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On False Advertising

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We cannot explain the current scene merely by a study of specific facts. These facts can have meaning to us, can only make sense, if they point to a principle or a law which, because of our experience and observation, seems to hold true at all times, in all places.

There is a growing tendency among modern educators in the field of political economy, and in other social sciences, summarily to reject fundamental principles as applying to these disciplines. It is this refusal to seek absolutes in the field of economics that makes of it the most useless subject in our college curricula, whereas it should be the most useful. Everything is taught as a fact in itself. There are no governing laws. There is no science. All is accident. Out of such a mess of facts, out of such a high-handed rejection of guiding principle, no knowledge that can help us to solve our social problems can possibly come. We are left without any navigating instrument in our travel through life. We are consigned by such teaching to a blundering course, a rule-of-thumb method of dodging and stumbling and bumping our way.

We take the subject of advertising as an example, merely because it has been treated of from this atomic point of view by a prominent professor of education, whose book, in which advertising is discussed as a problem of American culture, is widely used as a text. I am informed that some three million boys and girls studying in 4200 high schools are annually exposed to this kind of pontifical pedagogy. I take up just a few statements and inferences in the chapter of this book dealing with advertising merely to illustrate the difference between education based on sporadic experiences and education based on fundamental principles, arrived at by scientific investigation and logical deductions. For, if Henry George teaches us anything of permanent value, it is that all economic trends, all social relations are determined by the operation of basic laws.

Now, what is advertising? It is merely the spreading of information. It is quite true, as our professor says, that this technique of our exchange system is sometimes used to spread misinformation. The same can be said of too many of our college courses, of too many of our professors. It was not so long ago that the theory of evolution was outlawed in our colleges, at the instigation of our professors. Copernicus and Galileo were persecuted by the teachers of their day. When I went to college the professor who preached theories of State control and regulation would not have lasted more than one lecture; it would appear that a like fate would today threaten the teacher who dared to proclaim the supremacy of the individual. The history of professional education is the history of error seeking to perpetuate itself by the persecution of truth.

The cure for misrepresentation in advertising is not in regulation and suppression, any more than the cure for wrong education is in burning professors at the stake, much as that method sometimes tempts us. The cure for all error is truth, or, more accurately, the searching for truth. There we have a fundamental principle. We know from the experience of ages that whatever knowledge we have achieved has come by experimentation, by taking thought. And the less restrictions imposed on man in the search for knowledge, the more knowledge has man attained. It is only when predatory institutional education asserts its power that real education suffers.

Assuming that we could, through a system of paternalism, protect the consumer from mischievous advertising, how would we know that this same paternalism might not be used to suppress information of value to the consumer? Regulation and restriction have a way of working for our harm more often than for our good. For regulators and restrictors are not necessarily all-wise and all-good. They are human, and as such are subject to all the frailties of man. They may make mistakes, they may show discriminatory preferences, they may even take bribes.

Let us analyze the advertising process, in order to find a principle. Merchants advertise in order to sell their merchandise. We come to the market place with our wares, seeking satisfactions. The merchants tell us of their wares. One merchant lies about his wares. How long does it take for his lies to be discovered? Only until one prospective buyer tells another. And, since self-interest prompts us to tell our neighbors how we have been defrauded, the news spreads very quickly. The inevitable result is that the merchant either changes his advertising, that he tells the truth about his wares, or, more likely, he goes out of business. Many more businesses have closed down because of false advertising than have prospered by such methods.

That is the way of a free market. It expels those who do not serve, or who do not serve as well as others. Whether it is in the field of merchandise, ideas or direct services, the verdict of the free market is severely just and ultimately correct. The market place is unjust only when it is not free, when privilege restrains competition, when restriction limits production. That is a fundamental principle.

But does our professor recognize this principle, based upon centuries of experience and the force of logic? He says: "Partly because of this new competition (he means the competition between industries in the same field rather than between different products) more and more millions are spent for advertising and prices rise higher and higher." How can competition raise prices? The very essence of competition is the desire to give more or better services in order to attract trade. Therefore, the more competition the lower the price—using price as a means of measuring values.

Another fundamental error—one approaching purposeful propaganda—is that price is increased by the cost of advertising. Our professor

repeats the statement thus: "The sales grow, even though prices grow higher and higher." Facts absolutely disprove this statement, as I shall show later. For the present, let me point out that in a free market—and we must predicate a free market because in a monopolized or regulated market economic principles are distorted—the price of merchandise is determined merely by the relative supply and the relative demand. The value of a thing is the estimate that people put upon it. That estimate is determined by the amount of toil and trouble we save in acquiring the thing. A thing is worth so much to me because the having of it will give me that degree of satisfaction. I do not care how much it has cost the manufacturer to make it or how much he has spent in advertising it. If his price is greater than I think it is worth to me, I will not buy it. If he wants my trade he must price it within my means, and if his present costs are too high he must, to stay in business, invent methods whereby his costs of manufacturing and merchandising will meet the value I have put on his product. Or, he must go out of business. That is a fundamental principle of value, and of price, which is the market expression of value.

But I have some statistics which help to throw some light on this question. They refer to cigarette advertising, sales and costs. I selected cigarettes because they are a favorite subject of attack from these advertising-regulators.

Out of the 17¢ which you cigarette smokers pay for a package, the manufacturers' gross income is 5¢. Out of this the leaf tobacco growers receive approximately 1½¢; the 3½¢ left to the manufacturer pays all expenses. The distributors—the jobbers and retailers—get 3¢. Who gets the balance, about 9¢ per package? The tax-gatherers, city, state and federal.

Now, our anti-advertising professor does not say, in his book, that the bureaucrats who ought to determine what is good and what is bad advertising are creating a monopoly market by these taxes. For, this tremendous outlay for taxes makes it difficult for a man of small means to enter the cigarette making business. You who buy cigarettes not only pay all these taxes, but also the profits which are necessarily pyramided on the taxes by each handler in the process.

Included in the gross 3½¢ which the manufacturer receives for his package of cigarettes is the cost of distribution, the cost of the cigarette paper, the wrapping, shipping, *and* the cost of advertising. Oh yes, there are taxes on the cigarette paper, there are income taxes, transportation taxes, excess profits taxes, social security taxes, ad infinitum.

All this out of 3½¢ per package. I have the statement of one of the largest tobacco concerns showing that out of a total business of over a quarter of a billion dollars in 1938, about ten million dollars were spent on advertising. That is about 4%. Now, take 4% off 3½¢, and how much less would the package of cigarettes then cost? Less than one-seventh of one cent per package.

All of which is of no import except to show how misleading and fallacious are the statements of those who, under the guise of erudition, propound paternalistic ideas of regulation and restriction. Note, too, that in the book of these benevolent despots there is no emphasis on the cost of taxation to the consumer. Here is another fundamental principle which is quite conveniently overlooked. Every tax on production is paid by the consumer, either in price or in going without. But, the life-blood of bureaucracy, the sustenance of restriction and regulation, is taxes. Remove taxes, remove the levies on labor and capital, and you remove the soap-box of paternalism.

Returning to false advertising. Our professor treats the misrepresentation in advertising as evidence of the moral turpitude of advertisers. This is a half truth. It must be remembered that advertising to be successful must be believed. And men believe what they want to believe. Now, most of the false advertising our professor indicates is the kind that makes extraordinary claims. The reason we believe these extraordinary claims is that we want the satisfactions which are promised and we induce ourselves to believe these promises. We believe in bargains because we are unable to buy better goods. Our reason and experience tell us that such bargains are impossible. But our skimpy purse dulls our reason and we fall prey to the advertising that flatters our hopes.

It is an axiom that the poor pay more for their goods than do the rich. The poor cannot buy the best; but they, too, want the best, and the promise of it in false advertising is alluring. It is poverty, therefore, as much as the wickedness of merchants, that makes false advertising possible. Abolish poverty, and the rottenness that underlies our entire economic system, including false advertising, will disappear.

"Who do you suppose," asks our professor, "really pays for the advertising? It is you and your neighbor and every other consumer . . . It cannot be denied," he concluded, "that advertising *has* increased the cost both of selling and of buying goods." (The emphasis is the professor's, not mine.)

Now, in that statement is implied a fundamental and a wicked falsehood that stems from the French physiocrats of the eighteenth century, refined and glorified by that befuddled preacher of class hatred, Karl Marx. This fundamental falsehood is that all exchange functions are parasitical; that the people who devote their energies to the bringing of goods to the market are non-productive. Now, the fact is that production is consumption. Rubber that is extracted from the trees of Africa is no good to you until you find it in the form of a rubber band in the stationery store. Salmon caught in Alaska does not satisfy you; the canners, the shippers, the wholesalers, the retailers all are part of the process of producing salmon for your consumption.

Everybody who aids in the distribution of goods is necessary in our exchange economy. In fact, this economy breaks down only when exchanges are interfered with by restrictors and regulators—even when

their hearts are thrilled with the most benevolent impulses. Our whole civilization is based on the idea of free and unlimited exchanges; for the more we depend on a market the more we can specialize, the greater our skills in those fields, and the more we produce. But this specialization is only possible when exchanges are untrammeled. A free market is absolutely necessary to our intricate system of specializations.

The more we specialize the greater will be our production, individual and aggregate. And the greater the production — barring monopoly privileges—the lower will prices be. Everybody who helps to increase production—including the salesman and the advertiser—helps to lower prices. This is so elemental that one wonders how even a professor could overlook the fact. Yet, the above quotation is taken directly from the book to which our high school children are exposed.

Sometimes exchange functions disappear — as, for instance, the jobber in many lines—when they cease to serve, or when they are superseded by a better service. This is determined in the market place. But, when we try to limit exchanges by force, we are taking a step toward the break-down of our exchange economy, our civilization. When we begin politically to plan the market place, putting in the hands of professorial police the decision as to how we shall make exchanges, by what blue-print we must seek satisfactions, then we are wending our way back to the time when every man sought to satisfy all his desires —that is, to cave-man economy.

The errors of our market place—including the errors of advertising —are as many as the frailties of man. The correction of these errors must be left to the ultimate and exact justice that free exchange brings about. Education, and more education, is the only cure for ignorance. But, the moment the whip of regulation or the lash of monopoly, private or public, are applied to the market place, that moment does our civilization start down hill. That it has already started down hill there is no doubt—and not a little blame can be put upon the pundits who have sought to substitute a blue-print for fundamental principle.