THE ROLE OF MARKETS IN THE SYSTEM OF ABUNDANCE

WORKING PAPER FOR THE POST-KEYNESIAN STUDY GROUP

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Abstract

There are a variety of drivers and constraints on consumption spending by the people of plenty in the system of abundance. The institution of marketing works to amplify the drivers of spending and relax the constraints. This has profound implications for the way that markets work in the system of abundance,

This paper introduces the new concept of corporate-guided markets for branded products. This is the general market form in the system of abundance. This idea builds upon the key insights of J.K. Galbraith with respect to the existence of managed markets, but seeks to develop and refine his analysis correcting its most obvious limitations. Galbraith in turn breaks free for the mainstream frame of reference of the simple market mechanism based on the workings of the invisible hand. However the simple market mechanism, revised to take account of Keynes' idea of shifting equibria, has some limited applications in a system of abundance.

a) Introduction

There are a variety of drivers and constraints on consumption spending by the people of plenty in the system of abundance. The institution of marketing works to amplify the drivers of spending and relax the constraints. The institution does this to ensure that consumer spending – in value and volume terms - rises at a rate sufficient to utilise the ever-expanding capacities of corporations to produce.

This has profound implications for the way that markets work in the system of abundance, and how markets should be analysed in the economics of abundance. This paper addresses these crucial topics. In so doing it will introduce the new concept of *corporate-guided markets for branded products*. This is the general market form in the system of abundance. This idea builds upon the key insights of J.K. Galbraith with respect to the existence of *managed markets*, but seeks to develop and refine his analysis correcting its most obvious limitations. Galbraith in turn breaks free for the mainstream frame of reference of the *simple market mechanism* based on the workings of the invisible hand. However the simple market mechanism is not without merit and has some limited applications in a system of abundance.

Section b examines markets for homogenous products – a special case - in the system of abundance. The frame of reference used by mainstream economists – the simple market mechanism - is used to analyse this special case with one key amendment. This being the existence of speculative activity that generates what Keynes calls shifting equilibrium positions. Finally the

section evaluates the mainstream market mechanism and shows that it is unable to cope with consumer markets in the system of abundance. Galbraith of course breaks free from this mainstream frame of reference to offer a very different market perspective. Section c examines Galbraith's audacious analysis of the management of specific demand by corporations on what he terms managed markets. Galbraith claims that corporations – or rather the techno-structures of corporations – are able to exert "control" over these managed markets to provide greater certainty about corporate revenues. This section rounds off with an evaluation of the Galbraithian frame of reference finding it insightful but deficient in a number respects. Section d sets out in detail the new idea of corporate-guided markets for branded products – the general market form in the system of abundance. This new concept refines and improves upon the Galbraithian analysis, especially by integrating the ways in which the institution of marketing, in association with corporations, persuades buyers to spend more. It explains how corporate-guided markets are evolving constructs with porous boundaries and flexible configurations. These adaptable, ever-changing markets are probably the most conspicuous feature of the system of abundance and its associated hot culture. This section concludes by considering the types of State intervention required on corporate-guided markets.

b) The Simple Market Mechanism

The most simple market form – the market for homogenous, or uniform, products - is the foundation on which the whole of mainstream economics rests, and from which the rest of the paper departs. This frame of reference

constitutes one of the most cherished beliefs of mainstream economists about the way so-called “free” markets operate.[1] The simplicity of cherished ideas should not however conceal the subjective hold they have on mainstreamers. Later sections of this paper will demonstrate why these fundamental ideas must be put aside to effectively analyse consumer markets in an era of abundance.

Initially it is useful to establish some common ground. The essence of a market is a set of arrangements by which buyers and sellers are connected together in order to conduct transactions. The sellers provide the products and the buyers provide the money. On the simplest type of market all the products sold and bought are effectively identical. Economists use the term *homogenous* to describe products within a product class which are uniform. What is distinctive about this market type – where product differences are unimportant or non-existent - is that both buyers and sellers are predominately concerned with the price of the uniform product. The price is the dominant influence on decisions of buyers about whether to demand the product and decisions of sellers about whether to supply the product. These prices send signals to market participants allowing them to make informed and reasoned decisions about whether or not to transact. This is what economists call the price mechanism.[2]

Furthermore the simple market mechanism is most applicable in a system of scarcity, where the constraints on spending are severe and the price of a product plays a disproportionately important role in the spending decisions of buyers. It is also of great relevance in the system of sufficiency for many of the products transacted. It only plays a special role in the system of

abundance, restricted to the global markets for homogeneous products - products such as a barrel of oil, a unit of national currency (say Sterling), bushels of wheat and ounces of gold etc.

From Adam Smith onwards the economic mainstream has focused on the idea *of a market in equilibrium* – a static or steady state where demand and supply are balanced and there are no forces for change.[3] The idea of a static equilibrium requires some amendment when homogeneous products are durable, or non-perishable – such as key commodities, oil and other energy products and specific currencies and financial assets.[4] For such markets open up unique opportunities for speculative activity. Take for example the oil market which allows you to buy barrels of oil today for delivery today – at the so-called spot price – or to buy barrels of oil today for delivery say one year hence – at a forward price. In normal times there are markets traders who will estimate likely trends in word demand and supply and make sensible calculations about appropriate spot and forward markets. Borrowing a phrase from Keynes we may term this activity *enterprise* – that is the labourious, but important, mental activity of making reasoned judgments about the "fundamentals" of present and future market conditions. Yet with durable homogenous products there are always profitable business opportunities for those conducting *speculation*. Refining the idea of Keynes, such speculation relates to the attempt by those active on a market to foresee future changes in product prices just before everybody else. When successful such speculation allows a trader to buy cheap today then sell dear in the future.

If markets for durable homogenous products are characterised by enterprising trading activity, and especially by expert professional traders, these markets will

be relatively stable through. Such markets can experience long periods of effective calm which can be analysed using the static equilibrium method. There is however a perpetual threat – when profitable opportunities open up - that market trading activity will be predominantly speculative in character. Bouts of speculation can arise quickly, and persist for long periods. During such times market traders become overly interested in efforts to make quick profits through speculation.[5] These times are action-packed and exciting for market traders. Seeking to out-guess the rest, or outwit the crowd, is an enjoyable battle of wits, which can even be played within groups of professional expert traders. Moreover speculative trading can easily generate self-fulfilling predictions. If enough traders expect the price of say oil is going to rise in the future they will demand large volumes of oil with the intention of selling it for a profit at a future date. And the actions of these traders will cause prices to rise. The reverse is of course true if an expectation begins to emerge that prices in the future will fall, which generates the self fulfilling trading activity that causes prices to decline. Echoing Keynes, markets for durable homogenous markets where speculation predominates are like a game of snap or old maid or musical chairs. For market traders such casino-style activity as a whole it is a zero sum game. Winners will cancel out losers. The scale of gains and loses will depend on where the market turns i.e. the peak of the price rise or the trough of the price decline. For others however such market speculation can have devastating results. Higher energy or food prices for example will push the peoples of poverty to the brink of catastrophe. It even creates inflationary pressures to develop in more affluent nations requiring Governments to intervene to slowdown growth. More generally such speculation on key product markets can seriously destabilise the world

economy. When prices fall off dramatically the adverse effects are felt on the supply side; a rapid decline in say cereal or coffee prices, for example, will have devastating effects on a wide range of small scale farmers. As Keynes notes

> "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation."
>
> [Keynes, 2007, p159]

This type of analysis of unsteady homogenous product market suggests that the concept of equilibrium used requires amendment through the introduction of expectations. Interestingly Keynes proposes using two types of equilibrium concept in different circumstances – a *stationary* equilibrium and a *shifting* equilibrium. A stationary equilibrium supposes that market conditions are predictable and the expectations of traders are given and accurate in all respects. A stationary equilibrium according to Keynes allows for an examination of the influence of various economic motives and propensities in stable conditions (e.g. ceteris paribus) in which any changes are predictable at the start of the analysis. A shifting equilibrium by contrast allows consideration of situations where expectations are not fixed and definite. For example it can be used to analyse a situation where there is the *threat* of changes market expectation raising the possibility that traders will vary their previous behaviour. For Keynes shifting equilibria can consider "the problems of the real world in which our previous expectations are liable to disappointment and expectations of the future affect what we do today" (Keynes, 2007, pp 293-4). Clearly the idea of a shifting equilibrium can be applied to the potentially unstable trading

conditions on markets for durable homogenous products. Instability on these markets need not be the norm, but it is a continual threat.

Finally the advocates of the simple market mechanism promote another interesting idea which relates to whose interests the market serves. Market advocates claim that what is provided by sellers on a market is in some sense patterned upon, determined by, the wants of buyers (Fusfeld, 2002).[6] Sellers are said to be the servants of buyers; buyers dictate what they want to purchase and sellers on a market faithfully supply those wants. When dealing with homogenous consumer product markets – potatoes, meat, heating, bread, fruit etc – this buyer power is called *consumer sovereignty*. Consumers demand products and corporations supply them – in that order; this is what J.K. Galbraith (1972) famously calls the *accepted sequence*.[7]

Whilst the mainstream market mechanism can usefully be applied to analyse markets for homogenous products, it has significant limitations when examining the operation of consumer markets in the system of abundance. To begin with the institution of marketing is entirely absent from the analysis. Hence there is no role for the imperative in the system of abundance to constantly ratchet up spending on markets to match the huge and growing capacity to produce. There is no systematic analysis of why consumers consume. There is no coverage of the drivers of and constraints on spending – socialised, subjective and cognitive – and how these forces operate on the demand-side of markets. There is no sense of the many ways in which the institution of marketing works with corporations to persuade consumers to buy

more on markets by perpetually amplifying the drivers of spending and relaxing the constraints. There is no analysis of the how corporations working within the institution of marketing brand the products sold on markets. Nor does the analysis explain why corporations place such emphasis on the saleability of products – causing them to offer wide varieties of differentiated products on markets and to conduct continuous product development, sometimes even creating entirely new product markets. In addition there is no mention of the way corporations working with the active persuaders seek to propose brand images – with salient features one of which is price - to persuade buyers to spend more on product markets. Moreover there is no appreciation of the fundamental importance of the managed market-place where all the micro and meso- levels of persuasion can be most effectively applied on buyer decisions at the point of purchase in the market. Finally there is no mention of the macro-level of persuasion - the hot consumer culture and the morality of indulgence - so necessary to create the right climate for ever-greater sales on all markets, and without which the abundant capitalist system must stagnate.

Perhaps the greatest limitation of the mainstream analysis is however the application of the equilibrium methodology – either stationary or shifting. Apart from the paradigm of scarcity, there is no greater fetter to a proper appreciation of how consumer markets work in the system of abundance than to assume they gravitate towards a resting place where there are no forces for change. Consumer markets in the system of abundance are by definition perpetually evolving constructs with porous boundaries and infinitely flexible configurations where change is the only constant. To properly understand

how consumer markets work in the system of abundance requires an equilibrium apostasy - the equilibrium methodology must be discarded.

c) The Dependence Effect and Managed Markets – the Galbraithian contribution

It is a central contention of this book that the simple market mechanism is not the only way to analyse markets and market forces, especially in the system of abundance. In the system of abundance the simple market mechanism becomes a special case of a market arrangement; moreover the dominant market arrangement for the vast majority of everyday transactions is a different kind of "market" – the corporate-guided market interacting with the institution of marketing. But the idea of a corporate-guided market has a precursor first set out by J.K. Galbraith. This is the concept of a *managed market*.[8] To properly appreciate the construct of a corporate-guided market Galbraith's contribution must be set out and assessed.

The starting point for Galbraith (1998, 1972) is that the most affluent global citizens no longer live in a system of scarcity but have moved on to a higher stage of development.[9] Mirroring the ideas of Potter (1973), Galbraith argues that in affluent societies corporations must persuade consumers to continue buying even though their basic needs are fulfilled. Luckily for the capitalist system "the further a man is removed from physical need the more open he is to persuasion - or management - as to what he buys" (Galbraith, 1972, p.202). This persuasion is enacted by what Galbraith calls the "institutions of modern advertising and salesmanship" (Galbraith, 1998, p 127) exploiting the

wondrous opportunities afforded by the mass media of television. Moreover ever-higher production levels require corporations to constantly contrive new more expensive consumer wants. Consumer demand therefore becomes dependent on the need to generate extra production, and corporations manufacture consumer wants much like they manufacture products. Galbraith calls this the *dependence effect*.

Galbraith argues that each corporation actively seeks to manage the specific consumer demand for its product for two main reasons. First, and most importantly, corporations need to stimulate extra sales in order to utilise the ever-expanding capacity to provide products. But for Galbraith there is a second often over-looked reason. Managing the demand for products allows the corporation to free itself from the vagaries of the unplanned market; it gives the corporation greater certainty of outcome with respect to its sales revenues. The management of specific demand by a corporation focuses on both the number of units sold and the price per unit. Certainly each corporation wants to maximise the units sold. But great efforts are also made by corporations to manage the prices they charge on consumer product markets. That is a corporation sets the price it wishes to charge and then uses marketing techniques to persuade consumers to buy large volumes of the product at that price.[10] The consequence of all these corporate efforts to manage the specific demand for products is that it shifts “the locus of decision in the purchase of goods from the consumer where it is beyond control to the firm where it is subject to control” (Galbraith, 1972, p. 206)

This leaves one question unresolved. Who within the corporation is responsible for managing the demand for products? According to Galbraith this role is undertaken by the *techno-structure* within a corporation. Galbraith defines the techno-structure as "all who bring specialised knowledge, talent, or experience to group decision-making. [The techno-structure] is the guiding intelligence of the enterprise." (*ibid*. p 71) The techno-structure of a corporation makes corporate decisions by pooling information from various specialised sources. Perhaps the best illustration of a techno-structure is in the previously noted multi-disciplinary activity of brand management – requiring people from all around a corporation to come together to produce consistent commercial messages about a product range. Of course Galbraith admits that corporations don't always get the management of consumer demand right. This means that there will be times when consumer sovereignty will surprise or disappoint corporate sales expectations. Consumer sovereignty therefore does not completely evaporate even in markets subject to such corporate control. However even when consumers display their discretionary muscle Galbraith claims "it is the everyday assumption of the industrial system that, if sales are slipping, a new selling formula can be found that will correct the situation" (*ibid.* p. 207).

The corporate effort to stimulate the demand to match planned for increases in production is what Galbraith calls *managing the market*. In the system of abundance Galbraith argues that managed markets constitute the main market type. Armed with the idea of a managed market Galbraith rejects the conception of buyer sovereignty and the accepted sequence. In its place Galbraith sets out a *revised sequence* for markets where the central role is

played by the techno-structures of corporations. The techno-structure is the active agent in managed markets, deciding which products to provide, managing the specific demand for these products and persuading consumers to buy products at the prices established by the techno-structure.

Galbraith's innovative ideas about managed markets and prices liberate one from the mainstream mindset and the simple market mechanism. It is possible to appreciate that a "market" can take different forms. Moreover in the system of abundance it becomes obvious that market forces working under the influence of the invisible hand are the exception rather than the rule. But the Galbraithian analysis has its limitations. Galbraith places great emphasis on the pivotal role and power of the techno-structure. The techno-structure of a corporation, Galbraith claims, designs sales campaigns to persuade consumers to buy products at the prices set by the techno-structure. In this way the techno-structure manages markets in order to stimulate sales and reduce the uncertainty of outcome of corporate revenues. This argument is easily portrayed as a corporate conspiracy with consumers playing the role of passive manipulated victims. Galbraith's loose language about corporate "control", "persuasive manipulation" and "contrived wants" lends credence to such an interpretation. Affluent consumers are however clearly not passive victims. Consumers must be persuaded to buy, and there are numerous examples where they remain resolutely unconvinced about a specific branded product or its price (Haig, 2003). But it is not just affluent consumers that compromise corporate efforts to control markets. It is further complicated by the actions of rival corporations, with rival techno-structures, seeking to

stimulate sales of their brand products and accumulate a greater share of the market within a product class? With rivals there must be limits on the ability of one corporation to control “its” market. Put simply Galbraith’s arguments exaggerate the scope for corporate “management” of markets.

The second limitation of Galbraith’s analysis is that it contains no theory of abundant consumption. There is no sense that people are wanting animals or that there are multifaceted drivers of spending and constraints upon such spending. Without such an analysis Galbraith is fated to underplay the role of consumer sovereignty. The last, and perhaps the greatest, limitation of Galbraith’s analysis is his failure to recognise the central role that the institution of marketing plays in corporate efforts to stimulate market sales. Galbraith admittedly makes passing reference to the institutions of advertising and salesmanship, but this is hardly enough. There is no mention of the institution of marketing conceived of as a gigantic, global economic network whose overarching purpose is to give priority to consumption, straddling all sectors of the economy and embracing a multitude of corporations, media, agencies and talented professionals. There is, moreover, no mention of how the institution communicates a glut of commercial messages to buyers that all share a common purpose: the intention to persuade buyers to spend more. Finally Galbraith’s analysis has no appreciation of how corporations work with and within the institution of marketing in order to amplify the drivers of abundant spending and relax the constraints.

Galbraith is however right to reject the general applicability of the simple market mechanism in the system of abundance. He is also right to reject the accepted sequence that pedals the myth that sellers and markets act as

servants of buyer wants. Finally he is right to argue that the established economic conception of a market must be completely reconstituted to offer genuine insights about how markets work in the system of abundance. Galbraith is then a decorated member of that:

> *"brave army of heretics…who, following their intuitions, have preferred to see the truth obscurely and imperfectly rather than maintain error, reached indeed with clearness and consistency and by easy logic but on hypotheses inappropriate to the facts."*
> [Keynes, 2007, p 371]

d) Corporate-Guided Markets

The worthwhile insights of Galbraith can be built upon and developed. The result is a new frame of reference that can be called a *corporate-guided market for a branded product*. This is the dominant market form in the system of abundance.

Following Galbraith the starting point for the analysis of a corporate-guided market is on the *supply-side* – on the provision of a saleable branded product. A corporation will decide the product to offer for sale. Working within the institution of marketing, the corporation will design the product so that it is attractive – saleable - to the largest numbers of buyers. The corporation must give the product a name – a brand name - that will both attract the attention of buyers and make the product more saleable. The corporation will make decisions about the packaging of the product, the product logo, symbol and trademark on the same basis. The corporation must also decide how the

branded product will be distributed to customers using different stores in the managed market-place. Finally a corporation will be constantly considering how the product may be redesigned, revamped, in order to keep it up-to-date in an ever changing hot consumer culture.

On the *demand side* a corporation will seek to ratchet up the sales of its branded product by buyers. The corporation working with the institution of marketing will consider ways to amplifying the drivers of spending on its product and ways to relax the constraints on such spending. A corporation will work with the active persuaders produce commercial messages about their products; most importantly they must decide on the brand image to associate with the branded product. A corporation working with the active persuaders must also design the content of the commercial messages about the product, select where appropriate a celebrity endorser, organise a marketing campaign (including various pseudo events), and choose the media to disseminate the messages. And a corporation, working with the active persuaders and the financial sector, must perpetually consider offering buyers various forms of “credit” to relax the constraints on spending, especially on large money items.

A central element of a corporate-guided market for a branded product is the environment in which it is sold – the managed market-place. This is the location where the efforts of those who provide a saleable product and those who seek to ratchet up the demand for the product come together in the most complete form. It is also the place where corporations – those who provide the product and those who own the stores - interact together with the shared purpose of stimulating extra spending by buyers. The store-based managed

market-place is the arena where the micro and meso-levels of persuasion reach their zenith. It is very evidently an environment guided by the visible corporate hand.

It is common for a corporation to offer for sale a range of products under a given brand name. This means that the boundaries of a market for a specific branded product are influenced by the markets for other same brand products provided by the corporation. Products provided under the same brand name can be thought of as complementary products. An exemplar of this is a same brand cosmetic range covering things like mascara, lipsticks, face cream, shower gel etc. Each of the complementary markets for these same brand products work in step with each other; the boundaries between these complementary markets are extremely porous and what affects one market influences them all. In addition the same corporation, in order to broaden its market, can offer differently branded products which are substitutes for each other. The most obvious exemplars of this trend are the suppliers of both breakfast cereals and confectionary products. They operate a vast array of competing branded product markets within the same product class. Once again this means that the boundaries between the market for any specific branded product provided by a corporation and its substitute branded product markets are very porous; what affects one affects them all.

Moreover a corporation can seek to extend a branded product line – a so-called brand extension – in order to widen its overall market. A brand extension involves the introduction of new product differentiated by its novel features. Clearly this has implications for other branded product provided by

the corporation. One response may be that the corporation decides to close down a market for an “older” product – ceasing to supply it. More commonly it will require the corporation to consider how the new product will affect its other branded product markets, perhaps requiring these older products to be revamped. Whatever the response this is yet another example of how the boundaries for any one branded product market are very porous and subject to perpetual change.

From a corporate perspective all this means that no one market for a specific branded product can be effectively managed in isolation from its other product markets. Indeed the most successful corporations must think in terms of offering a portfolio of branded products, covering a variety of branded product markets, which must be managed collectively to maximise corporate profits.

The corporate hand is most visible in the way corporations are able to propose prices on corporate guided markets.[11] Corporations decide the proposed product prices prior to launching the product onto the market.[12] Once launched and available in the managed market-place, corporations will allow no room for bargaining about the price between buyer and seller. The buyer either pays the proposed price for the product or does without. There are three dominant reasons why the corporation is resistant to amending the proposed price. First the proposed price is a key part of the brand image of a product. It is for example little use trying to sell a prestige product at a bargain basement price, as the latter communicates a message inconsistent with the rest of the brand image. Secondly the corporation is interested in stimulating sales revenue – and revenue is hugely dependent on the price

charged per unit. Raising or lowering product prices has implications for the unit sales of the product – depending on the price elasticity of demand for the product. Thirdly, as noted above, the boundaries of a market for a branded product offered by a corporation are extremely porous. Changing the proposed price for any one product has sales implications for all the other products – both complements and substitutes - offered by that corporation. On corporate guided-markets therefore it is usual for the corporation to set a product price and persuade consumers to buy it in large volumes. The main exception to this rule occurs when there is a need to "move" slow-selling or seasonal stock. Then corporations will use devices like price discounts, seasonal sales and special offers, appropriately framed, to promote sales.[13] Corporations are however more innovative in the proposed pricing strategies for new novel products. There are two exemplars of such strategies. The first involves giving away samples of the new product free of charge. Estee Lauder did this with the launch of her most successful branded product – *Youth Dew*; she gave away free samples to overcome customer resistance to trying a new perfume. The strategy was a great success in this respect (Koehn, 2001). Conversely with new high-tech electronic products corporations will propose prices which are initially very high. They have found that there are groups of buyers called "early adopters" who are keen to conspicuously consume and lead the market. Setting initially high prices to fully exploit the early adopter market – thereby maximising revenues - is also called "skimming the cream" (Harris, 2001). Once the early adopters market is exhausted corporations will then lower proposed prices to broaden the market.

The power of any one corporation on a corporate-guided market is of course conditioned by its rivals. These rival corporations, working with and within the institution of marketing, are also seeking to guide buyers towards more purchases. The rivals do this by offering their own distinctive branded products with differentiated brand images justifying a variety of proposed prices. Each corporation within a product class is constantly seeking to outmanoeuvre its rival, and responding to efforts by rivals to outmanoeuvre it. In addition entrepreneurial rivals are always designing new novel products associated with imaginatively new brand images that transform the market, guiding consumers into new spending patterns; this can even lead to the creation of an entirely new product class and the opening up of many new markets. This means that once again the boundary of any market for a specific branded product is porous, but this time because of the actions of rival corporations operating through their own rival branded product markets.[14]

Markets of course are two-sided. Demand for a branded product might be guided by a corporation but it can never be controlled. Actually the determinants of market demand are rather complex and multi-faceted. In earlier chapters it has been explained how consumer demand is governed by a triptych of influences – socialised, subjective and cognitive. And under each of these headings there are a range of drivers and constraints on spending decisions. Moreover all demands for branded products are responsive to the economic constraint – the monetary dimensions of price, income, “credit” and interest rates – that consumers face. Moreover with significant income

inequalities even within the people of plenty the economic constraint will vary significantly its impact on different households.

When affluent consumers make decisions about purchasing a branded product it will almost always be based on more than one motivation; usually many drivers and constraints will simultaneously influence any one spending decision. Therefore all spending decisions involve a matrix of socialised, subjective, cognitive and economic influences and a combination of different drivers and constraints. In general it can be concluded that the more numerous and powerful the drivers of (constraints on) spending the more (less) likely that consumers will commit themselves to purchasing products, and the more (less) willing they will be to pay a “premium” prices for products. As noted in earlier chapters the *raison d’être* of the institution of marketing in the system of abundance is to amplify the drivers of spending on branded products and relax the constraints. And working at different levels of persuasion – micro, meso and macro – and operating in an array of managed market-places, it is generally successful in ratcheting up spending. But no corporation or marketer can ever get large numbers of consumers to buy products they do not want. In this sense affluent consumers are the ultimate arbiters of corporate success. On the other hand the most successful corporations are those that can get inside the skin of their customers, and see things from the consumers’ point of view. Put another way these corporations have a profound sense of what drives and constrains customer spending patterns, and can therefore guide buyers more effectively towards mutually beneficial exchange on corporate-guided markets.

One further crucial point must be made about corporate-guided markets for branded products. *On these markets buyers as a whole are never manipulated victims*. Groups of reasoning and informed buyers actually enjoy some degree of sovereignty when making choices. Commercial messages, for example, are only effective when large numbers of buyers engage with the messages and decode the meanings correctly. Buyers are capable of accepting or rejecting the correctly decoded corporate persuasion as they wish. But buyers can also decode messages in ways corporations do not intend. Groups of buyers can propose their own shared meanings to associate with a specific branded product, causing the corporation to respond to their decisions. Furthermore, if sufficiently large numbers of buyers are not persuaded to buy a sufficient volume of a specific branded product this can force a corporation to withdraw it from sale. Finally buyers can accept or reject the prices corporations propose to charge for products. Buyers usually have a choice between rival products with different proposed prices, although if they reject all the prices available they end up purchasing nothing.[15] It must, however, be noted that the vast majority of buyers, especially consumers, are quite content to accept the guidance of corporations in making spending decisions. Affluent consumers faced with an abundance of choice welcome corporate assistance in providing distinctive brand images that highlight the salient selling points, and which greatly simplify consumer choices.

A final aspect of buyer sovereignty that is often overlooked is that consumers view markets through a different prism from that of corporations. The most obvious example occurs is in the managed market-place. For a corporation the managed market-place is the “business end” of its activities; it is where

sales occur and profits realised. It is therefore essential that the corporation compete with its rivals to gain advantageous locations and attention-seeking displays for its products within the planned topography to maximise consumer attention. Consumers by contrast perceive the managed market-place as a vast cornucopia of competing products, attractive counters and displays, and persuasive messages. This market-place can be explored or ignored; choices can be made or avoided; products may be purchased or not.

Moreover socialised consumers, especially in a group setting, will perceive specific markets for branded products in a wider social and cultural context. Socialised consumers are keen to devise patterns of consumption that communicate either inter-group separateness (conspicuous consumption) or intra-group sameness (inconspicuous consumption). The purchase of one specific brand of product must fit in with the consumption of branded products in other product classes – the Diderot unity. This means from the viewpoint of groups of consumers the boundaries between markets for branded products that make up an overall pattern of consumption are porous, with changing spending habits on one market influencing other markets. Moreover in a hot culture consumers will be perpetually responding to the introduction of new novel products with new distinctive brand images. The most successful new products will reconfigure group-based patterns of consumption and cause demand-side disturbances on related branded product markets. Patterns of consumption of branded products are therefore subject to change and evolution. This socialised buyer activity keeps the markets for branded products in a state of constant flux and increases corporate uncertainty about sales revenues.

With competitive rivals, buyer sovereignty and changing group-based patterns of consumption, no one corporation is ever in “control” of the markets for its branded products. The resulting uncertainty of outcome means that in different circumstances the demand for a branded product can either exceed or fall below corporate expectations. Put another way corporations can face *excess demand and excess supply* for selected branded products. An excess demand occurs when say a new product launch or a new marketing campaign proves to be so successful in stimulating market demand that it greatly exceeds planned production levels. The exemplar of this was Nike’s launch of a new trainer with Michael “Magic” Johnson as the celebrity endorser. The paid for advertising stimulated a demand for the product which massively exceeded Nike’s expectations. In response to the market force of excess demand Nike did not increase the proposed price for the product. Rather it sought by strenuous efforts to match this unexpected demand at the proposed price by greater production (Goldman and Papson, 1998). Conversely perhaps the best example of excess supply due to a “brand failure” occurred with the launch by Ford in 1957 of the Ford Edsel. “In the minds of the public, the car simply didn’t live up to the hype” (Haig, 2003, p21). Sales failed to live up to expectations – in 1957 it sold an uninspiring 64000 units, by 1960 sales fell below 2900. In response to this market force of excess supply Ford did not massively cut proposed prices, but halted Edsel production at the end of 1959.

These two examples illustrate an important characteristic of corporate-guided markets. Such markets do not respond to excess demand and supply in the

same ways as predicted by the simple market mechanism. The latter suggests that market forces cause the product price to be changed, thereby prompting the revision of buyer and seller plans. Actually on corporate-guided markets for branded products, where the imperative is to ratchet up sales, corporations respond *by varying the quantity supplied*.

When therefore there is an excess demand for a specific branded product a corporation will respond by seeking to increase the supply of the product in order to to resolve the shortage. This is the most profitable way for a corporation to respond as will both utilise spare productive capacity and generate extra sales revenues. The corporation will however keep the price of the specific branded product steady; if it were raise the product price this will simply act to contract demand, which makes no sense for a profit seeking corporation. Conversely when there is a persistent excess supply of a specific branded product, despite various efforts to stimulate sales, a corporation will respond by ceasing to supply the product altogether. Once again the corporation will not respond by cutting product prices. Cutting product prices will simply communicate to consumers concerns about the defective "quality" of the product being offered, leading to even lower demand (Akerlof, 1970, Machlup, 1984). Put simply the corporation will cut its losses on the product and to reallocate resources to the provision of more popular product ranges – be that for existing products or entirely new ones.

When analysing corporate-guided markets for branded products it is really unhelpful to apply an equilibrium methodology – either of a stationary or shifting typology. Trying to squeeze an inherently evolving process into the

fixed boundaries of an equilibrium concept does genuine damage to proper thinking about the ways corporate-guided markets operate. It is much preferable to think about a corporate-guided market as a perpetually evolving construct, with porous boundaries and flexible configurations, where the only constant is change. Over time the changes are often profound enough to destroy old markets completely and multiply the new markets that exist. The evolutionary process is a never ending work in progress. Adaptable ever-changing corporate-guided markets clearly play a critical role in the success of the abundant capitalism system. Certainly these ever-changing markets are perhaps the most observable aspect of a "hot" consumer culture. The corporate-guided market framework therefore constitutes the general case of how markets work in abundant capitalism. In an era of abundance the simple market mechanism can only really be applied to the limiting case of key homogeneous products sold on global markets. In this special case the simple market framework does no great analytical damage and indeed provides some useful insights

Finally, it would be wrong to imply that all corporations display the same competence in guiding the markets for their products.[16] Certainly the most successful corporations of high repute, with few serious rivals, are extremely competent in persuading its customers to buy prestigious products at the "premium" (i.e. very high) prices they propose. These markets for high prestige products sold at premium prices perhaps most closely resemble the type of managed markets which Galbraith had in mind.[17] If this is the case the Galbraithian concept of a managed market can be thought of as a special case of the more general form of corporate-guided market.

At the other end of the scale they are numerous examples of incompetent corporate guidance – so-called brand failures – where a corporation fails to persuade consumers to purchase products at the rate it expects. Even corporations with a track record of persuasive success can be guilty of such failures, as the example of the Ford Edsel ably demonstrates. In the middle are a mass of corporations who display competent guidance of their branded product markets, which although not outstanding is far better than mediocre.

One further topic worthy of discussion is the role for State intervention on corporate-guided markets. Mainstream economists commonly restrict the consideration of State action to "production" issues (e.g. health and safety legislation etc) or to interference with the price mechanism (e.g. minimum wage legislation). Armed with the concept of corporate guided markets for branded products it is possible to explain a number of extensions of State intervention in the market. The first form of intervention seeks to protect the corporation and its "brands". Governments allow corporations to protect their branded "trademarks" from being appropriated by devious rivals. In corporate-guided markets brand names and trademarks play a pivotal role in the communication of a brand image. Corporations treat them as valued intangible assets. If a rivals acts to undermine or replicate them the State allows the wronged corporation to seek redress through the courts.

The next two forms of intervention seek to protect consumers from dubious corporate practices. So a second form of State intervention on corporate-guided markets extends to regulating the content of product packaging. The State appreciates the important role that packaging (and related corporate

literature) plays in persuading consumers to buy in the managed market-place. It therefore insists that on packaging (and in other written materials) corporations avoid making false claims about a product; and for specific product classes (e.g. medicines, food, drink, cosmetics, insurance etc) the State requires corporations to be open about the precise content of the products supplied.

The concern about false claims manipulating consumers extends to a third area of State intervention – this time relating to the content of paid for advertising on corporate-guided markets. The State acknowledges the power of this technique of persuasion and therefore requires that corporations make no false claims through paid advertising. Moreover the State will try to protect cultural moral norms that might be undermined when promoted by paid for advertising, especially for products like gambling, smoking and alcoholic beverages. Finally the State will seek to “protect” children who are felt to be particularly vulnerable to suggestive marketing techniques – for example by banning the transmission of certain types of TV adverts at specific times of the day. In the UK there is a compromise between State control and self regulation. An independent body called the Advertising Standards Authority (ASA) has been established by the advertising industry itself. The ASA adjudicates complaints made by members of the public about adverts in various media. It applies established codes of conduct and can require a corporation that contravenes the code to withdraw an advert. Ultimately if a corporation persistently fails to implement the adjudication the ASA reports to matter to a department of State – the Office of Fair Trading – to pursue the matter.

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ENDNOTES

[1] The use of the appellation "free" has normative implications – suggesting that markets promote freedom. This rather undermines the claim of mainstream economists to have developed a positivist theory of the market. The authors have another objection to the term "free market". They remember the student who was convinced that on a free market everything was provided at a zero price – free of charge.

[2] Price signals are an extremely efficient communication system; for homogeneous products they allow market participants to make the right decision about buying and selling with the minimum amount of information.

[3] This equilibrium frame has an extremely powerful pull on the thought of all economists. It is what all economists are first taught, and rare portion of common ground in a discipline renowned for its disagreements. For non-economists it is probably difficult to appreciate quite how deeply the equilibrium frame permeates economic thinking. Indeed for Milgate and Eatwell (1983) the dominant contemporary dispute in economics can be explained in the different perspectives economists have about market equilibria. Milgate and Eatwell claim the vast majority of economists can be divided up into two groupings - a *market mechanism group* and an *imperfectionist group*. The market mechanism group claim that with powerful market forces it is reasonable to analyse markets as if they were always in equilibrium. Disequilibrium states are always of short duration and can safely be put aside. The imperfectionists accept the power of the market mechanism to generate equilibrium states, but maintain it is inhibited and obstructed by various imperfections. Disequilibrium states are long-lasting and need to

"managed" usually by state intervention. Yet both the market mechanism and imperfectionist groups accept the equilibrium frame of reference. Economists who focus their analysis on states of market disequilibrium implicitly use the equilibrium frame – for disequilibrium positions are defined as states where markets are not in equilibrium.

[4] Indeed with developments in refrigeration many previously perishable products can now be kept for quite considerable periods of time.

[5] To be fair mainstreamers accept this type of analysis with respect to exchange rates in order to explain why purchasing power parity rates are very rarely at their long run "equilibrium" position. This is covered by the so-called "overshooting" model of markets.

[6] Mainstream textbooks don't bother explain or justify the idea of consumer sovereignty but simply assert it. It is simply an axiom – a self-evident truth – that is unquestioningly applied. Cowell (2006), for example, claims it "as a principle governing the workings of the economy" (p383) that in some non-specific sense organises productive activity. Content with such bland assertions mainstreamers move on to consider other issues.

[7] Of course corporations can also act as buyers on markets – such as the market for the labour time of workers, the market for bank loans, and the market for renting land and building space owned by landlords. Presumably this means that these buyers enjoy *corporate sovereignty* on these markets. Mainstream economists remain surprisingly silent on this topic.

[8] Galbraith is an intriguing character. It has been said of Theodore "Teddy" Roosevelt that he "was used to taking the road less travelled and convincing others to follow" (Grondahl, 2004, p 136). The same can be said of Galbraith.

He was a Canadian who worked in the USA, firstly for the Government during the New Deal, then in academia at Harvard. Galbraith was a perpetual critic of capitalism, economic growth and of mainstream economics. His most influential idea is that of the conventional wisdom (Galbraith, 1958). A conventional wisdom relates to things like a generally accepted view of an issue or problem, a widely used theoretical analysis, an established method of research or a long used policy solution. In economics the dominant conventional wisdom is the paradigm of scarcity. The enemy of any conventional wisdom is the march of events. The world changes rapidly whilst the conventional wisdom is fixed, and eventually the latter becomes unsustainable and is overturned.

[9] The problem for mainstream economics, according to Galbraith, is that it is stuck in the paradigm of scarcity from which it cannot free itself. This means that mainstreamers are too ready to apply the conventional wisdom of the simple market mechanism and the accepted sequence to circumstances in which they are no longer relevant. The problem Galbraith claims "is not one of original error but of obsolescence" (Galbraith, 1972, p 217) for the scarcity paradigm is "not inappropriate to an earlier stage of economic development" (*ibid.*, p 217).

[10] Prices are then established by the *visible corporate hand* and marketing messages justify these prices to consumers, which consumers can then accept or reject.

[11] An often overlooked element of the proposed price is the ability of corporations to establish the terms and conditions of a transaction – the small print. The best exemplar of this occurs when purchasing insurance cover

where the contract is replete with technical terms and conditions. Moreover the corporation has the right to propose changes to the terms and conditions when it suits the corporate interest.

[12] Sellers have long-since realised that buyers have *psychological barriers* with respect to prices. A buyer therefore can have a barrier to paying £5,000 for a second hand car or a barrier to paying £8 for a new CD. Corporations manage this demand by a policy *of psychological pricing* (Harris, 2001). They do this by setting the price for a second hand car at £4995 or the price of the new CD at £7 or £7.99. Kahneman and Tversky refer to this as *non-linearity* in decision-making, by which a marginal change in a variable (i.e. in the probable outcome or in this instance the price) can have a disproportionate influence on the decision made (Kahneman, 2000).

[13] Price discounting is a way of stimulating sales. The most common technique applied in the retail sector to move stock is the so-called "bogof" – buy one get one free. Though in times of recession, when people are make incomes go as far as possible, straight price reductions become more prevalent. Corporations however must be careful when reducing price because buyers might decode it as suggesting that the product is of deficient quality. Hence corporations proposing new lower prices for products must frame such discounts in ways that are attractive to buyers – "best ever value", "sizzling summer deals", "fantastic products at amazing prices" etc.

[14] Buyers can easily shift between different branded product markets, especially when the costs of switching products are low.

[15] This raises some interesting issues. First, the market viewed by the corporation is different from the market as viewed by consumers. The

corporation sees everything through the prism of the market for its branded products and those of its immediate rivals. Consumers see the market in terms of an often abundant choice between rival, but differentiated, products. Yet all consumers are aware that the rival corporations act similarly towards them; they all try to guide consumers towards the purchase of specific branded products. In that sense consumers see corporations as very similar.

[16] The success of a marketing campaign – in stimulating attention and sales - is not always positively related to spending on the campaign. Gladwell (2002) provides an excellent example of a leading world mail order club considering two possible direct marketing campaigns. One strategy, proposed by a top Madison Avenue advertising agency, was for a large scale, prime time TV advert campaign to raise consumer awareness about the mail order club. The second strategy, offered by the legendary direct marketer Lester Wunderman, proposed cheaper TV ads at non-prime time slots reinforced by coupons that readers had to search for in a top TV guide magazine to claim a free prize from the mail order club. The mail order club could not decide, so ran both campaigns as pilots to assess which worked best. The Wunderman approach was amazingly successful and gained the contract. Yet the Wunderman campaign only cost about 25% of that proposed by the Madison Avenue advertising agency. This means that the amount of money invested in a marketing campaign does not guarantee success; and sometimes, when communicating persuasive messages, less is more.

[17] Corporations acting as buyers – of factor resources and stocks – can also display the type of control of markets that Galbraith outlines. For example when purchasing labour power the corporation will design and frame the job

advert in the most persuasive manner, decide in which media to place the advert, and dictate the time, date and duration of interviews involving potential candidates. It will also control the job description, the qualifications required, the remuneration and conditions of employment. It is an exemplar of corporate sovereignty where sellers respond to the pattern of demand of corporate buyers. This corporate sovereignty is also evident in business to business transactions between corporations of different sizes. In this case a larger corporation – say a major supermarket chain – has the sovereignty to dictate what it wants from a smaller corporation – say a diary products supplier - including deciding the price it is willing to pay.