the fund;
- an independent authority to administer the fund.

The goals to be promoted might include:

- non-commercial ideals such as civil society, human rights, human dignity, environmental protection, etc (as far as these are threatened by consumerism or commercial activities);[24]
- self-realization through education, participation, creativity, spending more time on family life or health or culture, voluntary work, choosing a challenging job instead of a high wage, part-time work, etc;
- explaining undesirable implications of consumerism and maximizing income (for example environmental deterioration, materialism, etc).

[22] Many publicity specialists seem to long to work for more idealistic purposes because sophisticated marketing of commercial products it is not always fun (see for example Schor, 2004, pp. 186–188). In the Netherlands, the publicity sector itself founded and finances a non-commercial organization for idealistic advertising, called SIRE.

[23] For some this policy will be anything but strange, in particular those promoting publicity campaigns for commendable purposes, such as the abatement of obesity (see 'The Elephant in the Room', 2003) or the abatement of over-indebtedness (see footnote 19).

[24] Modern commercial marketing is ingenious in loading consumer goods with values or ideals such as esteem or self-actualization (see Sections 3 and 4). This kind of manipulation must be excluded from the fund's benefits. Fund raising, for example by NGOs, must be excluded as well.

In the legislation mentioned above, no delimiting enumeration of goals must be specified because that would discourage creativity. That implies that it is not easy to regulate which goals are to be funded and which are not. A regular evaluation of the legislation in parliament may stimulate a process of continuous improvement of the specifications.

The most effective way to finance the fund would be to tax commercial marketing. Because much advertising is undertaken on an international scale, national taxes may not be effective. If the taxation of marketing on an international scale is impossible, the next-best solution is to tax private consumption, for example by a slight increase in VAT. A national policy of creating countervailing power in the manipulation of preferences may be less effective than an international initiative. But the opposite might also be true: if such a policy is implemented in country A only, the marginal returns to marketing decrease in A as compared with the rest of the world and this can lead international marketers to decrease their activities in A.

Beneficiaries, being officially registered organizations, have to produce a plan of action concerning a professional publicity campaign. The plan must be in agreement with the law, and its campaign should be state-of-the-art because its manipulation of preferences must be as effective as commercial publicity. The plan is to be approved by the fund-authority and beneficiaries submit an account of the campaign to the authority.

The fund-authority should function as an independent body, like supreme courts or independent central banks. Decisions about which publicity campaigns are funded and which are rejected are sensitive, because they intervene with people's faiths, beliefs or convictions. These decisions must never be politicized.[25] Therefore, appeals against decisions by the authority can only be addressed to its board, which consists of people who act independently (without injunction or consultation). Future decisions can only be influenced by changing the legislation. The head of the authority is appointed for a fixed period (perhaps seven years) upon nomination by the board.

The reader might ask why we ought to implement a policy that involves matters of such a sensitive nature. The answer is that without such a policy, the population will be left exposed to effective manipulation of their preferences by commercial interests without any effective mechanism to restore the balance. Countervailing power in the manipulation of preferences is a prerequisite not only for a well-functioning economy but also for a well-functioning democracy.

7. Conclusion

It is feasible to create substantial countervailing power in the manipulation of preferences in a modern democratic society. The required policy is rather unconventional but it goes perfectly well together with free markets and with freedom of

[25] 'The most destructive conflicts in a society arise from the politicization of moral and cultural issues because such beliefs tend to be "absolute" (held *à outrance*) and are nonnegotiable' (Bell, 1996, pp. 336–337).

choice in multifarious populations. This policy focuses on restoring consumer sovereignty but it will foster balanced democratic decision-making and citizenship as well.

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