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Government as Promoter and Subsidizer of Advertising

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Preface

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Without being established for that purpose, numerous governmental activities tend to alter the private demand for advertising. These programs are designed to promote other objectives, ranging from producing defense material to eliminating discrimination in employment. The impacts on advertising are usually a by-product of other actions. The effect of these actions may be to increase the demand for advertising, to alter the composition of that demand, or on occasion to reduce the private demand.

Advertising supplies consumers and the general public with much of the information about products and services; to a significant degree this is information upon which buying decisions and other opinions are based. Thus, any governmental activity affecting this flow of information merits closer examination especially when advertising considerations are only a side-effect of the government's activity and therefore may go unnoticed in the government's decision-making processes. The purpose of this investigation is to scrutinize government programs which change the demand for advertising. However, no attempt will be made either to evaluate the worth or effectiveness of the programs themselves. It will be shown that these government programs may have important effects on both advertisers and the media in which the advertising occurs.

For the purposes of this study, advertising is defined as the purchase of space in media (newspapers, magazines, television, radio, etc.). This is a relatively restrictive definition, but one useful for our purposes. Broader definitions have been developed, such as by the American Marketing Association: "any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor."[1/]

Note: The authors are Director and Assistant Director, respectively, of the Center for the Study of American Business, Washington University, St. Louis. The authors are indebted to Betsy Griffith for valuable research assistance. Helpful comments on an earlier draft were made by Lee Benham, Roland McKean, and Frederick Warren-Boulton.

The definition of private demand used here encompasses all sectors of the American economy other than the federal government. Thus it includes state and local governments. Direct federal regulation of private advertising is not covered in this study. Most of the governmental actions examined here involve the expenditure and taxation powers of government, although some of them are adjuncts of judicial or regulatory activities.

Each of the following sections of this paper is devoted to a survey of one of the major areas of governmental activity that affect the private demand for advertising.

Government Expenditures and Advertising

Numerous government expenditure programs can influence the private demand for advertising, albeit some of these activities may operate indirectly or even unintentionally. Government expenditure mechanisms may take a variety of forms, ranging from purchases from the private sector to grants-in-aid to state and local governments to subsidies to private producers or consumers. As pointed out above, the scope of this study excludes direct expenditures for advertising by the federal government itself.

Government Procurement Programs

Defense and space contracts -- which account for the bulk of all federal government procurement from the private sector -- contain specific incentives for certain types of advertising, and simultaneously discourage other categories of media use. The major mechanism for these actions is the determination of which expenditures by the contractor are allowable charges to the contract.

The bulk of the contracts awarded by the Department of Defense and the National Aeronautics and Space Administration in recent years are incentive or cost-reimbursable

(as opposed to firm fixed price).[2/] Hence, disallowing an item of expenditure reduces the company's profits by that amount. This of course furnishes a strong incentive to make allowable expenditures and to avoid those which are not allowable.

Under the Armed Services Procurement Regulation, it is the general rule that advertising costs are unallowable except as specifically authorized by the regulation. Allowable advertising costs include (1) recruitment of personnel required for the performance of a defense contract, (2) procurement of scarce items needed by the contractor, and (3) disposal of scrap or surplus items acquired in the performance of the contract.[3/]

Prior to August 17, 1961, the treatment of advertising costs in defense contracts was more liberal, extending to a portion of advertising in technical journals and other industry publications. The justification varied, depending on the precise circumstances. The Department of Defense Board of Contract Appeals approved cases ranging from the usefulness of technical publications in disseminating information within the defense industry to increasing commercial sales and thus thinning out the overhead charges to be allocated to military business.[4/] The Defense Appropriation Act of 1962 eliminated these various "selling" justifications and limited reimbursable costs to the three categories described earlier.

Grants to States and Localities

Under the revenue sharing statute, each state and local government receiving funds must submit to the Treasury Department periodic reports on the intended and actual use of the funds. The law also requires that these reports be published in their entirety "in one or more newspapers which are published within the States and have general circulation within the geographic area of the recipient involved."[5/] Quite clearly one type of communication device is selected by the federal government

(media) for purposes of communicating the details of the revenue sharing program, and one specific type of media is chosen (newspapers).

The accompanying regulations provide some explanation and elaboration of this requirement for what is essentially a "legal notice." The reports to the Treasury (which are prepared on official forms supplied by the Office of Revenue Sharing) may be reproduced in any size in the published version, "so long as they remain legible." Their publication need not be a formal legal notice, which is often more expensive than other categories of advertising. The newspaper used need not be a daily publication, but merely one having area-wide circulation.[6/]

The recipient governments must inform the local news media, including minority and bilingual media, that the reports have been published and that information is available to the public that will support and explain the data in the published reports.

There are approximately 39,000 units of state and local government participating in the revenue sharing program. Although the published reports are not required to be in the form of paid notices, most often they are, through use of classified advertising. Their size and cost vary substantially, with informal estimates of the average cost in the neighborhood of at least $20.

Advertisements must be published in the case of both the annual reports and the use report for each entitlement period. The first three entitlement periods lasted six months. The next three lasted one year, and the final one (under the existing five-year life of the statute) will last six months. Thus, state and local governments are spending approximately $2.3 million for advertising one aspect of their finances, an activity which in the past usually has not been communicated via paid advertising.

Subsidies to Election Campaigns

Indirectly, the 1974 election campaign finance law may provide a support to advertising. This will occur if candidates in the aggregate obtain a total of public and private financing which is larger than the funds that they otherwise would be raising entirely from private sources. However, the law does not specify what proportion of the government money is to be used for advertising. The Supreme Court has upheld the provisions of the 1974 law that provide for public financing of presidential primary and general election campaigns. Candidates who accept public subsidies for either the pre-nomination campaign or the general election campaign are required to abide by the spending limits set forth in the act.

On the basis of past experience, it can be expected that a substantial portion of the governmentally supplied campaign funds will be devoted to advertising in the commercial media. In the 1972 presidential election campaign, the national-level Nixon and McGovern forces spent approximately $5 million for the purchase of time and space in media. According to the Citizens' Research Foundation, $5.8 million was spent to promote the McGovern candidacy and $4.5 million for Nixon.[7/]

One section of the 1974 campaign reform law affects the rates that the media may charge (the Federal Communications Commission has established a similar rule for air time):

> "No person who sells space in a newspaper or magazine to a candidate, or to the agent of a candidate, for use in connection with such candidate's campaign, may charge any amount for such space which exceeds the amount charged for comparable use of such space for other purposes." (Public Law 93-443, Section 305 (a)).

Subsidies to Sectors of the Economy

Departments of the federal government, especially those working closely with particular industries, at times contribute to the advertising and promotional efforts

of those industries. Contributions may take the form of direct payments or provision of overhead support for the program.

As part of its activities to promote the production and sale of farm products, the U.S. Department of Agriculture maintains several programs which specifically assist private agricultural associations in their advertising campaigns. The Department subsidizes the advertising of individual commodities, based on specific Congressional authorization. Under the Cotton Research and Promotion Act of 1966, for example, the Department of Agriculture provides an annual subsidy for advertising cotton, which amounted to $70,000 in the fiscal year 1976. For a similar advertising effort to promote the use of eggs, the Department allocated $150,000 in fiscal 1976.

The Department of Agriculture also administers assessment programs to raise private funds for promotional programs. The government's role provides for the collection of a given sum for each unit of the good sold.[8/] Potatoes, for example, are currently assessed at 1 cent a 100 pounds of weight; wool at 1½ cents a pound; cotton at $1 a bale; and eggs at something less than 5 cents a case. Approximately $25 million is collected for these advertising programs, with the government absorbing much of the cost of raising the funds. The cost of administering and auditing the cotton assessment program, for example, was estimated at $70,000 in 1975.[9/]

There are two different arguments to justify government support to business advertising. Both arguments involve viewing certain aspects of advertising as a public good, whose benefits extend beyond the owners of the good. One aspect involves the so-called "free rider" problem, where the beneficiaries of the collective good would not voluntarily pay for it, because there is no obvious means of excluding them from receiving the benefits. The use of the facilities of the Department of Agriculture for the collection of fees from numerous producers of a product to support the advertising of that product furnishes a case in point. In the competitive egg market,

no one producer is likely to capture a significant share of the increased demand for eggs that might result from advertising. It is intriguing to note that this "free rider" argument for government intervention in the private decision-making on advertising is less cogent in those sectors of the economy with less competitive market structures; the more competitive (less concentrated) the industry the stronger the argument that might exist for governmental involvement.

This of course raises a more fundamental issue, which is involved especially in the direct governmental subsidy of advertising of specific commodities. To an economist, the basic rationale for the use of government money to advertise cotton, for example, is that implicitly cotton is viewed as a "merit good."[10/] That is, the society believes that a greater amount of cotton should be consumed than would be the case in the absence of the government subsidy. In practice the case of cotton is more complicated. To the extent that federal price support programs result in the government acquiring the excess supply, the subsidy to cotton advertising may also be viewed as an indirect "sales" effort to reduce those government inventories.

It is not apparent that the Congress has made a conscious decision that the public would be better off if more cotton -- or more eggs -- were consumed. Rather, these programs seem to be more in the nature of income redistribution efforts, designed to channel a greater part of the society's resources to designated producer segments, in this case to the agricultural sector.

Some of the governmental actions that influence the private demand for advertising can be quite indirect. At times the federal government may provide an industry with a new product to market. The recent provision of Individual Retirement Accounts as a tax shelter has resulted in a flurry of advertising by financial institutions to make the public aware of the program and to persuade them to participate.

The Postal Subsidy

Almost since the inception of the postal service, the Congress has established preferential rates for magazines and newspapers. These publications often tend to have considerable space devoted to advertising. Second class mail has a legal maximum of 75 percent of the periodical which may be devoted to advertising. To the degree that these publications pay less than the mailing costs attributable to them, they receive a subsidy from the Postal Service.

With the passage of the Postal Reform Act of 1970, the Postal Service was mandated to adjust rates to reflect the actual costs associated with each class of mail. The immediate result was a proposed 127 per cent rate hike for second class mail, a figure presumably representative of the subsidy enjoyed by this category of publishers.[11] To some degree, this reduction in the subsidy is likely to be passed on to advertisers in the form of a higher price for space thereby decreasing their use of this type of communication and marketing device.

However, to the extent that postal rates for second and third class mail exceed prices which would be charged by private carriers were they allowed to compete fully, a negative subsidy to publishers exists. This may then act as a disincentive to advertising as the higher distribution costs are passed on to advertisers. As a recent study on the postal system states, "As these /postal/ rates are raised still higher, it is reasonable to expect that existing private delivery firms will grow and that still more firms will be inspired to enter the business. It is possible that, in time, much of the direct mail advertising matter will be distributed by private post."[12]

Deterrents to Advertising

Not all government action necessarily increases the demand for advertising. It has been suggested that the free employment service operated by government agencies

may reduce private help-wanted advertising. *Editor & Publisher* magazine has charged that the computerized job bank and job-matching program administered by the U.S. Employment Service competes directly with newspaper classified help wanted advertising.[13] It is intriguing to note the instructions that were supplied by a pilot government job placement program in Nevada to the advertising agency charged with promoting the program. It was indicated that the Employment Security Department should be portrayed "...as a vibrant and efficiently administered agency...and as a logical first point of contact for employers wishing to fill any type of job vacancy."[14]

Taxation and Advertising

In numerous ways, the operation of the tax system affects the private demand for advertising. As a general rule, business advertising is a deductible expense in computing the corporate or individual income tax. But the Internal Revenue Service generally prohibits tax deductions for political advertising, which it defines as advertising intended to "promote or defeat legislation or to influence the public with respect to the desirability or undesirability of proposed legislation."

At times, disagreements occur as to where to draw the line between political advertising and mere public expression of a company's views on issues, particularly those that may strongly affect the company's markets and costs. In recent years controversy has arisen over a category of public policy advertisements, particularly those relating to energy and conservation. The issue raised is whether or not the advertising is political and therefore ineligible for tax deductions.

A current example relates to the petroleum industry, where the major companies fear that proposed legislation requiring the breakup of the major companies (divestiture) would have fundamentally adverse effects, and public policy advertising is one of the ways in which the companies are responding to what they consider to be an important threat to their future.

Of the major oil companies only Mobil has established a separate, non-deductible category for political advertising. The other companies have claimed that their similar ads are either "educational" or "good-will" and thus deductible for tax purposes.[15/] The line separating the two categories is not clearly drawn. In any event, disallowing certain kinds of advertising as deductions from taxable income would seem to discourage that form of advertising. It should also be recognized, however, that it has been the presence or threat of government regulation which has been the impetus to much of this type of public policy advertising.

It is important to note that many economists contend that the treatment of advertising as a current expense, totally written off in a single tax year, results in a significant subsidy. These analysts consider that it would be preferable to treat advertising as an investment to be capitalized over its full economic life. Several economists have attempted to estimate the magnitude of the implicit subsidy -- the overstatement of profit and net worth resulting from the tax status of advertising.[16/] John J. Siegfried and Leonard W. Weiss showed that the rate of return for 38 industries and 10 large advertisers in 1963 was overstated by 0.3-0.7 percent, depending on the depreciation system used. In the case of the major advertisers, the overstatement ranged from 0.1 percent to 10.1 percent with an unweighted mean of 2.9 percent.[17/]

An earlier study by Harry Bloch estimated the amount of tax avoidance during 1950-53 for 40 major food manufacturing firms at $373 million. This tax avoidance averaged more than $2 million a firm annually and resulted from the consideration of advertising as a current expense.[18/] Bloch also points out that in any one year it is possible for reported profits of a single firm to be understated due to the current expensing of advertising. This would occur in those instances where a firm's

current advertising outlays exceed the depreciation on its stock of advertising which would be allowed under a capitalization system.[19/]

Government Regulation and Advertising

Direct regulation of advertising by government is beyond the purview of this study, yet some regulatory programs indirectly but importantly influence the private demand for advertising, although this is an unintentional result of the regulatory activity.

Affirmative Action Programs

Employers who hold or seek contracts with the federal government are required to have written affirmative action programs if the annual amount of the contract exceeds $50,000. The term contract covers procurement (both military and civilian) from business firms as well as grants to colleges, universities, and research institutions.

The U.S. Equal Employment Opportunity Commission provides to employers a guidebook on complying with the affirmative action requirements.[20/] The guidebook specifies that the employers "Advertise in media directed toward minorities and women; newspapers, magazines, 'Soul' and Spanish language radio stations and other specially-oriented radio and TV programs." The Guide adds, "Use such media regularly; it takes time to get the message through."

The Guide states that various facets of the affirmative action program, such as hiring, promotions, and training opportunities, should be publicized in both general and minority and women's media. Market forces have been responding; a new breed of publications has sprung up which caters to this new government-induced market for advertising. One example is the *National Black Register*, which is published in Washington, D. C. by Minority Advancement Publications. Many of the ads in these

publications do not relate to a specific job opening, but make broad assertions such as "The ABC company is an affirmative action employer."

The cost of placing an advertisement in these specialized publications is also often higher than other alternatives for publicizing a job opening, both in absolute terms and relative to the circulation of the periodical. As can be seen in the accompanying table, it is less expensive to advertise in the Sunday *New York Times* with a circulation of 1,400,000 than in the *Affirmative Action Register* which is distributed to 42,500 organizations and individuals.[21/]

Variation in Estimated Cost of a Help Wanted Advertisement

Periodical	Dollars per column inch
New York Times, Sunday Edition	$64
St. Louis Post-Dispatch, Sunday Edition	21*
Chronicle of Higher Education	18
Affirmative Action Register	85**

* Minimum display advertisement of four column inches

** 2½ inches wide ($125 per column inch 3 inches wide)

Goerge W. Bonham, editor-in-chief of *Change* Magazine, estimates the annual cost of affirmative action advertising by American colleges and universities to be "at least $6 million a year, though few professional placements ever result from such national advertisements."[22/] This rough estimate was determined by calling institutions of higher learning in five categories of size and function, averaging out their advertising expense on affirmative action at $17,600 a year, and expanding the results of the sample to cover the 3,400 accredited institutions of higher education

in the United States.[23] Much "anecdotal evidence" exists on American campuses of advertising in minority publications in order to meet the requirements of affirmative action programs, despite the remote likelihood that any additional qualified applicants will respond. At times such advertising is justified as creating "goodwill" among minority groups. It is not clear that such implicit subsidies to minority publications are necessarily the most effective way of either creating such goodwill or of substantively improving the economic position of minority groups.

Affirmative action efforts must be concerned not only with the wide advertisement of job openings, but also with the images projected by any promotional literature whether oriented toward recruiting, consumers or for other purposes. As a lawyer specializing in the field of labor relations states,

> "It is important for an employer to be careful of the image which the company projects by its consumer advertising, as there is a strong possibility that minorities and females may be discouraged from applying for work at a company which shows only white males in its advertising."
>
> "Promotional literature, including recruiting brochures, should be reviewed to make sure that minorities and women also are present in any pictures, as well as that all language does not leave the impression of a male-dominated organization."[24]

The overall demand for advertising may thus be increased to the extent that a nondiscriminatory image is intended. This would occur to the extent that employers either advertise more frequently than they otherwise would, or run larger ads in order to convey a more positive attitude toward hiring and promoting women and minorities.

Regulating Communication Service and Utilities

To some extent the method of administering the fairness doctrine by the Federal Communications Commission may deter advertising on controversial issues. To the extent that paid advertising on public issues by one side of the controversy must be

offset by providing free air time to the other side, a double deterrent is perhaps unwittingly introduced.[25] The radio or TV station may be reluctant to take the paid advertisement if the revenue gained must be offset by providing an equivalent amount of free time to another group. Similarly, the desirability of buying air time is likely to be reduced under such circumstances.

Utilities are required to report political advertising expenses to the Federal Power Commission as "nonoperating expenses" thereby prohibiting them from passing the costs of the advertising along to ratepayers. Although one writer believes that some utilities did produce a significant number of political advertisements in 1973, no advertisements were reported as such to the FPC.[26]

Anticipatory Effects

The anticipation or suspicion of governmental regulatory action may result in greater advertising outlays for some products and lesser expenditures to promote others. For example, the controversy about a possible environmental and health hazard associated with aerosal sprays has resulted in a surge of advertising for roll-on deodorants and pump spray cleaners. Through advertising, firms already marketing products falling into the "safe" category seek to capitalize on a positive product differentiation provided them by government regulation.

Antitrust Enforcement Activities

On occasion court decisions dealing ostensibly with broader issues can influence the nature and composition of business advertising. In some antitrust cases, the courts have rejected mergers which they viewed as anticompetitive due to a significant degree to advertising economies which would result. In the case of *Federal Trade Commission v. Procter and Gamble* (the so-called Clorox case), the Supreme Court ruled that Procter and Gamble must divest itself of the Clorox Company which it had acquired

four years previously. A primary justification for the ruling related to the advertising economies which Clorox, a company already having more than a 50 percent share of the liquid bleach market, would enjoy as a subsidiary of Procter and Gamble. It was held that these advertising advantages would lead Clorox to increase its demand for advertising and would also serve as a barrier to entry to the liquid bleach market as Procter and Gamble "could divert a large portion /of its advertising budget/ to meet the short-term threat of a new entrant."[27/]

In retrospect, had the merger not been overruled, it is not clear whether the volume of advertising by Clorox would have risen. To some extent, Procter and Gamble might have bargained harder with the media on rates for the same amount of space, although some price elasticity of demand would be expected.[28/] As a larger entity, Procter and Gamble might be expected to obtain capital at a somewhat lower cost than Clorox. Hence, a merged P&G/Clorox might have been willing to accept a lower minimum rate of return on its incremental advertising investment and thus the merged entity might have become a larger advertiser than the two separate companies.

Legal Requirements for Advertising: Carrot or Stick?

Thus far, the government activities which we have been describing influence the size of the private demand for advertising, but would seem to have few additional ramifications. Yet, an examination of an older and far more extensive set of government activities indicates the opportunity for using subsidies for advertising to broaden government control over the media itself.

The judicial processes of state and local governments have long required individuals or organizations in many circumstances to insert legal notices in various types of newspapers of record. In many if not most of these cases, it would appear unlikely that these purchases of paid advertising would be made on a voluntary basis.

Legal advertising represents a significant source of revenue to newspapers, although specific data on this point are difficult to come by. In 1964, this income to weekly newspapers alone was estimated at $27,550,000.[29/] It is no coincidence that the highest rates are often charged for the space allotted to the compulsory "legal advertising." Economists of course are not surprised by the price response to this relatively inelastic demand.

The requirements for legal advertising are numerous and of long standing. In the state of Kansas, for example, there are six references to such requirements in the state constitution and in 55 out of the 84 chapters of the Kansas Statutes Annotated. The aggregate volume of such advertising can be significant. The California Newspaper Service Bureau, Inc., a cooperative association specializing in selling, promoting, and servicing legal advertising and public notices, reported gross billings in excess of $4 million in 1971.[30/]

Using the District of Columbia as an example, the following are some of the traditional and long-standing government-imposed requirements for advertising:

1. Name changes requiring the posting of a notice once a week for three consecutive weeks in a newspaper "in general circulation published in the District" (16 D.C. Code 2502).
2. Prior to the public sale of property on which taxes are delinquent notice of the tax delinquency must be published twice a week for two weeks in "the regular issue of two daily newspapers published in the District of Columbia." Following that, notice of the proposed sale of the property must be published once a week for two weeks in "the regular issue of one morning and one evening newspaper published in the District of Columbia." (47 D.C. Code 1001).
3. In certain contested estate proceedings, the court is required to order notice of hearings to be published at least once a week for three consecutive weeks in "one

or more newspapers within the District of Columbia." (20 D.C. Code 2304).

4. In divorce cases where the defendant's whereabouts are unknown, a notice is required to be published once a week for three weeks in the *Washington Law Reporter* plus any other newspaper or periodical specifically designated by the court." (D.C. Superior Court Rule 4-J).

No specific size requirements are delineated for the required legal notices. Thus, their size in practice varies. Any of three newspapers in the District of Columbia qualify for the legal advertising: The *Washington Post*, the *Washington Star*, and the *Washington Afro*. In 1975, the volume of legal notices published in the two newspapers with the largest circulation (the *Post* and the *Star*) was estimated at $700,000.

The trend appears to be in favor of increased legal advertising, both with respect to those required to publish legal notices and in the number and diversity of media necessary to satisfy the notice requirement. For example, the Internal Revenue Service now compels each private foundation to publish a notice that its annual report is available to the public for examination. This was described in the trade publication, *Editor & Publisher*, as "a small windfall of Legal linage."[31/] Many schools are also required to publish financial reports. Compliance may take the form of an insert or supplement to the local paper. In one area in Michigan the cost of an eight page supplement was estimated at $1100 in 1973.[32/]

Various branches of the federal government also make voluntary requests of newspapers to run inserts and disclaimers for a variety of reasons, addressing such social issues as fair housing and the elimination of sex discrimination in employment. The following is an excerpt from a request from the U.S. Department of Labor.

"Dear Advertising Manager:

Attached is a suggested insert for your classified ad columns about the Fair Labor Standards Act (Federal Wage and Hour Law) and the Age Discrimination in Employment Act administered and enforced by the U.S. Department of Labor's Wage and Hour Division. The Division has found such inserts beneficial to both employees and employers."33/

The distinguishing characteristic of this form of advertising is, of course, that newspapers receive no payment for running these ads. However, to the extent that they preempt space which would have been used for paid advertisements, they could serve to increase the price of regular classified advertising. Also, the government-requested advertising may replace other "public service" announcements, which some might consider to be more productive (for example the support of fund raising for private charities).

A special committee of the Kansas legislature favored "the idea of supplementing the publication of certain legal notices in newspapers by broadcasting over radio and/or television."34/ The significant departure here is the notion of supplementing newspaper publication rather than providing alternative media as outlets for legal notices.

Kentucky state law sets uniform standards for all notices, regulating the times and periods of publication, the content and form of publication, and the matters to be publicized, and even the size of type. The law also provides for broadcast over radio and/or television to supplement certain published notices. In addition, summaries of city budgets are also required to be published, although the use of lower cost so-called display advertising is permitted under certain circumstances.35/

The upward trend in the requirements for legal notice contrasts with their questionable effectiveness. The Supreme Court of the United States (Eisen v. Charlisle and Jacquelin -- No. 73-203, May 28, 1974) states "notice by publication

had long been recognized as a poor substitute for actual notice and that its justification was 'difficult at best.'" In an earlier decision (Mulane v. Central Hanover Bank and Trust Company, 1950) the Supreme Court asserted that it is "too much in our day to suppose that each or any individual beneficiary does or could examine all that is published to see if something may be tucked away in it that affects his property interests."

Although the requirements for legal notices tend to increase advertising revenues of newspapers and thus may be a welcome subsidy, the power to designate which papers are eligible may give local officials significant influence over the press. From time to time, reports emerge of the willingness of government officials to use this power, although often the process may be subtle rather than overt. A few clear cases have been reported.

The March 3, 1955 issue of *Editor & Publisher* described how the Gainesville, Georgia *Times* lost its designation as an official paper. That punitive action resulted both from an editorial advocating a change from a fee to a salary system of paying public officers and from the free publication of a condensation of all legal ads affecting the city and county.36/

In 1972 the official designation was withdrawn by the county government from the New York newspaper, the *Poughkeepsie Journal* in favor of one of its competitors. The newspaper claimed that the action resulted from its endorsements of certain political candidates and its opposition to a proposed parking garage backed by the local government. An editorial in the *Journal* stated;

> "There is revenue involved, enough revenue as to make the difference between publishing and not publishing for a small, marginal newspaper. This designation can be a heavy club in the hands of political brokers."37/

Some Findings and Conclusions

In general, the government programs examined in this study are not intended to alter the private demand for advertising, although they surely have that effect. With the continued growth of governmental expenditure, tax, and regulatory programs, the role of government in advertising is expanding both in magnitude and into new areas of involvement. But little if any attention has been focused on the resultant impacts of those government activities on both the amount and character of the vital flow of information to the public which is the basic purpose of advertising. It may not be coincidental that an increase of government support to private advertising is occurring at a time when direct government regulation of advertising[38/] -- as well as of many other segments of business activity[39/] -- is also growing rapidly.

However unintentional the combination of carrot and stick may be, the potential for adverse impact on the freedom of dissemination of information is a cause for considerable concern. We need to reflect on the adverse experience of various groups in the society -- farmers, defense contractors, homebuilders, state and local governments, private schools and colleges, and research institutions -- who have accepted federal largesse without considering the possibility of the government assistance subsequently being accompanied by controls.

Footnotes

1/ "Report of the Definitions Committee," Journal of Marketing, Vol. XII, No. 2 (October 1948), p. 202.

2/ Murray L. Weidenbaum, Economics of Peacetime Defense (New York: Praeger Publishers, 1974), Chapter 4.

3/ Armed Services Procurement Regulation, 15-205.1; Federal Procurement Regulations, 1-15, 205-1.

4/ Matanuska Valley Farmers Cooperating Association (1962) ASBCA No. 7382; Standard Locknut and Lockwasher, Inc. (1954) ASBCA No. 1666.

5/ U.S. Department of the Treasury, Regulations Governing the Payment of Entitlements Under Title 1 of the State and Local Fiscal Assistance Act of 1972 (Washington: U.S. Government Printing Office, 1975), p. 4.

6/ U.S. Department of the Treasury, What Is General Revenue Sharing? (Washington: U.S. Government Printing Office, 1973), pp. 22-24.

7/ Herbert E. Alexander, Financing the 1972 Election (Lexington, Massachusetts: Lexington Books, 1976), p. 316.

8/ U.S. Department of Agriculture, Fact Book on U.S. Agriculture (Washington: U.S. Government Printing Office, 1976), pp. 49-50.

9/ "Tax Dollars Subsidize Farm Product Ads," St. Louis Globe-Democrat, January 1, 1976, p. 6B.

10/ See Richard A. Musgrave, The Theory of Public Finance (New York: McGraw-Hill, 1959), Chapter 1.

11/ Stephen E. Kelly, "Postal Service -- Where It's Been and Where It Is for U.S. Magazines," Advertising Age, November 18, 1974, pp. 169-170; see also "Accounting Office Calls PO Too Lenient With 2nd Class Rates," Advertising Age, September 28, 1970, p. 16.

12/ John Haldi, Postal Monopoly (Washington: American Enterprise Institute for Public Policy Research), 1974, p. 32.

13/ "$44 Million Boondoggle," Editor & Publisher, February 14, 1976, p. 4.

14/ Daily L. Lionel, "Government Employment Service Poses Classified Ad Threat," Editor & Publisher, March 1, 1975, p. 22.

15/ Energy and Environmental Objectives, Hearings before the Subcommittee on Environment of the Committee on Commerce, United States Senate, Part 2 (Washington: U.S. Government Printing Office, 1974), pp. 39-97.

Footnotes (continued)

16/ See L. W. Weiss, "Advertising, Profits and Corporate Taxes," Review of Economics and Statistics, November 1969; W. S. Comanor and T. A. Wilson, "Advertising, Market Structure, and Performance," Review of Economics and Statistics, November 1967; H. Bloch, "Advertising and Profitability: A Reappraisal," Journal of Political Economy, March/April 1974.

17/ John J. Siegfried and Leonard W. Weiss, "Advertising, Profits, and Corporate Taxes Revisited," Review of Economics and Statistics, May 1974, pp. 195-200.

18/ Harry Bloch, "Advertising and Profitability: A Reappraisal," Journal of Political Economy, March/April 1974, p. 285.

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27/ Federal Trade Commission v. Procter & Gamble Co., 87 S. Ct., 1224-1243, 1968.

28/ The Clorox case may not be easily generalizable due to the special circumstances of Clorox having a clearly dominant hold on the liquid bleach market which depends on nonprice competition.

29/ John S. Blakemore, Notice by Publication in Missouri (Columbia, Missouri: Missouri Press Association, 1966), p. XII. The revenue accruing to weekly newspapers from legal notices was estimated by applying the average percentage of income from legal advertising, 4.4 per cent (derived from a survey of 108 weekly newspapers) to the total income of all weekly newspapers nationally in 1964, approximately $790 million.

30/ "California Group Billed $4 million in Legal Notices During 1971," Editor & Publisher, March 11, 1972, p. 28.

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31/ Stan Finsness, "IRS Regulation Builds Foundation for Legals," Editor & Publisher, June 5, 1971, p. 62.

32/ Edwin E. Wuehle, "School Reports: A New Source of Ad Revenues," Editor & Publisher, January 13, 1973, p. 18.

33/ Stan Finsness, "IRS Regulation."

34/ Robert U. Brown, "Legal Notices," Editor & Publisher, December 15, 1973, p. 42.

35/ Ibid.

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