A Coasean Analysis of Marketing

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Marketing as Negative Externality

- Conventional view: marketing creates negative externalities
  - Marketing imposes costs on consumers
  - Marketers don’t internalize these costs
  - Marketers overproduce marketing
- Policy options
  - Pigouvian tax
  - Liability rule (damages)
  - Property rule (opt-in/ban)

Marketing as Negative Externality

- Is marketing a negative externality?
  - Consumer private utility = SU + ACU + RU
    - Some consumers experience positive private utility
    - Consumers as a class may experience positive welfare
  - A message's utility can't be determined ex ante
  - Risk of over-deterrence
- What about the Coase Theorem?
  - High marketer/consumer bargaining costs
  - But regulation isn't only option

Coasean Matchmaking

- Consumers and marketers both want welfare-enhancing matches
- Problem: consumers have heterogeneous but undisclosed preferences
  - Preference disclosure is costly
  - Consumers have latent preferences
- The Coasean key: costless preference disclosure

Coasean Matchmaking

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- A preference disclosure system should be:
  - Granular
  - Dynamic
  - Personal
  - Minimize transaction costs
- Regulatory intervention is suboptimal
- My preferred option: "Coasean filters"
  - Automated gathering of preference dataset
  - Decentralized filtering preserves idiosyncratic preferences