

Commercial communication in the age of sobriety

Taxing advertisement to change the way we consume



About us



COMMUNICATION
& DÉMOCRATIE

The association Communication et Démocratie seeks to strengthen the rules on communication activities and influence strategies conducted for industrial and financial interests, and to redistribute access to stakeholders in civil society. Bringing together communication and media professionals, academics and association leaders, Communication et Démocratie participates in drafting, disseminating and promoting analyses and proposals relating to communication activities.

www.communication-democratie.org



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The Veblen Institute for Economic Reforms is a think tank founded in 2010. A non-profit organisation, it promotes public policy proposals and civil society initiatives in support of the ecological and social transition. Through its publications and actions, it works to create a society in which respect for the planet's physical limits goes hand in hand with an inclusive and more democratic economy.

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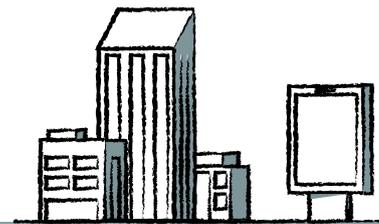


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Editorial



While critical analysis of advertising is concomitant to its advent more than a century ago, it acquires a new dimension today in the context of the major ecological crisis we are experiencing.

From Thorstein Veblen to John Kenneth Galbraith, the economic role of advertisement in stimulating demand has been well documented since the first half of the nineteenth century. But from the post-war period of economic growth (the 'Trentes Glorieuses' in France), the question of advertising content - issues of manipulation and free will - has dominated the debate (led by the Frankfurt School and the Situationist International organisation), fuelling criticism of the 'consumer society' and 'cultural industries'.

The field of economic theory even gradually abandoned the question of advertisement from the 1990s onwards, precisely when the communication sector was being rapidly professionalised and global brands were emerging. Management sciences took on the role of continuing to advance knowledge on advertisement and marketing issues, often with a view to optimising their influence on consumers. In parallel, the public authorities also relatively abandoned regulation of these activities, and entrusted the mission to professional organisations in a self-regulatory approach.

The landscape has now changed significantly. With economic, ecological, democratic and social crises multiplying, the question of advertisement's economic role can no longer be ignored. In the wake of the 2008 financial crisis, the bodies representing major players in the advertising industry initiated studies on the subject in various countries. In 2017, for example, this led to the World Federation of Advertisers publishing a report on the 'Economic Contribution of Advertising in Europe'.

The report's key figure made headlines in the media, stating that "1 Euro of advertising spend generates 7 Euros for the economy". It helped position advertising as a particularly powerful tool for economic recovery, and thus asserted the counterproductive nature of any restrictive regulations. As the ecological

crisis worsened in the years that followed, France's Union des Annonceurs and the AACC (association representing major communication agencies), also defended the key role of advertisement in France in guiding consumers towards less polluting products, positioning their activity as 'the strong arm of the ecological transition'.

However, this did not prevent public debate from denouncing the harmful role of the advertisement of polluting products, such as SUVs and 'junk food', to the point when, in 2020, the French Citizens' Climate Convention recommended a ban on the advertisement of certain products. The subsequent drafting of the Climate and Resilience Act in France was the subject of intense debate in public opinion and political forums, particularly on the issues of regulating advertisement.

Although no strong binding measures were finally retained in the law adopted in 2021 (its ban on advertising fossil fuels is largely symbolic given the amounts at stake), a milestone was nevertheless reached in the way the subject is addressed and the level of expertise mobilised on the issue.

In April 2022, in the third part of its sixth report on climate change mitigation, the IPCC emphasised for the first time the importance of 'sobriety'. It explicitly mentions the role of advertising in consumer dynamics and recommends its regulation by public authorities.

At the time this report was published, the Borne government in France has also been calling for a commitment to 'sobriety'. The term is however currently aimed more at managing the energy shortage (considered temporary) than at transforming our economic model to bring it within planetary limits.

An independent and in-depth analysis of the economic effects of advertising in France has been sorely lacking, until now. All the more so since, alongside lobbying by the largest advertisers entirely dedicated to defending self-regulation mechanisms, a growing number of communication professionals (and future professionals) engaged in serious reflection about their profession, are also expressing high expectations in terms of sector regulation.

With this report, based on an academic study on the economic effects of commercial communication, we have sought to contribute to establishing a robust diagnosis of the subject and to place it in the current context of ecological crisis. To open up the discussion to possible solutions, our organisations - Communication et Démocratie and the Veblen Institute

- offer a number of public policy recommendations, including higher taxation of advertising expenditure. These regulatory measures are in line with the idea of transforming our economy to meet the ecological challenge, but also to move towards a society in which sobriety is a desirable objective.

We are confident that this work will make a useful contribution to the public and political debate on the role of commercial communication, now well underway, and on how to move forward to ensure the role of the communication sector in creating a sustainable world.

*Céline Réveillac, Communicator &
President of Communication et Démocratie*

*Dominique Méda, Professor of Sociology &
President of the Veblen Institute*

About the report

This report is the result of a partnership between Communication et Démocratie and the Veblen Institute for Economic Reforms. It is based on the research work of academics Francesco Turino and Samuel Delpeuch. The academic study's conduct was supervised by a steering committee composed of Didier Courbet, Mathilde Dupré, Renaud Fossard and Thierry Libaert. Their results, recorded in a working paper freely available online, provide an analysis of the effects of advertisement and promotional marketing on the French economy, including the level of consumption in France and identification of the mechanisms that govern these effects. AT the time this report was published, the working paper was undergoing a peer review. It is expected to be published in a scientific journal in 2023, like the first study by Francesco Turino and Benedetto Molinari on the effects of advertising on the US market, published in 2018 in the Economic Journal.

Link to the working paper: <https://sites.google.com/view/francesco-turino/research>

1 Study of the economic effects of commercial communication in France

1.1 Methodology of the academic study

This report is based on research conducted by academics Francesco Turino and Samuel Delpeuch. They focus on the structure of commercial communication expenditure in France, its economic impacts, and the possible effects of tax policies applied to this expenditure.

The study is mainly based on a model, in addition to empirical work¹. The data used, relating to commercial communication expenditure by advertisers in France, was collected and processed by the France Pub Institute. This includes:

- the amount of annual expenditure via the different distribution channels, between 1992 and 2019;
- data broken down by economic sector and industry since 2007.

The *dynamic stochastic general equilibrium (DSGE)* model used means we can analyse the effects of commercial communication expenditure on three major macroeconomic aggregates: private final consumption, gross domestic product (GDP), and savings, which can be equated with investment. It also allows for the analysis of their effects on other economic aggregates such as the total number of hours worked by the population, or companies' margin rates.

Advertising is considered in the model to be persuasive in nature, consistent with the results of social science research on the subject

This model was developed by Francesco Turino and Benedetto Molinari to study the economic effects of advertising in the US market between 1976 and 2006, and was published in the *Economic Journal*². The original model differs from neoclassical DSGE models which consider advertising as strictly informative and having only a rival effect between competing advertisers.

IN contrast, the Molinari-Turino model considers that consumption choices no longer depend solely on income and individuals' own preferences because they also react to advertising expenditure. Advertising is therefore considered to be persuasive in nature, and is estimated in the model to be consistent with the results of social science research on the influence of advertising on individuals (see Box 3 in the report).

Regarding the sectoral effect of advertising, the Molinari-Turino model assumes that commercial communication can, to some extent, increase total consumer demand in addition to redistributing market shares among companies. Commercial communication has thus been calibrated in this model as having a partially cooperative effect.

1. Study of the economic effects of commercial communication in France

The Delpuech-Turino model for the French market study

Additional elements were incorporated in the initial model for the French market study. In particular³, the limited notion of 'advertisement' has been extended to 'commercial communication' within which two broad categories of expenditure have been identified⁴:

"Advertising and public relations" (hereinafter "advertising and PR" or "advertising"), consisting of advertisement in traditional and digital media, leaflets and advertising publications, partnerships and public relations

"Promotional marketing" (hereinafter "marketing"), consisting of promotions in the strict sense, and other marketing channels (such as point-of-sale advertising or telephone canvassing)

Taking into account the academic literature on the subject⁵, it has been considered in the Delpuech-Turino model that advertising has an effect on the consumer, the level of sales and on brand value (which accumulates over time), while marketing has only a short-term effect on the level of sales.

This report also includes the results of additional research conducted by Communication et Démocratie and the Veblen Institute, relating to high advertising levels of products in a few key sectors, the share

of consumption in household spending and its greenhouse gas emissions in France.

1.2 The high level of spending on commercial communication in France

Commercial communication spending has risen continuously since the 1990s.

Before the 2008 financial crisis, expenditure had reached €33.1 billion, a level exceeded in 2018 to reach €33.8 billion in 2019 (not counting the approximately €10 billion of human resources that these activities require).

The financial effort made by companies to influence consumers is on a par with the effort made for research and development, the main driver of innovation.

Over the period 1992-2019, commercial communication expenditure was composed three quarters of advertising and PR expenditure and one quarter of promotional marketing expenditure.

Annual expenditure on commercial communication (€bn)



The financial effort made by companies to influence consumers is on a par with the effort made for R&D, the main driver of innovation.

1. Study of the economic effects of commercial communication in France

Main historical channels and media mixes by economic sector

Six main distribution channels are identified in the nomenclature adopted for the study: traditional media, digital media, leaflets and catalogues, partnerships and PR, promotions and other marketing channels.

Historically, the main item of commercial communication expenditure is unsurprisingly traditional media, which accounted for one third of total expenditure. But the other major item, roughly equivalent, is leaflets. And promotions follow as the third key item with 15% of expenditure. The other three distribution channels lag quite far behind. However, the development of the internet from the 2000s onwards led to digital media becoming a major item in the 2010s, ahead of promotions and now on a par with leaflets.

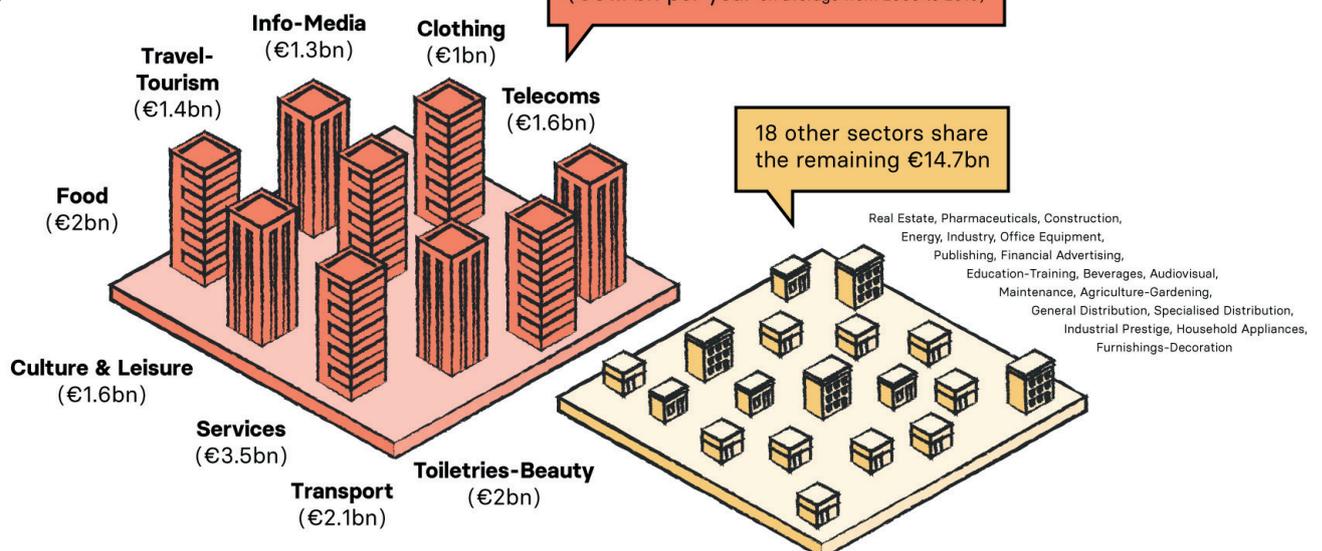
To analyse the advertising market, the various economic sectors are grouped into four main branches: industry, retail, consumer and services. Each have different profiles in terms of spending volume and media mix.

Over the 2009-2019 period, the latter three branches shared more than 90% of the market, with industry playing a minor role. The consumer branch relied most heavily on both traditional media (over 40%) and promotions (25%); the services sector also prioritised traditional media (one third) and leaflets (20%), but relied particularly on the digital sector (20% on average, and almost a third in 2019). Strikingly, leaflets and catalogues account for 50% of the distribution sector and, together with promotional expenditure, account for more than two thirds of total expenditure.

1.3 Highly concentrated spending at sector, product and advertiser level

The economic sectors that make most use of commercial communication

According to the France Pub classification, 27 specific sectors are divided between the 4 main economic branches. These sectors cover a wide variety of activities: agriculture and gardening, publishing, real estate, culture and leisure, travel and tourism, etc. (see Annex 2 of the report), and their advertising expenditure is very heterogeneous.



1. Study of the economic effects of commercial communication in France

Grouped in the consumer and services branches, there are 9 economic sectors whose annual expenditure on commercial communication exceeds one billion euros (and even several billion for some). They alone accounted for an annual average of more than half of commercial communication expenditure over the 2009-2019 decade.

Despite the great variety of products in the 11 sectors of the consumer branch (ranging from cleaning products to furnishings and decoration to film and photo equipment) it must be noted that, on average per year over the period 2009-2019, only 5 sectors - transport, food, beverages, toiletries and beauty, and clothing - accounted for €7.7 billion, i.e. 80% of the expenditure of the entire branch.

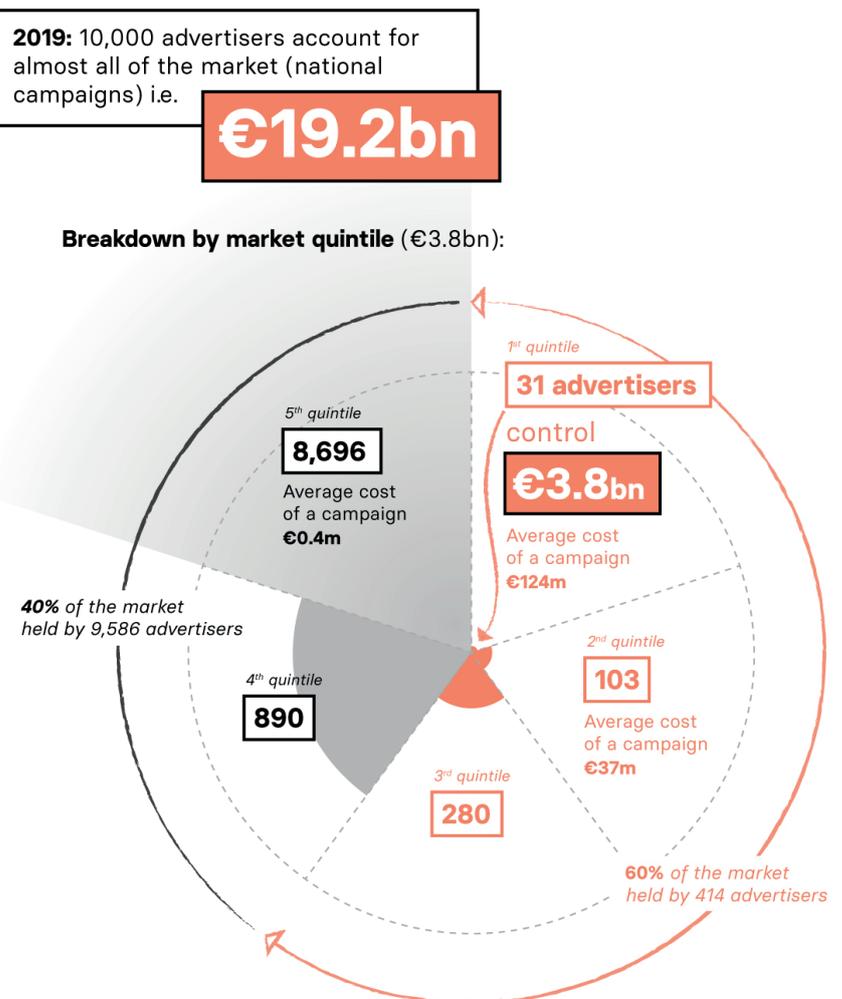
Similarly, the diversity among the 7 sectors that make up the 'services' branch (including education and training, and real estate) should not obscure the fact that over the same period, only 3 sectors - services (proper), telecommunications, travel and tourism - accounted for €6.5 billion, i.e. two thirds of the expenditure of the whole branch.

A limited number of large advertisers dominate the market

Data from France Pub indicates that the commercial communication market is also highly concentrated in the hands of a few large advertisers. Of the 4 million French businesses in 2019, only a few tens of thousands - just over 60,000 - had access to the advertising market.

In that year, just 2,000 companies accounted for 85% of commercial communication spending countrywide. Two thirds of this spending was by less than 500 advertisers, with average campaign budgets of 25 million euros. Twenty percent (20%) of the market was controlled by only 31 large advertisers, with an average campaign budget of around 125 million euros.

This very high level of concentration in the commercial communication market is not a new phenomenon. The figures for 2009 paint a similar picture.



1. Study of the economic effects of commercial communication in France

Commercial communication for a few key products

The 27 economic sectors that make up the commercial communication market refer, in concrete terms, to a very wide variety of products - nearly 500 - which are those that the brands ultimately promote. Given the very unequal access to advertising markets between different economic sectors and advertisers, we studied the issue of market concentration around a limited number of products.

Unfortunately, the authors of this study were unable to access data per product due to its prohibitive cost. The report therefore draws on information available in the public domain, mainly the trade press, to derive orders of magnitude for spending on certain key products. Four significant sectors were studied, namely transport, beverages, travel and tourism, and culture and leisure.

The 'transport' sector regularly leads in terms of annual commercial communication expenditure and groups together 10 different product types. However in reality, it is almost totally dominated by the promotion of motor vehicles alone, which in 2019 was largely the promotion of SUVs (*Sport Utility Vehicles*)⁶

The substantial 'travel and tourism' sector (€1.8bn in commercial communication in 2018) groups together 14 different types of products. However, it is in fact largely dominated by the promotion of fast food, with three brands - McDonald's, Burger King and KFC - accounting for more than one fifth of the entire sector's total expenditure in 2018.

The culture and leisure sector (€1.2bn in 2021) includes 17 different types of products, including casinos and online betting. In 2021, gambling operators invested almost 239 million euros in commercial communication, i.e. one fifth of the sector's total expenditure.

The beverages sector includes 13 different types of products, but near 50% revolves around sugar-laden 'soft drinks/sodas' alone. Of this 50%, one third of the volume is controlled by Coca-Cola, Oasis and Orangina.

The "beverages" sector includes **13 TYPES OF PRODUCTS**



Total commercial communication expenditure in 2019: **€676m**

of which 41% for sodas i.e.

€278m

Of which **€100m, more than a third by Coca-cola, Oasis and Orangina**

Whether it is SUVs, online betting, sugary drinks or junk food, the mass consumption of these products has health, social and environmental effects that raise political questions. Promoting the consumption of these sensitive products is therefore the subject

of public debate, including campaigns to regulate or even ban advertisement of some, including the four types of products mentioned above.

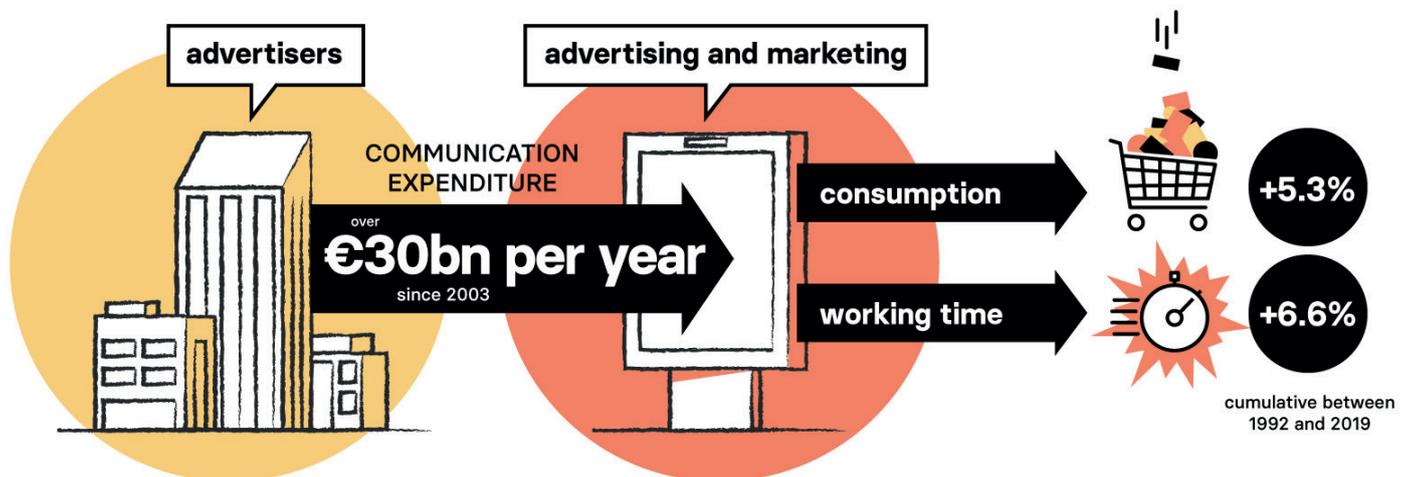
1.4 The increase in consumption and working time due to commercial communication

The results of this study indicate that, over the last three decades (1992-2019), the level of commercial communication in France has led to a cumulative increase in consumption of 5.3%. It also helped companies increase their margin rate by 0.84%, strengthening their market position at the expense of competitors who were less active in commercial communication. In other words, companies' commercial communication has made French individuals more willing to consume, especially the products of companies that are among the main advertisers. This can be explained by the fact that an increase in commercial communication expenditure by companies leads to an increased feeling of dissatisfaction among individuals with their current level of consumption, a phenomenon referred to as

Increased spending on commercial communication leads to individuals feeling an increased sense of dissatisfaction with their level of consumption, and contributes to the phenomenon of psychological obsolescence

the concept of psychological obsolescence⁷.

The results also show that spending on commercial communication has led to a cumulative increase of 5% in GDP and 4% in investment (lower rates than the increase in consumption). This means that these commercial communication activities have strengthened the relative share of household consumption within GDP (by 0.2%⁷), to the detriment of investment's share. This additional consumption comes at a cost to consumers, who have to finance it. Over the period 1992-2019, commercial communication activities were thus responsible for an approximate 6.6% increase in the total number of hours worked, leading to a 1.14% decrease in the level of wages.



The results of short-term analysis - over the first 5 years after an increase in commercial communication expenditure - provide a better understanding of the mechanisms at work. An increase in advertising and PR expenditure (the main volume of commercial expenditure) leads to a significant increase in

consumption, growing during the first 3 years and then stabilising at a high level (multiplier of almost 3). To finance this additional consumption, consumers tend to gradually increase their working time and, after 3 years, start to dip into their savings.

1. Study of the economic effects of commercial communication in France

At the same time, the increase in promotional marketing expenditure, which is smaller in absolute value and therefore has a more limited effect, generates its main impact of increasing consumption

This additional consumption has a cost for consumers who have to finance it: increase in the total number of hours worked and decrease in the level of wages

immediately (multiplier of almost 0.5), and then gradually declines. This has the immediate effect of individuals increasing their working time and then gradually, dipping into their savings.

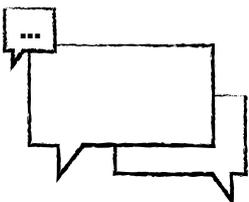
The surprising results of the study commissioned by advertising industry associations

The World Federation of Advertisers (WFA), of which the Union des Marques (UDM) in France is a member, commissioned a study from Deloitte entitled "The Economic Contribution of Advertising in Europe", published in January 2017. This study came to a striking conclusion, which has been widely publicised and actively relayed to policy makers: in 2014 "every Euro spent on advertising powers a seven-fold boost to GDP".

Surprisingly, the report uses the economic concept of a 'multiplier' to describe this figure. Strictly speaking in the case of France, this would mean that every additional euro spent on advertising would generate an additional 7.85 euros of added value in the economy, which would be an extremely powerful effect. In reality, the 7.85 figure is a 'ratio' between advertising expenditure in 2014 and its estimated contribution to GDP. Put another way, in that year, French GDP would have been 4.61% lower in the absence of advertising, according to the study. This is still a particularly high figure nevertheless. The Delpuech-Turino study identifies an approximate 5% increase in GDP related to commercial communication, but cumulated over almost 30 years. This suggests an impact of a much smaller magnitude than what an annual increase in GDP of around 4.6% would imply.

Given the methodology adopted by Deloitte in their study, one of the possible explanations for such a result is the restricted definition given to the notion of 'advertising' expenditure (which only includes expenditure incurred in traditional and digital media). This mechanically contributes to overestimating the expenditure's effect on GDP.

Beyond these measurement issues, in more general terms, the statistical properties of their estimation depend on certain assumptions, and the fact that advertising affects both immediate and future sales makes these assumptions difficult to reconcile.



In addition to the modelling approach, empirical research has been conducted at sectoral level to identify the links between commercial communication expenditure and consumption in France⁸. This research finds a positive correlation, and also shows that taking commercial communication into account is relevant for reporting on medium-term consumption balances by sector, although this last point would require further work.

The empirical analysis therefore suggests that it is important to include commercial communication to analyse consumption dynamics in France, which reinforces the relevance of the model used to study the French market.

2 The environmental and social issues of incentives to consume

2.1 In light of the ecological emergency, the unavoidable challenge of sobriety

Since COP21 was held in 2015, France has failed to follow its greenhouse gas (GHG) emissions reduction trajectory, which aims for carbon neutrality by 2050.

The work to reduce emissions in the most polluting sectors (transport, energy, housing and agriculture), through investment in research and innovation, must be continued and expanded. But given the timeframe for limiting the impact of climate change - the World Meteorological Organisation warned in 2021 that the Paris Agreement's lower threshold of 1.5°C could be exceeded as early as 2025 - this strategy is clearly insufficient⁹. Our economy is not decarbonising fast enough.

The ecological transformation needed today implies greatly reducing GHG emissions in the short term, as well as the whole material cycle of the economy (resource extraction, processing and waste production). However, our growth model based on a perpetual increase in household consumption (representing 51% of GDP in 2021), itself driven by credit and advertising, is incompatible with planetary limits and the climate crisis.

"Our growth model based on a perpetual increase in household consumption, itself driven by credit and advertising, is incompatible with planetary limits and the climate crisis"

According to a 2020 report by France's High Council on Climate, *"This model of mass consumption is reaching its economic, social, political and environmental limits. Households are on the whole over-equipped. (...) Purchasing power is no longer increasing for the population as a whole, and inequalities are growing. Consumption is coming up against environmental limits, whether in terms of climate or resources. (...) it is indeed the whole economic, technical, social and political set-up of consumer society that is difficult to change."*

Tangible results in emission reduction could be achieved with quantitative and qualitative changes in consumption (e.g. reducing by a factor of three the number of new clothes purchased, switching to a flexitarian diet, etc.)¹⁰.

As such, a new focus on demand is emerging, in addition to supply-side measures. For the first time, in the third part of its sixth report published on 4 April 2022, the IPCC strongly emphasised the key role of 'sobriety' in climate change mitigation.

2.2 Over-consumption: distributing efforts according to responsibilities and means

France is an industrialised country with a high average carbon footprint per capita (around 10 tCO₂e per capita in 2019)¹¹. It should be noted that in order to meet the objectives of the Paris Agreement, France will need to reduce its carbon footprint to an average of 2 tCO₂ per year¹².

Despite the beginnings of a transformation in consumption patterns, household consumption still accounts for a large share of emissions. In 2010¹³, French households emitted an average of 24.62 tCO₂e through their consumption (imported emissions included)¹⁴. The largest items were consumption of goods (35% of emissions excluding government emissions) followed by food (15%) and services (13%).

But this average masks significant disparities: a household in the richest 10% emitted an average of 40.4 tCO₂e in 2010, i.e. 2.6 times more than a household in the poorest 10% (which emitted an average of 15.2 tCO₂e). And the consumption of goods, the main item of CO₂ emissions by households, accounts for 34%

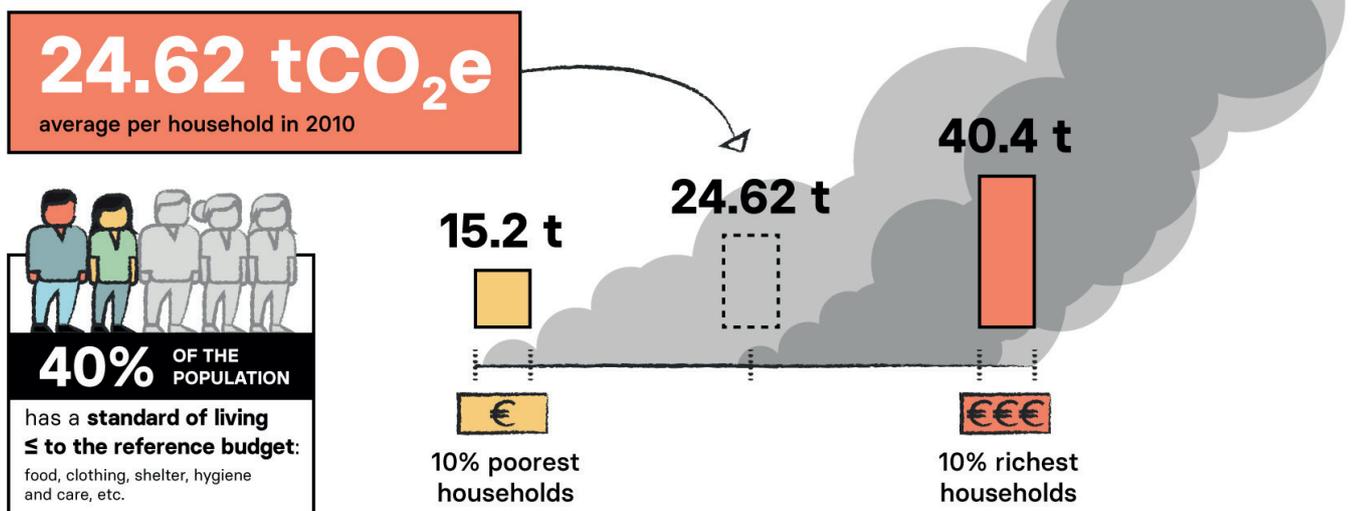
of emissions for the first decile, but 42% for the last decile¹⁵.

In this panorama, it must also be taken into account that 40% of the French population has a standard of living lower than or equal to the estimated 'reference budgets' necessary for financing conditions that ensure well-being¹⁶. In other words, only 60% of the population would be able to consume beyond this threshold, and therefore be likely to 'over-consume'.

Consequently, work on reducing the carbon footprint of household consumption should focus on the spending on capital equipment and everyday goods by households whose standard of living already guarantees satisfactory welfare.

Despite the beginnings of a transformation in consumption patterns, household consumption still accounts for a large share of CO₂ emissions.

SHARE OF EMISSIONS FROM HOUSEHOLD CONSUMPTION IN FRANCE



2.3 The need for public policies to regulate commercial communication

Highlighting the environmental impacts of the French population's consumption does not mean that consumers should be blamed or made to feel guilty. To start, these consumers are subjected to large quantities of advertising stimuli inviting them to consume. And for those committed to responsible consumption, there is still too little information to guide their choices, and alternatives are sometimes not available or too expensive. This is why individual efforts alone cannot effectively meet the challenge of complying with the Paris Agreement.

Combating the 'political economy of affluent consumption'¹⁷ requires public policies to radically change the organisation of the economic model as a whole. There is also a need to regulate companies and their communication activities in particular.

In its latest report dated April 2022, the IPCC developed the analysis of the role of advertising as a significant tool for influencing social consumption practices, and

mentioned that the 'regulation of advertisement' in public policies could play a useful role in the fight against global warming¹⁸.

According to the 15th GreenFlex-ADEME 2022 Barometer of Responsible Consumption¹⁹, 90% of those surveyed feel that "we live in a society that pushes us to buy constantly", and 83% "would like to live in a society where consumption takes up less space".

Taking direct action on commercial communication spending would help to reduce the level of advertising pressure to slow down consumption and combat conspicuous consumption. We can also anticipate that the effects of reducing commercial influence will be felt primarily by households with less spending constraints.

Individual efforts alone are not enough: taking direct action on commercial communication spending can reduce the level of advertising pressure and combat over-consumption



3 Analysis of the impact of proactive fiscal policies on commercial communication expenditure

3.1 The effects of an 8% tax to combat consumerism and increase 'well-being'

Until now, the level of taxation on commercial communication expenditure in France has been low, averaging less than 2.5% over the last three decades (see Annex 3 of the report). In order to reduce the level of advertising pressure and combat consumerism, different options for more proactive fiscal policies have been explored with the Delpeuch-Turino model.

All the options considered lead to significant reductions in advertising and promotional marketing expenditure. As a result, they mainly reduce the level of consumption and, at a marginally lower level, GDP. They also decrease the level of investment, but by significantly less than the decrease in the two aggregates mentioned above. In other words, proactive fiscal policies on commercial communication expenditure reduce the relative share of consumption in GDP in favour of the share in investment.

They also have the effect of reducing dominant advertisers' market power, thereby increasing competition between companies. In addition, they lead to a reduction in working time and an increase in the level of wages, in other words to an increase in people's 'well-being'. This notion is considered here in its classic economic sense (the result of an increase in consumption faster than an increase in working time), i.e. as strictly 'hedonic' and focused on short-term emotions. All the more so when we focus on the evolution of 'eudemonic well-being', which is deeper

and more long-term. It appears that a tax to reduce advertising pressure would help improve the French population's welfare.

In contrast to a 5% tax with too limited an effect, the option of an 8% tax on all or part of commercial communication expenditure seems more appropriate. It would generate the first noticeable effects on the economy of a significant drop in commercial communication expenditure and a slight reduction in consumption.

An 8% tax could generate the first noticeable effects on the economy of a significant drop in commercial communication expenditure and a slight reduction in consumption.

Over the long term, our study shows that the remaining expenditure on commercial communication after application of such a tax would contribute to an average 4.6% increase in consumption (a slowdown of almost 0.7% compared to the current tax situation). Given the strong effect of commercial communication on the increase in

hours worked in France, the 8% tax option is more likely to have a noticeable impact on consumer 'well-being'. The increase in hours worked would be cut by almost 1%.

3.2 The benefits of a tax targeting large advertisers' expenditure

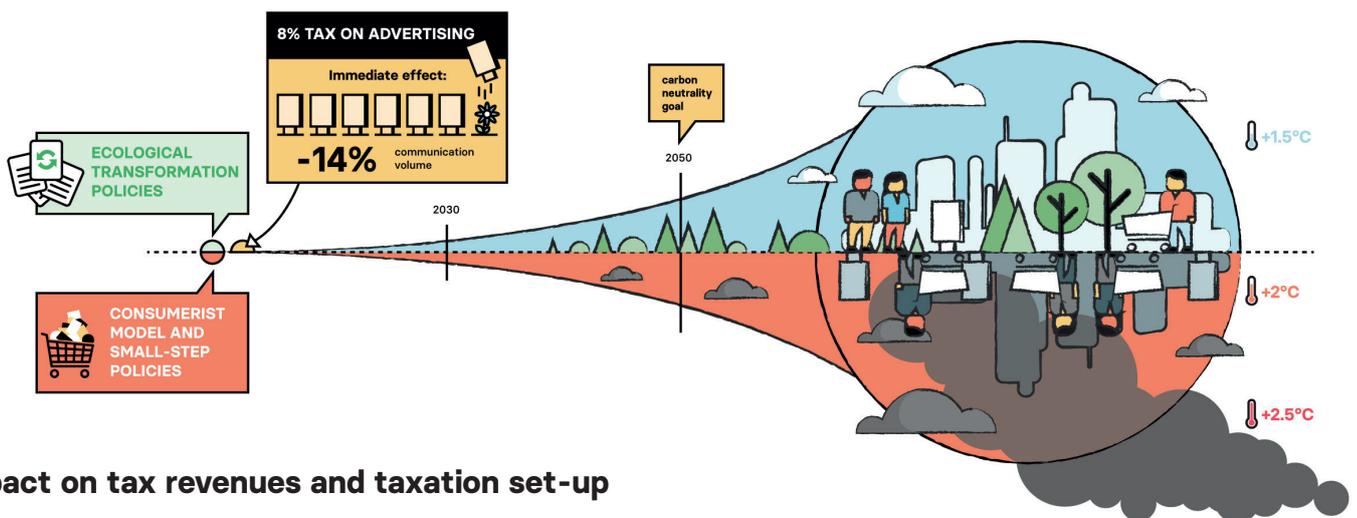
The effectiveness of a tax on advertising expenditure alone

Taxing advertising and PR expenditure alone has an indirect downward effect on promotional marketing expenditure and leads to macroeconomic effects quantitatively similar to those of an 8% tax on all commercial communication expenditure.

The reduction in advertising expenditure (which represents 75% of total expenditure) would be equivalent (around 13%) whether the tax is targeted or not. However, the effect on promotional marketing expenditure would be different: it would reduce by more than 20% if all expenditure is taxed or only 5% if only advertising expenditure is taxed. Focusing a tax policy on advertising expenditure therefore appears to have particularly effective economic effects.

Such targeting would also be politically relevant. Advertising communicates content based on complex semiotic strategies aimed at long-term influence, and actively participates in the socio-cultural dynamics that underpin the society of over-consumption. In contrast, promotional marketing works mainly on the short-term price signal, and sometimes offers a significant means for the poorest households to access certain basic products.

With this context in mind, it seems appropriate - with similar macroeconomic effects - to focus the 8% tax on advertising expenditure. This would favour a reduction in advertising and limit the reduction in promotional marketing.



Impact on tax revenues and taxation set-up

The objective of higher taxation on commercial communication activities is to influence the level of expenditure in the sector, not to raise tax revenues²⁰. But in fact, an 8% tax targeted on advertising activities would generate an average of €1.66 billion annually over 3 years. If continued for more than 5 years, its direct revenues would be much higher than the decreases in tax revenues observed on other bases. Overall revenues would then stabilise - assuming no change in the tax model - at a level slightly below the current level (0.4% decrease).

As regards the tax base, the advertising market being highly concentrated among a limited number

Aiming the tax at large advertisers would help stimulate the wide variety of products promoted by the many small advertisers

of dominant players (and sensitive products) argues for applying the tax specifically to large advertisers (following the example of the tax on promotional expenditure in the pharmaceutical sector). This approach would indirectly help to stimulate the wide variety of products promoted by the many small advertisers.

In addition, a number of economic sectors and products that are particularly strategic for the economy's ecological transformation, such as organic farming products, the reuse sector and renewable energies could be exempted from all or part of the tax.

4 Recommendations for restoring the communication sector as a service to society

8% tax on the advertising expenditure of large advertisers

The high level of commercial pressure in France over the past decades has played a key role in increasing consumption and its negative externalities. This diagnosis highlights the need to reduce spending on commercial communication in order to combat consumerism and promote well-being. Proactive fiscal policies, such as an 8% tax on the advertising expenditure of large advertisers, makes this possible. In addition to a fiscal approach, our economy's

ecological transformation requires a policy of general regulation of commercial communication. It would be of particular interest to direct commercial communication activities towards products whose consumption is compatible with a sustainable economy, and at the service of companies whose economic models are virtuous for the environment, workers' rights and human rights.

Access to information

Given the political, economic and environmental issues raised by commercial communication activities, expenditure data should be made accessible to key actors in the public debate. Accessing data on expenditure volumes by economic sector has a high cost; accessing data on expenditure volumes by

product and by company has a prohibitive cost. These costs are obstacles to analysis and democratic debate, both legitimate and necessary for guiding policies to regulate these activities. Promotional expenditure on products deemed sensitive should be made public.

Sectoral bans

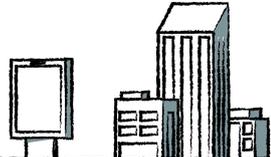
Certain sectors and types of products, notably those with a very high carbon footprint or a negative impact on public health, should not be included in the tax logic. For these products in particular, public interest calls for a ban on access to the commercial communication market, as it does for cigarettes in many countries around the world, or sweetened drinks in Singapore. This applies to products such as the fossil fuel industry, individual internal combustion

vehicles (including hybrids), air travel, and food products with a Nutri-Score of D or E (plus C for products intended for children). These legal bans, which focus on a limited number of especially harmful products, should not hinder the deliberate steps taken by certain media firms to encourage eco-friendly products to access to their spaces, particularly those identified in conjunction with the ADEME.

Regulation of advertising content in the public interest

The regulation of advertising content, which is currently deficient and ignored by the public authorities, should also play a central role in reorienting the communication sector as a service to help transform our imaginations and society. This goal implies setting up an authority that is truly independent of both industry and government, for the regulation

of advertising content, promotional marketing and corporate communication. This authority should have a robust mandate, by means of upstream control (before campaigns are broadcasted), to combat advertising that entices waste, obsolescence and the 'greenwashing' of products and brands.



A summary of our recommendations

- Facilitate access to data on volumes of commercial communication expenditure by economic sector

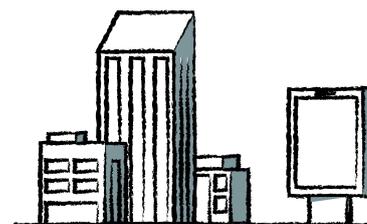
- Make public the amounts spent on commercial communication for a list of products deemed sensitive, including cars, fast food, soft drinks and smartphones

- Introduce a general tax of 8% on the advertising and public relations expenditure of large companies, with the exception of certain exempted sectors and products

- Prohibit commercial communication activities by the fossil fuel sector (including gas), individual vehicles with internal combustion engines (including hybrids), air travel, and Nutri-Score D or E food products (including Nutri-Score C when aimed at young audiences)

- Establish an independent administrative authority responsible for upstream regulation of commercial communication content, to combat incentives to waste, obsolescence and the 'greenwashing' of products and brands

References



1. The modelling approach consists of establishing a representation of the economy in which variables interact based on different assumptions (detailed in the report). Then the actual data for the variables is fed into the model, which subsequently produces results and provides numerical measures of the effects of the variables on each other (see Box 2 in the report).
2. Benedetto MOLINARI and Francesco TURINO, "Advertising and aggregate consumption: a Bayesian DSGE assessment", *Economic Journal*, vol. 128, no. 613, 2018, pp. 2106-2130
3. The other new feature is the introduction of two categories of households: *savers* and *non-savers*.
4. An original nomenclature has been adopted in this study to group into two distinct categories the twenty or so specific distribution channels for which France Pub provides the amounts spent by advertisers (television, press, billboards, displays, leaflets, POP, promotions, etc.). It differs from the dominant nomenclature in the communication sector. Elements for comparative analysis between the nomenclature used in this study and that used by France Pub are available in Annex 1 of the report.
5. Boulding WILLIAM, Eunkyu LEE, and Richard STAELIN, "Mastering the Mix Do, Advertising, Promotion, and Sales Forces Activities Lead to Differentiation?", *Journal of Marketing Research*, vol. 31, no. 22, 1994, pp.159-172
Jean-Pierre DUBÉ AND Puneet MANCHANDA, "Differences in Dynamic Brand Competition Across Markets: An Empirical Analysis", *Marketing Science*, vol. 24, no. 1, September 2005, pp. 81-95
6. The figures that have been identified, relating to the share of commercial communication expenditure on motor vehicles within the transport sector, raise specific methodological issues. This is detailed in Section 4.1 of the report.
7. In the model, this is reflected in the increased marginal utility of consumption. The mechanism at work is consistent with the one described by Chloé Michel, Andrew J. Oswald, Eugenio Porto and Michelle Sovinsky in "Advertising as a Major Source of Human Dissatisfaction: Cross-National Evidence on One Million Europeans", Industrial organization discussion paper DP13532, *Centre for Economic Policy Research*, 2019.
8. As the analysis of the data shows (see Section 1.3 of this summary), the breakdown of commercial communication expenditure by economic sector indicates high disparity between these sectors, with differences that can range from 1 to 10. This sectoral heterogeneity means we can study the correlation between commercial communication and consumption in more detail than by observing aggregate dynamics alone.
9. It has been shown that decoupling economic activities and ecological impacts (CO₂ emissions and use of natural resources) is not credible. At a constant (or rising) level of consumption, the role of innovation in green technologies will remain insufficient to achieve the goals of combating climate change and protecting the environment, particularly in view of the many 'rebound effects'. Link: <https://www.eea.europa.eu/publications/growth-without-economic-growth> and <https://eeb.org/library/decoupling-debunked/>
10. A study by Carbone4 published in June 2019 indicated that by reducing the number of new clothes purchased by a factor of three, using only second-hand appliances and hi-tech, practising zero waste and using a water bottle to reduce packaging, individual annual emissions could be reduced by around half a tonne of CO₂. Link to the report: <https://www.carbone4.com/wp-content/uploads/2019/06/Publication-Carbone-4-Faire-sa-part-pouvoir-responsabilite-climat.pdf>
11. The climatic and environmental impacts of consumption are not only linked to the impacts of production on national territory. We must also take into account impacts linked to the imported products we consume, especially in a country like France, where the 'carbon footprint' (a concept that takes into account imported emissions) is about 50% higher than territorial emissions. Source: https://www.hautconseilclimat.fr/wpcontent/uploads/2021/09/HCC_Rapport_GP_2021_web-1.pdf. NOTE that this figure is in CO₂ equivalent (CO₂e), a metric measure used to compare the emissions of various greenhouse gases on the basis of their global warming potential.
12. This target was defined by the IPCC in 2018 and does not take into account other GHG emissions beyond CO₂.
13. Precise data on GHG emissions from household consumption (including imported emissions) are available with some delay.
14. Paul Maillat, "La contribution des émissions importées à l'empreinte carbone de la France" [The contribution of imported emissions to France's carbon footprint], Contribution, *SciencePo, OFCE-HCC*, May 2020. This result takes into account emissions associated with general government final consumption and imputes them equally to all households (these emissions represent 3.6 tCO₂e per household, i.e. almost 15% of the average carbon footprint of French households). Link: <https://www.ofce.sciences-po.fr/pdf-articles/actu/Rapport-OFCE-HCC-2020.pdf>
15. Ibid. Figures excluding emissions associated with general government final consumption.
16. Panorama de la Drees, *Minima sociaux et prestations sociales*. [Panorama by the French Directorate for Research, Studies, Evaluation and Statistics on social minima and benefits.] *Low-income households and redistribution*, 2021. Link: <https://drees.solidarites-sante.gouv.fr/publications/panoramas-de-la-drees/minima-sociaux-et-prestations-sociales-2021>. According to Axelle Brodiez-Dolino, "reference budgets correspond to baskets of goods and services that allow for minimal, but effective, participation in economic and social life: food, clothing and housing, getting to work, access to hygiene and healthcare, going on holiday for one or two weeks a year, and having a minimum social, cultural and sporting life. In medium-sized cities, [it is now €1,544 for a single working person]". Opinion column by Axelle Brodiez-Dolino, *Le Monde.fr*, 25 February 2022.
17. Sophie Dubuisson-Quellier, "How does affluent consumption come to consumers? A research agenda for exploring the foundations and lock-ins of affluent consumption", *Consumption and society*, vol. 1, no. 1, 2022, pp.31-50
18. The role of advertising in consumption is discussed in Section 2.6.2 *Factors affecting household consumption patterns and behavioural choices*, and 'regulation of advertisement' is included in Table 4.12 *Examples of policies that can help shift development pathways*. Climate Change 2022. Mitigation of climate change. Working Group III contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Link: https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_Full_Report.pdf
19. GreenFlex, Ademe, *15^e baromètre GreenFlex-ADEME de la consommation responsable 2022* [15th GreenFlex-ADEME Barometer of Responsible Consumption 2022], October 2022
20. However, the collection of direct revenues from a tax on advertising expenditure requires a decision on whether these revenues are part of the general budget or directed to a specific fund dedicated to a particular public policy. Implementing bans on access to the commercial communication market would have a significant impact on the products most harmful to the environment and public health (some of which are also among the products that spend the most on advertising). It might therefore be considered appropriate to commit all or part of the proceeds of the tax to a fund to support the independence of political and general media.

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