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Economist, journalist and BBC presenter

The Brands Lecture

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Are brands a form of corporate bullsh*t?

British Brands Group

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Prior to the *Today* programme he was the Economics Editor of the BBC, the most senior economics reporter in the corporation.

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His latest book is called *Post Truth: Why we have reached Peak Bullshit and what we can do about it* which sets out to explain why there is so much mendacity and nonsense in public discourse and why it became more of a concern in 2016.

The Brands Lecture
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Firstly, I must apologise for using that word. I have just written a book, conceived in 2012, which was going to be called Peak Bullsh*t. As it happens, when 2016 came along we realised that far from being at a peak, we had only been in the foothills at the time of the book's conception and when it was published earlier this year it was given the more fashionable title *Post-Truth*. But what the book has taught me is that the word bullsh*t now has popular currency and is really the only word that describes the phenomenon we are assailed by in all walks of life, often in the corporate world, more often at the moment in politics, but also in our daily personal encounters too.

Bullshit is not just lies. It is not just deliberate attempts to mislead. It includes a whole range of things that are simply detached from fact – obfuscation, economy with the truth and disregard for facts (as opposed to deliberate deceit). The specific phenomenon of corporate bullshit is something I am sure you have all encountered multiple times.

By way of example, let me cite a paragraph from the annual report of Barclays Bank in 2007, a time when Barclays was cheating on LIBOR, selling PPI insurance and saddling small businesses with inappropriate fixed interest rate products. The annual report says, 'In all of this, the customer is absolutely central if we are to make sustainable banking successful and successful banking sustainable. We must put our customers at the heart of everything we do, and build our services around them.' It goes on and on and on: 'We must earn and keep their trust by ensuring that the products we sell are understandable and appropriate.'

This is what I mean when I talk of corporate bullshit. It is detached from reality but designed to offer a flattering portrayal of the company. It is perhaps pretty harmless as no one would have believed it at the time anyway, and I suspect few people read such paragraphs, so you might call it at best a load of vacuous nonsense. Tonight, my main focus is to ask whether brands are in that same category.

Are people gullible?

However, there is a second question that I want to pose, very much related to the first. It is, 'Are people gullible?' Now this is closely related to the question as to whether brands are bullshit, because if brand managers and their consultants do generate lies and nonsense in promoting their brands, they presumably do so in order to sucker consumers into buying their products. And if we are suckered into buying their products on the basis of lies and nonsense, well then we must gullible. If people are not gullible, if we are not taken in by the corporate bullshit of brands, then why would companies invest so much money in them? I can see why a Barclays annual report might contain bullshit text, because it doesn't cost much. But would you invest so much in bullshit marketing unless people were gullible?

So the answers to both of questions 'are brands bullshit?' and 'are people gullible?' are strongly linked. And I think the latter is particularly interesting in 2017, as there is a ferocious public

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debate about it in light of the volatile political era through which we are living. It is perhaps mainly within the so-called metropolitan elite, but the argument is about whether people who voted for Trump or Brexit were somehow taken in by falsehoods in the relevant campaigns ahead of the votes.

There is a very simple mental model prevalent among many people upset at the results of those two votes in 2016, that runs along the following lines: people were lied to, they believed the lies and they voted the wrong way. The underlying assumption is that people are gullible. I should say that, while this is a popular mental model, I have never met anyone who thinks that *they themselves* are gullible. It is always other people who voted in a way they didn't agree with who are gullible. But regardless of that, I think 'are people gullible?' is an interesting question and highly related to our topic today.

Can rational economics explain the brand phenomenon?

Before I move on, there is a third way of framing the same basic question. It is this: 'Can rational economics explain the whole brand phenomenon?' I'm interested in this version of the issue as I have a background in economics and have thought quite hard about the relationship between the basic economic framework I learned at university and the behaviour of the real world. The main simplifying assumption in the suite of models taught in economic text books, is that people are rational: they know what they're doing, they maximise their utility, they make sensible choices on their own behalf that reflect their own preferences, and companies make rational choices too. This is the economic equivalent of assuming frictionless surfaces in physics and although it is unrealistic to assume rationality on the part of everybody, as an approximation to the way the world works, it nevertheless gets you quite a long way in explaining the things we observe. It has obviously been challenged in the last 15 years by the field of behavioural economics, which focuses on systematic deviations from rationality that motivate human behaviour.

The rationality assumption means that economists have a slightly odd relationship with brands. On the one hand, they do not want to believe that brands are bullshit: economists don't really believe in bullshit. They do not want to believe there is too much of it, because it is inconsistent with the presumption of rational behaviour. If you tell me your product is good when you sell it to me, I would be a bit dim to believe what you say, because you would probably say that if the product was bad. I get no useful information about your product from your words at all.

However, economists also don't want to believe that brands are magic. In as far as the brand or marketing literature says that they have a supernatural appeal, the economist's instinct is to say, 'No'. There has to be some economic purpose to something that companies do and consumers respond to. For believers in the rationality assumption, that purpose would most likely be the conveyance of useful information about the product. If brands somehow tell us something useful, then they have value, consistent with the assumption of sensible consumers and profit-maximising companies. So the question is, 'Can rational economics get you very far in explaining what brand managers do?'

Information and its conveyance is a vibrant area in economics. Nobel Prizes have been won evaluating the relationship between the functioning of markets and asymmetries of information between different participants, that is what sellers say and what buyers believe. Economists tend to assume that because consumers are rational and won't believe self-serving things that sellers say, and because sellers have no credible way of telling the buyer, 'My product is good,' markets often don't work as well as we'd like. There is a famous economics paper by George Akerlof about the market for second-hand cars, called 'The Market for Lemons', that won a Nobel Prize. In it he suggests the market for second-hand cars is dysfunctional because the buyer doesn't know whether the seller has looked after the car or whether it is a dud (a lemon). So the buyer will always pay a discount for a used car when buying it.

The economics of markets puts an enormous weight on such asymmetry of information. The seller knows what the product is like. The buyer doesn't know what the product is like. The buyer can't believe the seller, so the market doesn't quite function. Information as a barrier to the efficient functioning of markets is an important part of economics and one that has been absorbing a lot of economic thinking over the last 20 or 30 years.

Is the model consistent with our actual behaviour?

So we have these questions, 'Are people gullible?', 'Can economics explain brands?' or 'Are they all just bullshit?' These are the questions I will try to answer. I ask them not only because I am an economist and interested in how economics deals with brands, or because I have written a book on the subject recently so it's in my head, but also because I believe in introspection. I observe that I have a full suite of brands to which I have a personal attachment. I want to know, am I gullible and stupid in having faith in these brands? I never buy Nike trainers, only Adidas. I don't use Bing, I use Google. I love Honda and have a Honda motorbike. Diesel, Financial Times – these are brands I like.

I am also a believer in making sure that one's intellectual models are consistent with one's own behaviour. I like to think of myself as an intelligent guy so if we find that people are gullible, well then, that's a lesson for me too.

So what I'd like to do now is look at various ways of explaining the brand phenomenon, to see whether the economists' take on the subject can explain it, and if not, are brands marketed in nonsensical or mendacious ways to gullible consumers?

Exploitation Model

Let's start with a benchmark mental model which I will call the Exploitation Model. It's the brand equivalent of 'the Brexit voters were lied to and they thus voted the wrong way'. This is the model

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Far too few of the attempts to understand brand value make a distinction between the name and the underlying product.

that is perhaps exemplified by the marketing of cigarettes in the 1950s. That advertising tried to give a sense that there was a scientifically valid health story to be told about cigarettes. It is obvious bullshit and maybe some people believed it and smoked cigarettes because of such 'scientific' claims. This is an extreme case, but cynics of human behaviour might suggest that it captures much of what we see in all forms of marketing.

In this Exploitation Model, companies promote a self-serving message, 'Our product is safe', and then the public believe it and make bad choices as a result. This is the 'brands as bullshit' model and it is the one that economists don't really want to accept, because it is unsatisfying to think the public will believe stupid things told them by people with such an obvious an interest in saying them.

Label Model

But let's go to a second account of brands, the Label Model, which offers a contrasting theory, which I suspect is the economists' default view of brands. Remember that rational economics does not want to view brands as exploitation but as conveying useful information. And that's what a label does: the brand is the means by which companies tell us what their products are; and the public rightly believe what they are told and make their choices accordingly.

Take, for example, the cover of an Ed Sheeran CD. The cover tells us that Ed Sheeran is the subject and so you buy that CD to get music by Ed Sheeran. That's a label, where the cover tells you on the tin what's inside. You need to know that to buy the product and that works very nicely.

Under this account, the paraphernalia of brands – the marketing and fancy advertising – is surplus to requirements, because the brand is the product underneath.

I do not think this explains the vast brand phenomenon that we observe but I do think that the labelling function is more important than most probably think. I also think there is a great deal of confusion between this labelling function and the 'magic brand' function that brand managers often talk about. I would take the example of Nescafé: I think what Nestlé is doing on a jar of Nescafé is telling me it's Nescafé coffee inside the jar. I personally think the coffee inside is the best instant coffee, but Nescafé as a brand is adding nothing to that product other than simply labelling it.

Now some of you will want to say that the brand itself is very valuable, but arguably, it's not the brand that is interesting. It's the coffee which is valuable and the recipe for making it. If what you have is a label, then the brand doesn't have value, it's the product. Far too few of the attempts to understand brand value make a distinction between the name and the underlying product.

I have had this conversation before with Rita Clifton in her Interbrand days. I think it is a problem with the Interbrand Global 100. What you see there is a mix of labels for very good products and brands that add value to not such good products.

Let me give some examples. I think the Apple brand adds value to a smartphone. If Apple produced a smartphone and put the Apple name and logo on it, that smartphone would sell more and at a higher price than an identical one carrying the Samsung name. That makes the Apple brand valuable. It is more than just a label. However, I don't think a brand like Microsoft adds value in this way. People buy the Microsoft product because it's the Microsoft product. They think, 'That's what my computer has on it so I'll buy it.' I think this distinction is important.

The Label Model – the idea that the brand is simply conveying information – is the simplest economic account. Labels are not bullshit, they are serving a useful purpose. But I don't think that quite explains all that we see. For a start, it could never justify all the work put into brands. And closer to home, I don't think it explains why I personally buy Diesel products, given that Diesel is no better than a lot of other brands, but I persist in buying it nevertheless.

Brand Signalling Model

We now get to more sophisticated economic theories, all still based on information flows – the conveying of information by which the brand is somehow informing the consumer of something useful.

Some of you might have heard about the Brand Signalling Model in Rory Sutherland's excellent 2011 Brands Lecture where he covered similar ground. This says that the brand isn't telling me something directly, but rather the sheer weight of effort put into promoting the brand is indirectly signalling something useful to the potential consumer. If nothing else, by spending on brands, companies implicitly tell the public something about their commitment to their product.

In the book I give the example of T-Mobile who, when launching in the United States, employed Catherine Zeta-Jones as their brand ambassador. What is the point of hiring someone that expensive? Is it that the public will think that Catherine Zeta-Jones is an expert in mobile telephony so we should do what she does? I doubt it. The public know she's paid to promote T-Mobile. Is it that Catherine Zeta-Jones fans will feel a connection to Catherine Zeta-Jones if they use this phone? Possibly.

But the information really conveyed by Catherine Zeta Jones is that T-Mobile is serious about entering the US market; enough so that it paid a celebrity millions of dollars, rather than buying cheap little ads in the penultimate page of local papers. It gives you a sense of their seriousness. It's the equivalent of banks housing themselves in big marble buildings. It's a signal – an implicit, subtle signal – offering useful and honest information as to what is going on.

You might invoke the old Stella Artois slogan: the spending on the brand is 'Reassuringly Expensive'. Developing and promoting brands may be a waste of time in more direct ways but it tells us that the companies have thrown a lot of money to very well-paid people, thereby demonstrating to us that they are pretty serious. They wouldn't do this if they thought they were going to be here today but gone tomorrow.

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By marketing a brand in a way that associates it with something of value to us, we might choose to associate ourselves to the brand ... Brands become part of the language and, in doing so, furnish useful information.

The Brand Signalling Model is loved by economists, or rational economics I should say, because it implies that the consumer is rational to listen to the advertising. We don't take it literally but we do take it seriously.

Ostentatious Consumption Model

Economists can go one step further in describing brands as informative: offering information not about corporate commitment to a product, but about the user of the product. By marketing a brand in a way that associates it with something of value to us, we might choose to associate ourselves to the brand. In this model, we think, 'I could signal something about myself by adopting or wearing that brand or displaying it ostentatiously.' Let's call it the Ostentatious Consumption Model. Brands become part of the language and, in doing so, furnish useful information.

Status is the most obvious thing that can be signalled. Luxury goods such as the Rolex watch are the clichéd examples which communicate that you're rich. The wearer conveys a useful and usually honest piece of information (unless, of course, the watch is fake).

For this to work, Rolex must make sure that everybody knows that only rich people wear Rolex watches. Once that has been established, rich people can say they're rich by wearing Rolex watches; the brand enters the language as a symbol of status. But a lot of our consumption is ostentatious in different ways and we can say things about ourselves quite subtly. Carrying a fabric Daunt Books bag sends a message as to the type of person you are, and it is not a status message. So this model again offers an information theory for the brand, in this case carrying information between us. This is another theory that rational economics can clutch to in explaining that rational people have an explanation or reason for using brands in the way they do. They use a brand just like they use language.

Is this Ostentatious Consumption malign? It can be, if a company can persuade many of us to enter a form of status arms race, where we try to compete with each other through our trainers, jewellery or handbags. Companies that succeed in making themselves a part of the language of status do very well, but in such a case it can pay the population to say, 'Let's collude, let's not engage in this arms race. Let's have a treaty that says none of us will buy these trainers to show off. We'll all be better off and we won't be giving so much to the manufacturer.'

So yes, this can be a malign piece of communication, but more often, as in the Daunt Books bag example, it's not malign at all. It is just a way of honestly communicating something about yourself and using the brand to do so, without being abused or exploited by the brand.

So we have at least three economic models (and there are others) where information flows are key in explaining the brand phenomenon. It is, of course, possible that brands can be a combination of these things – an ostentatious item that people consume to communicate about themselves, which they buy because they have had a reassuringly expensive signal of quality or commitment by the manufacturer, and the brand has been an effective label on the tin as well. But, I suspect the average neo-classical economist who was interested in this topic might have said these accounts go a long way in explaining the brand phenomenon. Economics is saved, the world is rational and we can explain all this stuff in the language of economics.

Are we rational?

But the question is, do any or all of the rational models *comprehensively* explain the brand phenomenon? I think the answer is no. In my own case, I buy Diesel clothes for my off-work wear. Do I buy Diesel clothes for rational economic reasons? I introspect quite hard on this and, honestly, I don't think I do. I wear the clothes, so it is ostentatious in that sense, but I think people could be quite hard-pressed to tell they are Diesel. Some of them have an obvious label but not all of them. And to me, the rational models just do not seem to quite capture my association with Diesel, and thus the full function of brands. I think you need to look beyond the rational economic models.

In the last 10 years, with the failures of rational economics to predict things like financial crises and world trends, there has been a growing interest in behavioural economics. It is at the nexus of economics and psychology. It takes economics from a rational world to the real world.

Usefully, and in a very timely way, the Nobel Prize for Economics was given this week to one of the people in the forefront of this field, Richard Thaler. An earlier winner, Daniel Kahneman, explains in his book *Thinking, Fast and Slow* that we have a rational brain, our System 2 brain, but we also have an instinctive brain, our System 1 brain. System 1 is your instinctive thought, it's what you use when going home on a route you know very well. System 2 is your conscious thought; what you use when finding your way using a map.

Traditional economics is embedded in System 2 thinking, but in virtually every area of economics in the last few years people have said that all the action is in System 1. The action is not about conveying information from person A to person B, but rather in looking at the way things play on our System 1 brain. There are now 'heuristic models' of brand value built around how brands dig into our mental foibles, rules of thumb or cognitive shortcuts, and thus affect our beliefs and feelings about things.

In my book, I discuss an example of psychological pricing – £9.99 pricing – to show how our System 1 thinking, our instinctive brain, can be manipulated to believe something. In this experiment, a mail order company sent out three versions of the same product catalogue. In one catalogue, all the prices ended in .00, in another they all ended in .99, one cent lower, and in the third catalogue all the prices ended in .88, just to make this a more controlled test. The products that sold best were the ones with prices ending in .99 – there was an 8 per cent uplift in sales of these products compared to those priced differently. The owner of the mail order company was certainly convinced that psychological pricing worked.

It is hard to say this as a neo-classical trained economist, but in the end I think you simply cannot avoid the fact that when it comes to brands, there is an emotional attachment of some kind that makes a product more appealing ...

Now isn't a £9.99 price bullshit? It's basically £10 but £9.99 sounds better. It's a good example of how our instinctive thought can be played upon to gently mould our perceptions. The heuristic models of human decision-making that Rory Sutherland outlined in his Brands Lecture are interesting descriptions of our instinctive thinking. And they do go quite a long way, in behavioural and psychological terms, towards adding to the more traditional economic models.

You might say these are all about information – a £9.99 price is, in fact, information – but in this case, it plays on the instinctive shortcuts we take. The shortcut here might be that we only look at the first digit of a price. Nine sounds less than 10, so we buy £9.99 more than we buy £10.00. The heuristic models are about transmitting information but they do this by drilling in to a little latched door in the brain where you can enter, playing to an instinctive shortcut.

However, I don't even think these heuristic models explain everything. The way the heuristic model, the mental shortcut or System 1 thinking, is meant to work is to play on people's subconscious quick decision-making. But I observe that when I buy a Diesel product, I really have thought about it. I am quite conscious of it and I stick to the same behaviour as I would were I being instinctive. It is not that Diesel have found a little shortcut into manipulating my brain, making me think their brand is better, like £9.99 is better than £10. I have had plenty of time to ponder my decisions and I still find myself buying that Diesel product.

I think that does get you – and this is flattering to those who work on brands – to the more 'magic' models. I think these are still rooted in our instinctive thinking, our emotional brains rather than our rational brains. But the fact is that for a small child there is a difference between a Thomas the Tank Engine biscuit and a plain biscuit, for example. It's not that brand managers have adopted some mental trick. They have done something far cleverer. They have created a psychological pull and the public have allowed themselves to be seduced by it.

It is hard to say this as a neo-classical trained economist, but in the end I think you simply cannot avoid the fact that when it comes to brands, there is an emotional attachment of some kind that makes a product more appealing, if it has just the right mix, demonstrates the right qualities or hits just the right mark. This is not a heuristic, it is not a mental shortcut. It is actually just wanting something about the product.

Brand managers know this, of course, and it explains, for example, why expensive perfume manufacturers do not want their product on sale in Superdrug. They want it sold in a different retail ambience because they know that there is a difference between their product being sold in one ambience to being sold in another.

Interestingly, they do not mind their product being sold in duty-free shops, which are no better than Superdrug. But duty-free shops have this special quality that feels like there is a reason for the discounting, even if there really isn't one. I guess there's a VAT difference, but this is not about the VAT. It is more that there is an excuse for putting a branded product in a duty-free shop at a discount. There is no excuse for doing that in Superdrug.

This is a good example that, for certain brands, it is the ambience, the feel, the sense that something is going on, that prompts an instinctive reaction from our System 1 brains, something that adds value to the basic functionality of the product.

But the crucial question is whether this is irrational? My answer is no. Equally, could it be said to be *rational*? No. Is it information? No. It is none of those things. It's just a sort of magic addition. As I say, I just can't think of any other way to get to my own introspection on where I am on the brands I like. I have a feeling about them that is not dented by rational introspection; I know my affinity to these brands does not make particular rational sense (apart from the Financial Times, that obviously involves rational sense). But generally this is not about rational sense, it just gives me a pleasure to buy one branded product rather than another one.

Are we exploited, or willing accomplices?

So if this appeal of brands is neither rational nor irrational, we need to think of it as just residing on a different scale. It is not about information, and traditional economics cannot really explain it. But is this bullshit? Should I think of myself as in some way being manipulated or exploited? The answer is absolutely, obviously no, and I am going to give you four reasons why:

- One is that I'm a willing accomplice. I enjoy it;
- Two, I would resist it if the product was bad. If the company started blatantly ripping me off, I would turn against it;
- Three, and most crucially, there is no information asymmetry. The problem identified by economists of information asymmetry in markets is a very real one and it does impede the efficient working of an economy. However, there is no information asymmetry here. Diesel don't know much more about their products than I know. I know where they sit in the value list. I know the quality. I have bought them often enough to know what I am going to get, what proportion of what I buy I am not going to like, and whether there's a chance the buttons will fall off after a bit. I just know. In the absence of any information asymmetry, there is little room for exploitation;
- The final reason that there is no rip-off is that my desire to buy particular branded products survives my rational inspection. It is not just an irrational thing.

I was speaking at a book festival recently where someone asked about the John Lewis Christmas ads. It was suggested that those ads are manipulative and we are manipulated by them. I think the idea of the 'willing accomplice' is important here. If I am a willing accomplice to the manipulation that is going on in that ad – as, by the way, I am – I will go and look at it, probably cry, then I will think about it, and then forget about it for another year. If I am a willing accomplice, and if there is no information asymmetry – if I know enough about John Lewis

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already such that the ad is not framing my opinion – then the ad is not in any way able to manipulate me.

The only analogy I can think of is to my dog, Mr. Whippy the whippet. Does he manipulate me? Certainly he goes to the door and barks so I let him out, doing the same when he wants to come in again. He looks at me cutely so I give him food. Now, is he manipulating me, getting into my head with his cute little expression to give him what he wants? In a way he is, but I am a very willing accomplice. I like having the dog. I don't mind opening the door for him and feeding him. It gives me pleasure. And if it gives me pleasure, it doesn't make sense to think of the dog as manipulative.

So the Willing Accomplice theory is the one that explains my relationship to the particular brands I like.

Brand magic

I am not going to go into what brand magic is. I am an economist. All I am saying is that economics on its own does not explain the full bundle of things that a branded product represents. It is something to do with poetry, a desire to tribalise or to feel an allegiance to a certain group of people, a desire to have a conversation in my head with the brand even if it's not a real person. This is not about showing off and it is not about information.

There is a magic there that is not exploitative, manipulative or indeed bullshit, but rather quite important. I will give you one important application, and it concerns the development of our economy.

Over the course of human history, approximately 107 billion people have lived at one point or another. There are 7 billion of us alive today, so we represent about 6 - 7% of the entire stock of human beings. Most humans that have lived have lived on subsistence. The only thing that has mattered to them has been function, whether there is food to eat or clothes to wear.

Now, between 1 AD and 1000 AD, the economy barely grew at all. People were no richer in 1000 than they were at the time of Christ. By 1700, the economy had grown a little and people were richer than at the time of the Norman invasion. By 1820, things rapidly started to pick up and we began to see incomes doubling every thirty, forty or fifty years. This made an enormous difference.

It is obvious that in our society now, people do not just want more and more stuff, they want to re-channel their consumption into more intensive consumption; they want a Thomas the Tank Engine biscuit rather than just a biscuit. I think this was well put in this quote from *The Hitchhiker's Guide to the Galaxy:*

> 'The History of every major Galactic Civilization tends to pass through three distinct and recognisable phases, those of Survival, Inquiry and Sophistication, otherwise known as the How, Why, and Where phases. For instance, the first phase is characterized by the question 'How can we eat?', the second by the question 'Why do we eat?', and the third by the question 'Where shall we have lunch?''

Now that we have entered the 'Where shall we have lunch?' phase, my consumption is no longer about what is the most functional option. I want the one that looks nicest or has the nicest packaging. This is how our relatively wealthy society has developed.

Branded products often now offer us a bundle of things, including the product, the function, and a little bit of magic, poetry and story included. And people will pay for that because there are only so many jeans, so many cars, so much washing powder that people will ever buy for themselves.

This has a further importance to this particular country. Because Britain is the country that industrialised first, we arrived at the 'Where shall we have lunch?' phase relatively early in the evolution of human history. It is no coincidence that the country that was first to industrialise has been among the leaders in considering how to intensify the consumer experience rather than simply adding volume to it. This is a country that has asked 'How can the experience be made more holistic and interesting?'

Another interesting point about the British economy – one that is a global specialist in branding and marketing – is that in thinking about the 'soft stuff' that adds value to pure function, is that it is one of the hardest aspects to measure.

Many of you will have heard that there is a productivity gap in this country. By some measures we are much less productive than our G7 counterparts. Our hourly output is lower, for example. But I wish to raise an interesting question. If a company adds value to its product by spending a lot on creating a little magic around it, and if it succeeds in putting its price up as a result, is that encapsulated in our GDP figures? In principle it should be, because the company will make more money.

However, if the price rise is deemed by the statisticians to be inflation, then it may not be counted. The job of the statisticians in the ONS is to work out, when they see products getting more expensive, whether this is inflation or a rise in the quality of the product. There is always the danger that in the case of more aesthetically appealing brands, the statisticians will just say any price rise is not real GDP but inflation.

This would be the right approach if we believe in the exploitation model of brands; if we believe that companies are just ripping us off and telling us things that aren't true. In this case, they would gain sales from gullible consumers, and put their prices up as a result, which means they would be transferring resources from us to them. Then it would be right to dismiss any perceived growth as inflation. But if you believe that a company is making a better product, and it is nicer to consume once it has been advertised, you are in a world where value is being added, though that value is very difficult to measure.

It is possible that there is a small amount of unmeasured value-added taking place in our economy in the area of brands. However, this relies on brands not being bullshit but bringing genuine product-enhancing pleasure to the buyers of their products.

... if you believe that a company is making a better product, and it is nicer to consume once it has been advertised, you are in a world where value is being added ...

I think there is something in this. I don't think it remotely explains the entire 20% gap between us and the French, but it may be that our economy is just more complicated than economies that churn out manufactured goods, where it is easy to measure their value because you just count the number being produced. Instead, our economy seems to be a little more subtle because we are big into brands and trying to make the consumer experience altogether more intense.

Conclusion

Let me conclude and sum up. I posed three questions:

Are brands a form of corporate bullshit? I am afraid I cannot give you a definitive answer. It would be unlikely that there's *no* bullshit because there is so much bullshit in every other walk of life. But I suspect it is not the usual pattern with brands.

Can rational economics explain brands? No, not entirely. You have to go beyond merely thinking about the conveyance of useful information. You have to allow for a bit of magic, and that is a powerful lesson for economists. And this goes beyond the heuristic models of brands.

And then, very importantly, are people gullible? Yes, there are some pretty gullible, stupid people in the world. However, should we fall back on the idea that people are stupid or gullible as an explanation either of brands or indeed of elections that go in a way you didn't expect or didn't want? It is far too easy to look at such things and draw a false conclusion, to ascribe a false causality.

Just because Nescafé is heavily advertised and Nescafé is the best-selling coffee does not mean that gullible consumers are buying Nescafé simply because it is advertised.
Thinking more carefully about brands suggests that the causal chains are often much more complicated than that.

Similarly, if in an election people are told that Britain can save £350 million per week and you see them vote for Brexit, you may think they voted that way because they believed the figure. Maybe some did, but there was high level of scepticism among the public about everything they were told during the referendum campaign. It is too naïve to think that people were simply gullible in voting as they did. There could have been any number of other explanations – a protest vote, a vote for change, a dislike of the EU, all sorts of things could have explained the voting other than gullibility.

Let me thus finish by saying, the world is assailed by bullshit. We are perhaps at a peak, or the crest of a wave, of bullshit. It comes and goes, but of all the areas where there is a lot of it – in politics, public relations, company annual reports or statements to shareholders – on the bullshit scale, brands are probably *not* an industry or social phenomenon that we need to worry about.

This is the seventeenth in the Brands Lecture series. Previous lectures include:

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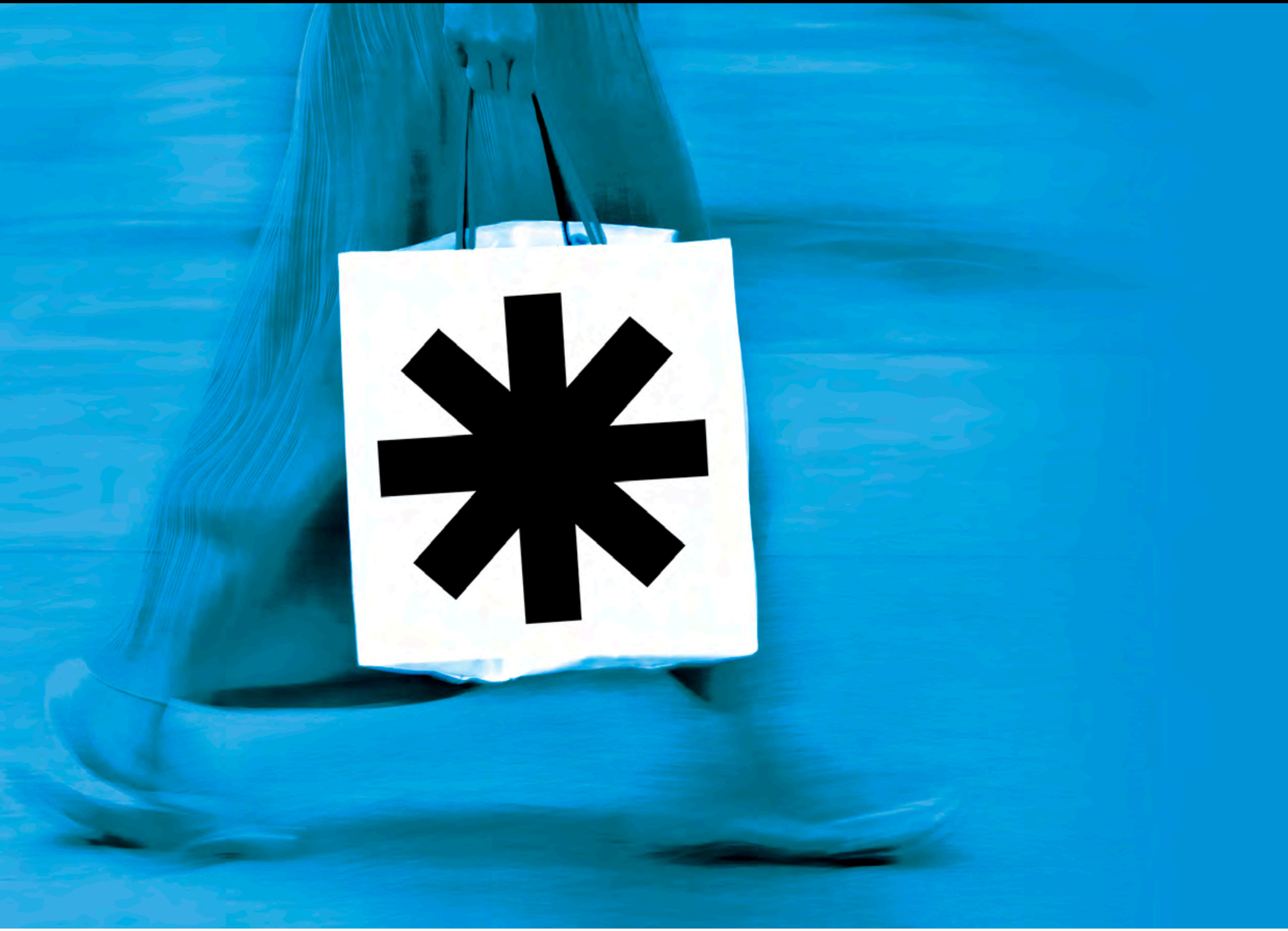

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