A Coasean Analysis of Marketing

Eric Goldman
Marquette University Law School
eric.goldman@marquette.edu
http://www.ericgoldman.org
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

- 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