

THE REDISTRIBUTIONAL EFFECT OF TELEVISION ADVERTISING

THE economic merit of advertising must be judged on the basis of its ultimate contribution to consumer welfare, as well as by its immediate effects on production and distribution costs.¹ The purpose of this paper is to investigate the redistributational effect which results from television advertising.

Our study reveals that in 1963, under the present commercial television system, all income groups in the United States experienced a redistribution of income slightly in excess of one-quarter of 1 billion dollars. Conversion of the commercial system to an alternative system of pay television would result in a complete or nearly complete elimination of the benefits of this redistribution currently enjoyed by families with a disposable personal income of less than \$6,400. If a metered system of pay television were adopted the entire redistributational effect would be removed. If a flat-fee system were used a small amount of redistribution would continue to exist, but the size and direction of such redistribution would depend on the viewing pattern of subscribers. Conversion to a government-supported system could be expected to alter the redistributational effect, the extent of which would depend upon the relationship between viewing pattern and progressiveness of the tax structure.

If the same redistributational pattern prevailed in Great Britain for the commercial portion of its system the magnitude of redistribution would have been approximately £15 million in 1963, or 11% of the total expenditures on television, as compared to 18% for the United States. The lower percentage for Great Britain is attributed to the existence of a government-operated system.

The Concept and Measures of Redistribution

In 1963 American advertisers spent \$1.6 billion to support the existing commercial television system. In the same year this system provided viewers in all income groups with a total of 3.4 million station hours of entertainment and news programmes. The costs of this entertainment were shifted to consumers in the form of higher prices for advertised goods and services.

We may assume that approximately the same amount of expenditures

¹ Nicholas Kaldor points to the impossibility of evaluating advertising simply by reference to its direct effects. He considers at least six types of direct and indirect effects from advertising. They are: an increase in productive efficiency, an improved quality of product, a stimulus to business activity, reduced amplitude of cyclical fluctuations, greater shopping convenience and a subsidy to newspapers which promotes a free and independent press. "The Economic Aspects of Advertising," *Review of Economic Studies*, Vol. XVIII, 1950-51, pp. 7-8.