HiC5 - Advertising in Cyberspace

LSE, Feb 22 2024

Introductory words, Speaker 1
Mindmap:
https://drive.google.com/file/d/1xGhdUsBqLdNaTNKG5ONrAsQ45-h_Ak82/view?usp=drive_link

Long-form article version
https://www.metakarma.org/blog/advertising-bad.html

- A few basic facts
  - £1000/year/household UK Digital ad spending in 2023 - this is our "subscription" to the free-to-view web
  - 2018, Meta and Google had 80% of this
  - This pays for free-at-the-point-of consumption content & tech
  - Rents from advertising are substantial - Google has margins of 64%
- Why might there be too much Advertising
  - 3 general economic arguments
    - Kaldor (1) 1950
      - Advertising is not the result of consumer choice, and cost is spread regardless of use, so "profitable supply is not prima facie argument for contribution to welfare", instead the positive case must be argued for in terms of effects
    - Kaldor (2) 1950
      - Advertising that moves consumers between pretty similar goods does not add much utility
        - ignores dynamic value of rivalry
        - But true that alternative ways of providing rivalry-inducing info might be better (Halpern's deshrouding)
    - Becker and Murphy 1990
      - Advertising is a complement to other goods, but, especially with free-to-view content, it might be like "death, divorce and unemployment is a complement to alcohol consumption"
        - Kaldor & BO
  - Specific harms of advertising as we know it in cyberspace
    - Furman review harms
      - Rents/Excess profits
      - Data hoarding
    - Surveillance consumerism

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        - Privacy harms
            - Grindr priest
        - Regretted consumption
    - Advertising/Media bundles are themselves harmful products - especially children, teens
        - Addictive by design products
        - Feelings of inadequcy
        - in-group/out-group dynamics, shaming and bullying encouraged by Skinnerian tools
        - Invention of FOMO
    - Wider Social/Psychological harms
        - Cognitive cost of switching attention
        - Shortened attention spans
        - Productivity puzzle?
        - Destruction of old positive externality related to a broad-based public sphere
            - polarisation of politics
- Remedies
    - Strong state & the process of civilising platforms…
        - We can sort out the privacy issues, trust us
            - Dominance in Browsers gives them tools to do this
    - Competing ad tech stack
        - Give us a competitive advertising market, and let other regulators do their jobs, and everything will be fine
            - data regulation
            - advertising standards
            - taxation
    - Intentional remedies
        - Sovereign consumer should be given tools to determine a web of trusted connections
        - Doc Searls and the holiday break
    - Data union
        - Invent the institutions that make transactions costs manageable for the individual
- Is this all about to be over-turned by AI?
    - "Aligned" & friendly models will whisper in our ears just the right words to make us good consumers…

Speaker 2

There is a huge amount of fraud - in the ad tech stack itself and beyond - there are data leaks, and user frustration. We propose an engineering-led vision, based on the classic client server model. Our

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proposal is for a general data exchange network, with permission management and control. We take it as given that the platforms will be opened up by regulatory demand, and we had conversations with the DMU team at the CMA to design an architecture for moving data between entities. We take inspiration from common carrier law, where the OS providers are required to route standardised requests between entities. So instead of me asking you as an individual, for your password, your bank details what email address, I'm asking: "Can I sign you in and can I contact you to take payment?" and it's the device that's then routing those requests - payments are routed to your bank, sign-ins to your identity provider ... and all this happens by regulated services built into the OS. In the paper, we did a case study of what advertising would look like in this world. The report proposes a sort of new social contract for how the internet works. In advertising, it would work as follows: - you go to a site that wants to be ad-supported; it asks you to sign-in; once identified, you are offered a list of organisations that you have pre-existing relationships with, and you are asked to confirm that they can communicate with you by advertisement on that site. Most users will simply accept the default list. The social contract we propose is that organisations can use the data that they hold about you, gathered through your activities on their sites, to market to you. We propose breaking up the idea that data about you can move around between organisations, without your knowledge. We think this is the creepy part of online advertising - you go to one site to do something, you go to another site, and it's reflected on that site. We also talk about how our data exchange network can preserve privacy by making sure that behaviour is associated with randomly generated identifiers rather than with names.

Speaker 3
Where does synthetic data and lookalike audiences sit within your model? Can you only serve an ad to somebody who was explicitly given permission to be served information? For example, I might not have left an unchecked-out basket on the John Lewis site, but I might look a lot like someone who has. Can they use that information to target me?

Speaker 2
It's a good question. I think that and this is a question to everyone actually, is whether we can, what is ethical was our ethical starting point with this, the analogy I use is, when I go to my local streets, I have a good relationship with the guy in the wine shop, who knows that I have kids, he knows that he knows what's going on all day. I have a bad relationship with the guy, the fishmongers, right? You know, go in there pretty much what I do I want data, do I want information about me to move between those entities? Or do I want to be segmented, In our view, you can keep that segmentation between entities. But if you're a company, and you want to advertise to someone who doesn’t have a relationship with you, you have to go through an entity that does, which would be your Facebook or your Google. And they can advertise to their users in whatever way they like, but they can't do it based on information they've pulled from outside. I'm interested as to whether that as an ethical proposition.

Speaker 1
Does the inevitable reduction in targeting efficiency that comes from the proposal not mean less revenue to content creators? Take us through the example of what happens to the Guardian's revenues in your scheme.

Speaker 2

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When you visit the Guardian, you have a pre-existing relationship with Facebook, and they know you might well be looking for a weekend break; but you also have a relationship with the DVLA, and they know your car tax is about to expire - they really want to get through to you. Because Facebook and the DVLA both know that you are visiting a page through which they might communicate, they have to bid their true value to get through to you. The DVLA, in this case, might well outbid the travel company that Facebook has wanting to get through to you. The fact that all of these organisations have access to the data exchange network on equal terms means that the intermediaries, who currently take 40% to 60% of the ad spend, would be taking much less. That means more revenue for the Guardian & the ultimate content creators.

Speaker 1
I am concerned at the degree to which this proposal seems to add to the power - certainly the relative power - of the platforms. If you have a large and deep relationship, you will be better at targeting, and so will increase your dominance in the advertising auctions.

Speaker 2
… just to push back slightly on your reducing competition. Our proposal is for an open data exchange system so that that request for ads can be responded to by any entity in your life. And so there is a pro competitive piece - you're creating an open market supply and demand.

Speaker 6
We've been talking about these problems of platforms and advertising for 30 years ... we're still talking about them ... we must recognise that we are not being very visionary here - why has nothing moved forward? It is not very uplifting.

As a society, we can think about our digital future in different ways - participation of different stakeholders, how we want to communicate good information ... that will be Google and Facebook in the future, but we don't need to depend on them in every conversation we have.

The argument was mentioned: "let us keep the platforms dominant, because at least that way the externalities can be internalised with good regulation".

But would we allow this kind of reasoning in Tobacco? Let them monopolise - that way we can reduce the addiction problem, both through them charging higher prices and because it is easier to regulate a bunch of huge firms than many competing ones.

The biggest negative externality - perhaps the one that has not yet been mentioned - is the sheer amount of time we spend online. It is not a negative externality of advertising as such, but it's really consuming our time and attention in unprecedented ways. And that's what makes a difference between the digital platform and what Kaldor was thinking in the 50s. Today, weh ave major portions of our lives depending on two or three American platforms. That is separate from the privacy problem of the Grindr priest.

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On privacy - the typical argument is "it is my choice what I reveal, and if I have nothing to hide, I have no worry." Inform the priests on Grindr, and they can make different choices. The platforms do not actually care about me individually - they want to put me in a statistical category. So the grindr-priest problem, they argue, is not fundamental to their model. However, it is - they don't care about me individually, so they will be careless with data that can be related to me. Therefore, there is too much data being released.

Mention was also made of the defence that content creators - The Guardian, in your example - depend on the platfrom-advertising complex for their revenues should be taken with a pinch of salt. The Guardian doesn't even know how much money was spent upfront. So if $10 is spent by an advertiser, The Guardian has no control, knowing what share of that is going to them - it may be as low as 10%. And what is more, no one can actually do the accounting and auditing of the money trail, because so much of it is opaquely held within vertically integrated trillion-dollar companies.

We really need to consider the scale and concentration here - Google and Facebook have 3 billion users. Thinking derived from the 1950s isn't going to consider the implications of that. Note that there is no such a thing as digital advertising. Search advertising is a monopoly; display advertising does a very different job. Digital tech companies love to talk about digital advertising in general. But in practice, there must be a distinction between each segment - the truth is there is actually even more concentration than if we just talk about online advertising in general.

Zuckerberg said in a public speech at Georgetown University a few years back, when people were asking for control over how information was being used, he said: "the sun is the best disinfectant". The problem with that argument is that there is no sun any longer. I have no idea what's being shown to you, because I don't have your profile. So that makes it very difficult to shine any light on the process or its effects. It is one of the most opaque businesses there are.

As an industrial economist, a question mark I have, and largely an unexplored area, I think, is the impact of advertising on the industry behind it - if you are General Motors you can still go on traditional media. But if you are a small plumber, your life and death depends on this platform. From one day to the next, you may disappear. If you're on page 10 of the search results, you don't exist, you need to be on top, which means that all your profits, if you have any, are going to be sucked in by advertising fees. And this, to me has an impact on the real economy. This is one of the big issue on which we should shed more light.

Speaker 1
I continue to be interested in what remedies you would propose based on these points. For example, when you talk about reducing the cut that goes to the platforms, it sounds as if you are advocating for more competition in the ad market. But won't that exacerbate all the negative externalities we have talked about? The Demos proposal suggests a drastic cutting of data sharing, and so presumably a reduction in at least some of those negative externalities. As a remedy, I am not sure where you would stand in terms of reducing data flows.

Speaker 7

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You're saying there's a tension between competition and dealing with the other externalities. In principle you want to have different instruments for different, though related, problems. There is one set of issues around the dominance of digital platforms - there are a set of competition policy issues that need addressing. But I think that's analytically and practically distinct from the things you're raising, which are fundamental questions about advertising itself.

On that, I think it's useful to keep in mind the logical distinction between informative and persuasive advertising. The first alerts you to the existence, quality, price and features of a new product or service. A lot of advertising is in fact the second, which is about manipulating our preferences. And I think that is a form of pollution. And the Pigovian solution to that is to tax it.

As you mention, the problem have been supercharged by what's happening in cyberspace, it's become a lot more pernicious. All the reasons that have been mentioned here - the targeting, the attention deficit disorder society we've created, the terrible influence of this has had on people's body images - particularly young women and girls. So I think the argument for massive taxation on advertising is very strong - we should work out how to make these work. The idea of a data union is very attractive - we needed labour unions because transactions costs of bargaining with employers was too much for any one individual to take on; the idea that we should have institutional innovation in this direction is very attractive.

Speaker 1
You say that different problems need different policy tools - yes. But what if it is the business model that underlies all of the problems - do we then not have to take policy action against the business model? It is a bit like finance post 2008 - the nature of what banking had become led to unsustainable levels of debt; we had to take an axe to the business model.

Kaldor has an interesting take on the informative/persuasive distinction. First, almost none of it is mostly informative. But it would be great to have truly informative advertising - consumer reports, in the style of Which. Kaldor suggests that these might be provided for a fraction of the cost expended on “persuading”. So why not, as Kaldor suggests, have a public institution that provides that kind of information? This is closely related to something that David Halpern has often made: can the state not use the information that it has by virtue of its administrative dealings to “deshroud” markets. So, for example, HMRC has data on whether tax accountants tend to do a good job for clients. Why not publish a list of good firms based on the data of who avoids HMRC penalties, for example?

Speaker 8
Speaking as an ex-marketer: there was a time when ads were good; a great deal was spent on entertaining and informing in equal measure. Advertising put a smile on consumers’ faces as well as leading to purchases for the client. That's lost - and it has become a meat market. The consumer has simply been forgotten. The promise was that personalised advertising would get better, because it would really address our wants and needs; instead, it addresses our weaknesses. It is not clear what the solution is, but we must remember in all this that advertising can form part of a healthy consumer market economy.

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Speaker 9
How would you evidence that there was too much of this bad advertising going on? It is striking that the CMA market study had the market size at £15bl, of £500/household/year, while you say that 2023 seems to be double that - £30bl. That kind of growth - and this is no longer shifting advertising budgets from one medium to another - suggests that something new and different is going on. Perhaps that could be the start of establishing that there is something awry - that we have got to powerful preference shaping rather than informing. As has been mentioned, we are now spending a huge number of hours exposed to this business model, and perhaps it is powerful in a way that the old technology was not.

Speaker 10
An important point is that our preferences over what we agree to be exposed to are not stable. The Behavioural Insights Team recently ran an experiment looking at the choice architecture around cookies on different websites in France. We see huge variations from choice architecture, which leads to a deep question: What do we think the optimal refusal rate or acceptance rate should be? [Results will be added when published]

Speaker 11
But no one wants to be asked endlessly about cookies - shouldn't that be telling us therefore that this is the wrong question. We need a better architecture that does not lead us to impose a choice no one wants and few understand.

Speaker 1
Absolutely. Just for the anecdote - the way to really get politicians' attention on these topics in general was to tell them that your policy would get rid of cookie pop-ups.

Speaker 12
We do need to remember how good some of the advertising products are - how does a plumber in NW10 make themselves known to me? Search and social media are remarkably good for this. Careful not to throw out the baby with the bathwater.

Speaker 6
The plumber in NW10 problem - the trouble is that we only have 2 platforms that will connect you. There is no competition. We must keep focused on the market power problem of these huge American firms.

Speaker 1
Yes but … actually the referral fees on Bing are the same as the referral fees on Google. So I am not convinced that more platforms leads to a shrinking of those rents. Because once you have a customer, that customer is valuable to the business - no one multi-homes in the context of the immediate decision.

Speaker 6
There are interesting experiments of Data Trusts in health and in transport - mechanisms by which data is collected according to a socially agreed set of protocols, and the trust controls access to the data.

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Thai puts all those wanting to use the data on an equal footing and does not privilege the first-party platforms who de facto hold and control so much personal data. There are experiments along these lines in Spain, in Denmark and Holland. This allows a world in which each person can train their own algorithms and it inserts a layer of competition for access to data and to attention. It is possible to combine access to the data for good purposes with privacy, control and market power control.

Speaker 13
Europe has just mandated that Facebook offer a paid service that does not use ad targeting. That sounds like an excellent remedy - I would certainly like that. But again, there are some real benefits to the ad funded model. People love to play (free) Candy Crush. That pleasure should be recognised as genuine and worthwhile.

Speaker 1
The EU “pay-or-OK” Facebook remedy is very interesting. But note that it is not because I pay for Facebook that I get a discount off the price of the goods that advertise on Facebook - the normal market feedback mechanisms are blunted with advertising. Moreover, as the Behavioural Insights Team has shown on numerous occasions - there is something pretty special about a zero price: it really is very hard to resist starting … and once started, your preferences are changed. The fact that your preference, after you've had the free Candy Crush experience is for more Candy Crush, doesn't tell you what your preference before that is. The choice that determines your choices takes us to the limit of what an economics welfare standard based on the sovereign consumer can cope with. Of course, we need to be very careful taking goods away from people once they are perceived as goods. But we should make social choices about the conditions that create the preferences.

Speaker 3
Are you really suggesting that people should be made to pay for messaging, rather than allowing, say, WhatsApp data to be used for ad-targeting and that covering the cost of the service? And what about the poor who could not afford messaging if it were a subscription?

Speaker 1
This confuses free-to-view versus free. We're all paying, we're effectively paying a tax for it. If you want to finance a public good through taxes, finance it through taxes!

Speaker 4
As a cognitive specialist in finance, I think we should be very worried about what AI is going to do to overwhelm our ability to make informed choices. The flood of crap that AI is going to release into people's decision making space is going to seriously erode the public capacity to make what can properly be thought of as an informed and consented choice. The cognitive load and persuasiveness is about to reach a new level. The remedies that have been discussed may be inadequate to the challenges of the new technology of persuasion that AI is about to become.

Speaker 5
Isn’t at least part of the answer to invest more in digital literacy. It's an area that is grossly under invested in terms of remedies. Of course, there are limits to what education can do, but that is not a

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reason not to do some. There was a fascinating piece of research by the Information Commissioner's Office and OFCOM in 2019. It asked people whether they thought it was a good bargain - getting all this free-to-view material. About 63% said it was. People were then told about the adtech process (collecting and sharing personal information, bidding by advertisers), and the figure fell to 36%. Consumers online don't understand what's happening, or the consequences of the choices that they make. I think there's scope to make things incrementally better through more education.

Speaker 12
It has always been remarkable that neither consumers nor people working on content in the media understand that they are adjuncts to the advertising industry.

Speaker 14
We must remember that it is possible to live outside the platformised world for our choices. I certainly tend to seek out specific trusted on and off-line sources to aid many of my purchasing decisions. This suggests that policy and regulation can encourage ways of living that would to some extent undermine the power that the platforms have. I worry we are not giving enough encouragement and shepherding to the innovations we do want to see, rather than the prevention of what we don't.

Speaker 2
The Demos report proposes a system of trusted and certified data exchange, with ultimate control in the hands of the citizen/consumer. If someone in the default list is sending you ads that you do not like, or otherwise doing things with your data that you'd rather they didn't, you can deselect them from the permitted list. Questions of permission can be asked in simple and standardised ways. We can combine user convenience, user control and minimal manipulation of the sort we have in cookie screens with good engineering design.

Speaker 15
It is interesting to ask how we can return advertising to a human activity - the activity of recommending, of asking people you trust, of sharing information. The conversation has been good in emphasising the problems that we see in the industrialised selling system that dominates cyberspace. But perhaps there are more human alternatives available.

Some Links:

- Kaldor (1950)
- Becker and Murphy (1993)
- Demos report - Rewiring the Web
- ICO and Ofcom (2019) 'Adtech: Market Research Report'. https://www.gov.uk/find-digital-market-research/adtech-market-research-report-2019-ico-ofcom
- Allcott, Hunt; Braghieri, Luca; Eichmeyer, Sarah; and Gentzkow, Matthew (2020) 'The Welfare Effects of Social Media', American Economic Review, 110(3): 629-76. https://doi.org/10.1257/aer.20190658
- Allcott, Hunt; Gentzkow, Matthew; and Song, Lena (2022) 'Digital Addiction', American Economic Review, 112(7): 2424-63. https://doi.org/10.1257/aer.20210867

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- Prat, Andrea and Valletti, Tommaso (2022) 'Attention Oligopoly', American Economic Journal: Microeconomics, 14 (3): 530-57. https://www.doi.org/10.1257/mic.20200134

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