The Role of Advertising in America

From fueling economic growth to fostering affordable media choices to educating the public, advertising is a positive force in our society

By the Association of National Advertisers
Advertising occupies a major place in American society. Linked to the bed-rock principles that shaped our nation — free speech, competition, and individual choice — it has served the public since colonial times as a source of vital information about our open, market-based economy.
Advertising of lawful products and services, conducted in a non-misleading way, has very strong First Amendment Constitutional protection. The U.S. Supreme Court affirmatively extended that protection to advertising in 1976, in the “Virginia Board of Pharmacy” case. Since then, the Court has strengthened the First Amendment protections for advertising in a long series of cases.

At every level of government — federal, state, and local — advertising is closely scrutinized. The Federal Trade Commission, the government agency with principal authority over the industry, has the power to ban or regulate advertising it believes to be false, deceptive, or unfair, as well as to impose penalties on advertisers that violate the law.

Other federal agencies, including the Food and Drug Administration, the Federal Communications Commission, and the Consumer Financial Protection Bureau, regulate specific categories or areas of advertising. In addition to this government oversight, the advertising industry has long embraced a strong self-regulatory process administered under the Advertising Self-Regulatory Council of the Council of Better Business Bureaus. A special entity within the Advertising Self-Regulatory Council, the Children’s Advertising Review Unit, closely monitors children’s advertising. For more information about our self-regulatory programs, visit www.asrcreviews.org.

EXAMINING THE BENEFITS
Advertising is a positive force in our free society. The three core benefits are:

- **Fuels economic growth.** To compete and grow in today’s marketplace, companies must efficiently reach consumers, alerting them to new product innovations and competitive price points. As noted by Nobel Laureate in Economics, Dr. George Stigler, advertising is by far the

The Dangers of an Advertising Tax

Advertising since 1916 has been a fully tax-deductible cost of doing business. Under the federal tax code, advertising expenditures, like all other ordinary and necessary costs of doing business, are 100 percent deductible in the year in which they are incurred. However, several times since the late 1980s, Congress has considered legislation to limit or deny this deduction or to require that advertising costs be amortized over several years. To date, all efforts to alter advertising’s 100 percent deductibility have been defeated, because in reviewing this potential change to the tax code, policymakers realized that it would result in severe adverse economic consequences. These impacts include decreased consumer demand, slower economic growth, increased unemployment, lower business profits, and, ultimately, reduced tax revenues.

This conclusion echoes the findings of prominent studies conducted by independent consulting organizations, such as Wharton Econometrics Forecasting Associates and Lexecon. These studies concluded that by limiting the deductibility of advertising expenses, the government would make advertising more expensive, forcing businesses to either reduce the amount of advertising or increase the cost of their goods and services. In either case, the result would be a decrease in consumer demand, slower economic growth, increased unemployment, and lower corporate profits.

At the state level, advertisers pay a multitude of taxes, including, where applicable, state income taxes, property taxes, and sales taxes on their purchases of goods. Again, in an effort to find new revenue sources, certain state and local lawmakers have proposed — and in some cases enacted — taxes on the process of advertising. Florida, Arizona, and Iowa experimented with ad taxes; however, in each instance, they found them counterproductive and quickly repealed the laws. In Florida’s well-documented case, many advertisers reduced their media expenditures. In the state’s top six media markets, national spot-TV advertising declined an average of 11.8 percent within six months of the imposition of a sales tax on advertising. Not surprisingly, the state abandoned this tax within a year of its imposition.
Privacy, Self-Regulation, and the Rise of the DAA

To protect consumer privacy in the online environment, the ANA and four other industry groups (the American Association of Advertising Agencies, the Direct Marketing Association, the Interactive Advertising Bureau, and the Council of Better Business Bureaus) released a set of self-regulatory principles in July 2009 for online behavioral advertising. Those principles, developed over several months of discussion, require advertisers and websites to clearly inform consumers about their data collection practices and enable them to exercise control over how that information is used.

On October 4, 2010, under the auspices of the Digital Advertising Alliance (DAA), these industry groups announced the details of a comprehensive new self-regulatory program that gives consumers enhanced control over the collection and use of data regarding their web viewing for online behavioral advertising purposes. Together, the industry principles and new self-regulatory program represent the industry’s response to the call of the FTC for more robust and effective self-regulation of online behavioral advertising practices. The purpose of these practices is to foster transparency, knowledge, and choice for consumers.

The DAA created an Advertising Option Icon, which lets consumers know when the ads they see are interest-based. If they click on the icon, they are taken to the DAA website, which provides information about interest-based advertising and the ability to opt out of receiving those ads from any or all companies participating in the program. Enforcement of the program is administered by the Direct Marketing Association and the Advertising Self-Regulatory Council of the Council of Better Business Bureaus.

This program has been a success. The AdChoices Icon is served globally trillions of times each month in online ads and a large number of marketers are participating members. There have been more than 68 million visits to the DAA websites, with the vast majority opting to receive interest-based ads.

The DAA recently launched two new mobile tools for consumers — AppChoices and the DAA Consumer Choice Page for Mobile Web — to supplement the choice mechanism already used by millions of consumers for their desktop browsers.

The strongest force for honest national advertising, however, is not government regulation or self-regulation, but the fact that advertisers are dependent on millions of sales for their success, which can be accomplished and maintained only through repeat business and the maintenance of consumer trust.

For more information on the DAA, visit www.AboutAds.info.

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most efficient way to communicate such information. As a result, it is a remarkably powerful economic force.

According to a landmark study released in 2015 by the highly regarded consulting firm IHS Economics & Country Risk, advertising contributed $3.4 trillion to the U.S. GDP in 2014, comprising 19 percent of the nation’s total economic output. Sales of products and services stimulated by advertising supported 20 million jobs, or 14 percent of the total jobs in the country.

The study was based on an economic model developed by Dr. Lawrence R. Klein, recipient of the 1980 Nobel Prize in Economics. The study highlights in detail how advertising expenditures — via a chain reaction — stimulate sales activity and jobs throughout every sector of the economy. These impacts are ramified through the key interactions of three vital tiers of the economy:

• Tier One: Retail and Manufacturing. Advertising helps manufacturers and retailers generate sales by announcing their products and services to the consumer. In this tier, advertising agencies and content creators design campaigns and purchase advertising space across the media spectrum. As an example, an automotive company uses advertising to introduce a new line of fuel-efficient cars.

• Tier Two: Suppliers to Retail and Manufacturing. As sales increase from introductory advertising, a chain reaction begins, stimulating sales and creating jobs within a second tier of businesses: suppliers to, and distributors for, the tier one retail and manufacturing businesses. In the automotive example, suppliers of steel, plastics, paints, and automotive components

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experience an economic surge.

- **Tier Three: Inter-Industry Activity.** The economic impact then spreads to a third tier of related businesses, which have products that support the initial sales. For example, within the automotive industry, tire manufacturers, parts distributors, and service stations benefit from business as cars are driven and begin to age.

The IHS Economics & Country Risk study provides powerful proof that advertising should be respected and fostered by policymakers at the federal, state, and local levels. The study demonstrates that in every state and congressional district in the country, advertising plays a major role in generating economic activity and strongly supports job creation.

**ADVERTISING IS A MAJOR DRIVER OF THE U.S. ECONOMY — ONE THAT SHOULD BE RESPECTED AND PROTECTED BY POLICYMAKERS.**

“Advertising is a powerful tool of competition,” Dr. George Stigler said. “It provides valuable information about products and services in an efficient and cost-effective manner. In this way, advertising helps the economy to function smoothly — it keeps prices low and facilitates the entry of new products and new firms into the market.”

**Fosters a Wide Array of Affordable Media Choices.** Vast, affordable media options enrich our society and underpin a core American value: the democratization of knowledge and information. Advertising plays a critical role in fostering this abundance of information, as it provides the financial foundation for the ever-growing array of media and web services available to U.S. consumers.

Commercial over-the-air broadcasting, both radio and television, is supported solely by revenues from the sale of advertising time and space. Other types of media, including the Internet, mobile media, newspapers, magazines, and large segments of cable television, rely heavily on advertising for a major portion of their revenues. Indeed, without advertising dollars, many of today’s media outlets would not exist, and the cost of those that survived would be substantially higher for the consumer.

Advertising revenue has helped lead to a tremendous proliferation of media choices. For example, television viewers in the early 1950s and ‘60s could watch only three broadcast networks. Today, viewers can choose from multiple broadcast networks, hundreds of cable channels, and direct broadcast satellite programming.

The advertising-supported business model has also fueled the explosive growth of the Internet, creating a low barrier to entry for an immense number of entrepreneurial online businesses. According to the International Telecommunication Union, more than 3 billion people around the world are now using the internet. These consumers are going to the Internet to access — at no cost —
all types of content, from news and health to sports and entertainment to job listings and travel recommendations. The most popular Internet search engines, news outlets, entertainment portals, photo and video sharing services, and social networking sites all give consumers free access to enormous content and online experiences thanks to their advertising revenues.

Online media has developed at an extraordinary pace. It took 38 years for radio to reach 50 million Americans; network television took 13 years and cable television took 10. It took about three years for the Internet to reach 50 million users in the U.S.

According to the Interactive Advertising Bureau, U.S. digital advertising revenues reached an all-time high of $59.6 billion in 2015, a 20 percent increase over 2014. To put this in perspective, the consulting firm eMarketer has projected that in 2017 marketers for the first time will spend more dollars online in the U.S. than on television. However, policymakers need to refrain from imposing undue restrictions that would limit the effectiveness of digital advertising, thereby diminishing the flow of ad dollars into this important media channel.

Educates the Public. Advertising informs consumers about product choices available in the marketplace. Increasingly, it also educates them about issues that affect their lives. Recognizing the power of advertising to educate, the industry voluntarily devotes billions of dollars of creative and media resources annually, through The Ad Council and other public service efforts, for high-visibility campaigns on a variety of issues.

Public Service Advertising: The Advertising Council

One of the most important activities of the advertising community is the development of public service advertising. In 1942, The Advertising Council was established by the ANA, the American Association of Advertising Agencies, the Magazine Publishers Association, the National Association of Broadcasters, the Newspaper Advertising Bureau, and the Outdoor Advertising Association of America. The Ad Council was created to be the central body through which volunteers from business, advertising, and media create and distribute public service campaigns.

Over its lifetime, The Ad Council has been responsible for a number of memorable campaigns. Smokey Bear works for fire prevention, ads for the United Negro College Fund teach us that “a mind is a terrible thing to waste,” and McGruff the Crime Dog works to “take a bite out of crime.” The Ad Council also has taken a lead role in efforts to combat alcohol and drug abuse and drunk driving, with the “Friends Don’t Let Friends Drive Drunk” campaign. The common thread among all Ad Council campaigns is the promotion of individual volunteer actions to solve America’s social problems.

The Advertising Council is supported solely through the contributions and volunteer efforts of numerous corporations, advertising agencies, broadcasters, and publishers. Each year more than $1.5 billion is donated for the various campaigns. Beyond the media contributions are the invaluable voluntary efforts of the advertiser/campaign coordinators and the advertising agencies in creating each of the campaigns.

Ad Council campaigns garner billions of media impressions each year. The various campaigns have led to significant changes in attitudes and behaviors and drive people to important information and services.


The devastating national problem of drug abuse is the focus of another major advertising industry public service initiative. The Partnership for Drug-Free Kids leverages the power of advertising to deter usage and put useful information in the hands of parents, teens, teachers, and friends. More information about this project is available at www.drugfree.org.
About the ANA

The ANA (Association of National Advertisers) provides leadership that advances marketing excellence and shapes the future of the industry. Founded in 1910, ANA's membership includes nearly 1,000 companies with 15,000 brands that collectively spend or support more than $250 billion in marketing and advertising annually. The ANA also includes the Business Marketing Association (BMA) and the Brand Activation Association (BAA) which operate as divisions of the ANA, and the Advertising Educational Foundation which is an ANA subsidiary. The ANA makes a difference through advancing the interests of marketers and promotes and protects the well-being of the marketing community.

About ANA Government Relations

The ANA's Washington, D.C., office has a staff of five, all of whom are well-versed in the legislative, regulatory, and legal issues facing advertisers. Members of the D.C. office have extensive experience working for members of Congress, congressional committees, and state legislatures. The D.C. office regularly meets with members of Congress and their staffs, as well as key regulatory agencies, including the Federal Trade Commission and the Federal Communications Commission.

We file amicus (friend-of-the-court) briefs in legal cases impacting key advertising concerns. We also participate, where appropriate, in state, local, and international advertising issues. We regularly update our members on our activities and the issues facing them, and we often seek help from our members in these efforts. In addition to our direct advocacy efforts, the D.C. office also manages a Legal Affairs Committee and organizes an annual Advertising Law and Public Policy Conference. If you would like more information, contact us at 202.296.1883.

Did you know ANA's Washington, D.C., office is on Twitter? Follow us at @ANAGovRel.

Check out Dan Jaffe's Regulatory Rumblings blog at www.ana.net/rumblings.

Join our Legal Affairs Committee, participate in a Legal and Regulatory webinar, or attend our Advertising Law & Public Policy Conference. Learn more at www.ana.net.