AN “AUSTRIAN” REFUTATION OF THE MONOPOLY POWER ARGUMENTS AGAINST ADVERTISING*

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ABSTRACT

This paper presents an Austrian interpretation of the economic effects of advertising. In contrast to the doctrine of pure and perfect competition, the Austrian economists view the market as an everchanging process of competitive rivalry among entrepreneurs. Consequently, advertising is an essential tool of entrepreneurial competition.

INTRODUCTION

For many years, two schools of thought have dominated the debate over the economic effects of advertising, according to Steiner (1978), Albion and Farris (1979; 1981), and Albion (1983). They are the “monopoly power” school of Kaldor (1949–50), Bain (1956), and Comanor and Wilson (1974) and the “market competition” school of Stigler (1961), Telser (1964), and Nelson (1970). The latter group is associated with the “Chicago” school of economic theory, the former with mainstream or orthodox, neoclassical economic theory.

One system of thought that has been conspicuously absent from this debate is the “Austrian” school of economists, founded in the late nineteenth century by Menger (1981), Wieser (1956), and Böhm–Bawerk (1959). The tradition of the Austrian school in the twentieth century was developed and promoted extensively by Mises (1966); today, a number of Mises’ Austrian and American students—including Hayek (1948), Rothbard (1970), Kirzner (1973), and Reisman (1979, 1996)—continue the tradition. Although Austrian economics is beginning to make its way into the marketing theory literature (Dickson 1992; Hunt and Morgan 1995), it has rarely been used in the advertising and monopoly power debate; Ekelund and Saurman (1988) and Kirkpatrick (1994) are two works beyond the marketing literature that have made a start in this area.

The purpose of this paper is to present an Austrian interpretation of the economic effects of advertising and, consequently, to refute the charges of monopoly power that are often leveled against advertising. The point of departure from the monopoly power and market competition schools is that both of these bodies of thought rely on the doctrine of pure and perfect competition as a fundamental theoretical concept. The Austrian school bases its analyses on real world economic activities.

ADVERTISING AS ESSENTIAL TO SUCCESSFUL ENTREPRENEURSHIP

The aim of economic theory, according to Mises, is to study market phenomena, i.e.: “the determination of the mutual exchange ratios of the goods and services negotiated on markets, their origin in human action and their effects upon later action . . .” (1966, p. 232). He continues:

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> The market is not a place, a thing, or a collective entity. The market is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor. The forces determining the—continually changing—state of the market are the value judgments of these individuals and their actions as directed by these value judgments. The state of the market at any instant is the price structure, i.e., the totality of the exchange ratios as established by the interaction of those eager to buy and those eager to sell. There is nothing inhuman or mystical with regard to the market. The market process is entirely a resultant of human actions. Every market phenomenon can be traced back to definite choices of the members of the market society (1966, pp. 257–258).

Several points can be made with regard to the above quotations. One: the proper method of economic analysis, according to Mises, is the methodical reduction of aggregate concepts to their individual components, or methodological individualism, as it has been called. Two: Mises is obviously not describing a hypothetical static equilibrium of "perfect competition," but the changing market in which everyone in real life today participates. And three: prices are ratios of exchange, not the equivalent of marginal costs. These points require elaboration.

Methodological individualism is the epistemological method of tracing the origins of all institutions of the market economy to their source in individual, human choices and actions. Hence, the concept of the market itself is always seen by Austrian economists not as a mystical entity or "final state of rest," but as individual buyers and sellers making value judgments about which ends to pursue and which means to employ to achieve those ends, all in the context of mutual cooperation over a period of time. Indeed, the use of such a method reveals that the institution of advertising reduces to nothing more than salesmanship, or mass media selling (cf. Hopkins 1966, pp. 220–225). Thus, an understanding of how advertising works, or of whether advertising exerts monopoly power, should begin by understanding the personal selling process.

The real world market process consists of all the activities that *tend* to move the economy toward that final state of rest or equilibrium known as "perfect competition." But because that state is never reached, the proper object of study, according to Mises, is such self–evident givens as product heterogeneity, consumer ignorance, large buyers and sellers who influence prices, and the general interdependence of buyers and sellers in a constantly changing market. In short, the market is a process of continuous *dis*equilibrium. This does not mean, however, that the market has failed or that the market process is inherently imperfect or monopolistic. What does not and cannot exist, according to Mises, must not be used as the standard by which to judge what does exist. Consequently, advertising is embraced by the Austrians as a legitimate institution of the market process.

Prices, as ratios of exchange, reduce to nothing more than quantities of goods for which other goods can be exchanged in a market transaction; prices are always a relation of one good to a quantity of other goods. They may be—but usually are not—equal to marginal costs. In a barter economy, prices *are quantities of goods*. In a market economy, prices are calculated in terms of

one common commodity that serves as a medium of exchange: namely, money. Hence, in a market economy, money prices *are quantities of money* for which the good can be exchanged (Mises 1980, pp. 121–122). What ultimately determines the quantities of money to be exchanged are the value judgments of the buyer and seller. “The whole structure of the calculations of the entrepreneur and the consumer rests on the process of valuing commodities in money” (Mises 1980, p. 62; cf. Menger 1981, pp. 277–278).

But valuing commodities in money does not mean that prices are a measure of fixed or intrinsic value—because constant relations, as exist in physical nature, do not exist among human choices and actions. Money prices, states Mises, “are not measured in money; they consist in money. Prices are either prices of the past or expected prices of the future. A price is necessarily a historical fact either of the past or of the future. There is nothing in prices which permits one to liken them to the measurement of physical and chemical phenomena.” (1966, p. 217; cf. Mises 1981a, p. 99). Hence, real world market prices cannot in any way be likened to the final equilibrium prices of pure and perfect competition. But perhaps more important, the value of money—that is, its purchasing power—in market exchanges is not neutral. The value of money varies, sometimes greatly, in accordance with changes in the supply of and demand for money—and its variations affect goods and services unevenly over time (Mises 1966, p. 202). This discussion of prices implies that there is a need to examine *real* prices—i.e., the quantity (and quality) of goods that an hour of labor time will buy—in any attempt to charge advertising with the monopoly power to increase prices.

A major problem of economics, continues Hayek (1948, pp. 50–51), is the problem of the division of knowledge:

> which is quite analogous to, and at least as important as, the problem of the division of labor . . . . [But] price expectations and even the knowledge of current prices are only a very small section of the problem of knowledge as I see it. The wider aspect of the problem of knowledge with which I am concerned is the knowledge of the basic fact of how the different commodities can be obtained and used, and under what conditions they are actually obtained and used . . . .

This problem of the division of knowledge—the problem of how less than omniscient producers communicate with less than omniscient consumers, and vice versa—is partially solved through media advertising.

Mises concludes: “The market process is the adjustment of the individual actions of the various members of the market society to the requirements of mutual cooperation. The market prices tell the producers what to produce, how to produce, and in what quantity” (1966, p. 258). Thus, the price system functions, in the words of Hayek (1948, pp. 86–87), as a system of “telecommunications,” a system by which information is communicated to all market participants so they may adjust their plans and actions harmoniously with those of everyone else (cf. Böhm–Bawerk 1962, pp. 357–358).

Now it is the entrepreneur and, in fact, also, competition—in the sense of rivalry—that are "assumed away" by the theory of static equilibrium (indeed, by all equilibrium theories). States Mises:

> The concatenation of the market is an outcome of the activities of entrepreneurs, promoters, speculators, and dealers in futures and in arbitrage . . . (Mises 1966, p. 327).
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> The driving force of the market process is provided neither by the consumers nor by the owners of the means of production—land, capital goods, and labor—but by the promoting and speculating entrepreneurs. These are people intent upon profiting by taking advantage of differences in prices. Quicker of apprehension and farther–sighted than other men, they look around for sources of profit . . . (Mises 1966, p. 328).
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> . . . The entrepreneurs take into account anticipated future prices, not final prices or equilibrium prices. They discover discrepancies between the height of prices of the complementary factors of production and the anticipated future prices of the products, and they are intent upon taking advantage of such discrepancies . . . (Mises 1966, p. 329).

Consequently, competition is "the striving of individuals to attain the most favorable position in the system of social cooperation" (Mises 1966, p. 273).

Just as human beings in real life are not omniscient—i.e., no one possesses "perfect knowledge"—so also in real life prices and costs are not "given" to anyone; prices and costs *result* from the "concatenation" of the market process. Consequently, there exist in the market during any period of time discrepancies between the prices consumers are willing to pay for finished consumer products and the costs of factors of production that entrepreneurs would have to incur to produce those products. Entrepreneurs alertly perceive ahead of anyone else an opportunity to profit from this gap in knowledge and, consequently, proceed to take advantage of the opportunity. Their reward for success is entrepreneurial profit; their penalty for failure is entrepreneurial loss.

Alertness to profit–making opportunity, along with the ability and willingness to take advantage of the opportunity, is the essence of entrepreneurship (Kirzner 1973, pp. 30–87); perceiving opportunities and acting on them ahead of anyone else make entrepreneurship inherently competitive (Kirzner 1973, p. 12). These very actions of entrepreneurs, however—i.e., buying factors of production at costs that are lower than the prices for which they sell the products to consumers—change the price structure of the market, thus creating more discrepancies from which entrepreneurs can profit. In this way, entrepreneurs are the "driving force" of the market process.

Indeed, it is the actions of entrepreneurs that give rise to the tendencies toward uniformity that are observed in the market economy; namely, the tendencies toward a uniform rate of profit on invested capital, a uniform price for the same good throughout the world and over time, and a uniform wage rate for workers of the same degree of ability (Reisman 1979, pp. 1–36). But in

any given moment these observed uniformities are *not* static equilibria. Reducing the uniformities to their individual components: they are arithmetic means that result and are calculated from the actions of individual buyers and sellers; their ultimate referents in reality are discrete quantities that are dispersed around the means. These uniformities are anything but "static," because in the next instant the data on which they are based—human choices and actions—will have changed.

In the absence of omniscience (or "perfect knowledge"), advertising is essential to successful entrepreneurship. To take advantage of a profit–making opportunity, entrepreneurs buy advertising along with their other factors of production and hope to sell their products at prices that are greater than their costs. "The costs incurred by advertising are, from the point of view of the advertiser, a part of the total bill of production costs. A businessman expends money for advertising if and as far as he expects that the increase in sales resulting will increase the total net proceeds. In this regard there is no difference between the costs of advertising and all other costs of production" (Mises 1966, p. 322; cf. Menger 1981, pp. 189–190 & 242).

This last is a denial of the distinction popularized by Chamberlin (1962, pp. 117–129) between production or fabrication costs and selling costs. At the level of economic theory, says Mises, all costs are at once production *and* selling costs, even though the accountant in practice treats them as separate and distinct. In other words, the attempt to distinguish production costs from selling costs confuses economic theory with accounting practice. (For a valuable discussion of the so–called costs of distribution, see Mises 1981a, pp. 140–141).

If advertising, then, is a factor of production no different from any other, there is no reason why advertising should be singled out as a source of waste or as a cause of increased prices. The critics of advertising, no doubt, would get no pleasure out of condemning research and development expenditures—or, for that matter, the expenditure to hire an additional janitor—as a "waste of resources" or as a cause of increased prices. The issue of waste, of course, applies only to entrepreneurs who take specific actions. Entrepreneurs who by spending millions of dollars on advertising fail to increase net proceeds have wasted only *their* resources—no one else's, least of all "society's." This prejudicial harassment of advertising goes much deeper than the production cost/selling cost distinction; the cause is philosophical (Kirkpatrick 1986, pp. 42–43).

If advertising is a production cost, then it may be described as the "production of consumer awareness"; the entrepreneurial function of advertising is to *make* consumers aware of the product and its features and benefits. If an entrepreneur seeks to open a gasoline station, quoting Kirzner (1972, p. 6):

> It is not enough to buy gas and put it in the ground. The entrepreneur puts it in the ground in a form that the consumer recognizes. To do this requires much more than fabrication. It requires communication. It requires more than simple information. It requires more than writing a book, publishing it, and having it on a library shelf. It requires more than putting something in a newspaper in a classified ad and expecting the consumer to see it. You have to put it in front of the consumer in a form

> that he *will* see. Otherwise, you're not performing your entrepreneurial task.

Advertising, consequently, in order for the entrepreneur to be competitive and to take advantage of the profit–making opportunity, must be more than "informative"; it must also be "persuasive." Quoting Mises (1966, p. 320): "Business propaganda must be obtrusive and blatant. It is its aim to attract the attention of slow people, to rouse latent wishes, to entice men to substitute innovation for inert clinging to traditional routine. In order to succeed, advertising must be adjusted to the mentality of the people courted." The distinction, however, between informative and persuasive advertising—like the production cost/selling cost distinction—is false and has been treated so by other writers (Alderson 1957, p. 277; Kirkpatrick 1986, p. 46). Fundamentally, all advertising is at once informative and persuasive.

ADVERTISING AND MONOPOLY POWER

Mises (1966, pp. 357–387; 1981a, pp. 344–351) defines monopoly, using the traditional economic concept, as a single seller in a given market. But he states that monopoly prices, not monopoly *per se*, are the only relevant issues in economic theory. And they arise only in limited situations. "As a rule the state of affairs that makes the emergence of monopoly prices possible is brought about by government policies, e.g., customs barriers" (1966, p. 361).

Reisman (1979, pp. 74–76 & 95–98; 1996), on the other hand, defines monopoly in its original, political sense as a government–granted privilege. Monopoly, in other words, is exclusively a government policy. In essence, monopoly is the initiation of physical force by the government—in the form of licenses, franchises, tariffs, price and wage controls, exchange rates, etc.—to reserve and protect a specific market for the exclusive enjoyment of a specific individual or group. Monopoly is a barrier to market entry erected by the government and enforced by the police power of the state (cf. Böhm–Bawerk 1962, pp. 155–156; Brozen 1980, pp. 1–21; Greenspan 1966, p. 68).

This last must be the valid meaning of monopoly because the economic concept leads ultimately to a contradiction. For, on the one hand, according to the theory of monopolistic competition, everyone is a monopolist—i.e., everyone, because of product differentiation, is a single seller in a given market in some sense (Chamberlin 1962, pp. 8–9). But, on the other hand, no one is a monopolist—because every entrepreneur competes with every other entrepreneur for the same consumer dollar. Competition takes place economy–wide, not just on a brand or company level (cf. Shapiro 1985, pp. 327–329).

The narrow concept of competition that many today hold—namely, brand vs. brand within a specifically defined product category—comes from the theory of pure and perfect competition, which holds that true (perfect) competition only occurs among homogeneous products within narrowly defined markets. (Marketing practitioners know too well the myopic folly of defining markets so narrowly; see Levitt 1960). But the notions of homogeneous products, narrowly defined markets, the perfect knowledge condition, and the rest of the trappings of perfect competition theory are all fictions of a Platonic fantasyland that should be expunged from both economic

and marketing theory. So also, for the reasons given above, should the economic concept of monopoly be thrown out as invalid.

With these comments about monopoly in mind, in addition to the above fundamentals of Austrian theory, we can now discuss the monopoly arguments against advertising one by one:

(1) *Advertising erects barriers to market entry*. The definition of monopoly as a government–granted privilege renders this criticism moot. There can be no barriers to entry in a free–market economy. Reisman (1979, p. 98) states: “Only the government can violate the freedom of competition, the freedom of entry, or any other freedom.” But consider the following, additional comments.

This barriers–to–entry argument, which in principle is not different from the one that accuses the steel and automobile industries of lacking freedom of competition, equivocates on the meaning of “barrier.” This argument fails to distinguish between two kinds of obstacles or barriers to the achievement of goals—obstacles or barriers imposed by government-initiated coercion and those that are imposed voluntarily (Reisman 1979, pp. 97–98; cf. Rand 1964, p. 98). The former have been discussed above and are, perhaps, best exemplified by the monopoly the U. S. Postal Service has on the delivery of first class mail; ready, willing, and able competitors are forbidden to enter that market. The latter “barrier” is one that results from the refusal of one individual to cooperate with another; the party who sought and is denied the cooperation is free to go elsewhere in search of a partner in whatever activity he or she was seeking. In ordinary speech, this would not be called a “barrier”; it certainly is not a denial of anyone’s freedom of competition.

Bayer aspirin is a victim of this confusion of the critics of advertising. A company that cannot obtain the capital—from investors who are not convinced of the entrepreneur’s capabilities or the value of his or her product—required to enter a market and compete with such brands as Bayer aspirin (especially through heavy advertising) is a company that is *failing* to compete; it is a company that has failed in its entrepreneurial function and therefore deserves to suffer entrepreneurial losses. This challenging entrepreneur has failed to obtain capital (and, consequently, factors of production) at lower costs than the subsequent products could be sold for. This entrepreneur has failed to be alert to the opportunities that the entrepreneurs of the Sterling Drug Company foresaw many years ago. Bayer aspirin is a premier example of masterful, entrepreneurial competition; its market share did not start to erode until products made from *different* ingredients appeared on the market and many consumers, at that time, decided they wanted something other than Bayer aspirin.

Brand loyalty, which forms the crux of the barriers-to-entry argument, is more a function of the product itself—in its capacity to satisfy the consumers’ needs and wants over a period of time—whereas advertising is more likely to be the creator of *dis*loyalty, *if* the advertiser offers a better product and/or a cheaper price to consumers than the competition now offers (Brozen 1974). “Better,” here, of course, means “better at meeting the needs and wants of consumers.” “Nobody believes that any kind of advertising would have succeeded in making the candlemakers hold the field against the electric bulb, the horsedrivers against the motorcars, the goose quill against the steel pen and later against the fountain pen. But whoever admits this implies that the quality of

the commodity advertised is instrumental in bringing about the success of an advertising campaign." (Mises 1966, p. 321).

(2) *Advertising increases prices*. This pernicious charge falls by the wayside when considered in light of Austrian theory. According to Mises (1966, pp. 331–333), the ultimate determinant of relative prices is the value judgments of consumers; this is often referred to as the "subjective theory of value."* And costs—whether average or marginal—of the factors of production are also prices that are determined by the value judgments of consumers, through the consumers' valuations of the factors' marginal products; costs of production, in other words, are only an intermediate determinant of prices (Reisman 1979, pp. 36–38, 47–54; Böhm–Bawerk 1959, Vol. II, pp. 168–176, 248–256; Mill 1987, pp. 442–468; Reisman 1996). Consequently, advertising, as a cost of production, cannot be said to increase that which is an expression of consumer demand.

Besides, the only relevant issue here—at the intermediate level of discussing costs of production—is the effect of advertising expenditures on *real prices over time*. The question is: Has the emergence of modern advertising in a market economy led to increased prices? The dramatic decline in real prices since the Industrial Revolution and the corresponding rise in the standard of living—in spite of the tremendous growth in advertising expenditures—seriously challenges this proposition. But we need not look back over two hundred years to see this decline in real prices (and, also, the decline in many nominal prices, such as personal computers); today, we are better off than we were in the 1950's (Nasar 1987), yet advertising expenditures have continued to climb. Needless to say, the *real* prices of such heavily advertised products as Bayer aspirin and Heinz ketchup also have declined.

This charge against advertising, of course, is just an application of the more general charge that free–market capitalism lacks price competition. The source of the charge is the doctrine of pure and perfect competition. But following elementary principles of accounting, entrepreneurs can lower their prices, other things equal, when increased sales revenues exceed increased production expenditures—because the cost per unit of sales declines. And, according to the Austrians, advertising is just another production expenditure.

In the economy as a whole, states Reisman (1985, pp. 216–217; 1996) lower prices (relative to wages) and better products result from the specific productive contributions of the entrepreneur; namely, the creation, coordination, and improvement of the efficiency of the division of labor. Improvement through repeated innovation is required in order to earn entrepreneurial profits—and advertising certainly has both contributed to and benefitted from this improvement over the past two hundred years.

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*By "subjective value," the Austrians mean: an object (the product) that is evaluated by a human subject (the consumer). Value, in other words, is not intrinsic to the object, as a nugget of ore might be embedded in a rock; rather, it is a product of the interaction between the valuer and the object. These "subjective" valuations (or personal preferences) of many consumers, consequently, give rise in the marketplace to *objective* exchange values (i.e., prices).

The terminology of "subjective value," however, is unfortunate, for it leads to equivocations, contradictions, and rampant subjectivism in the name of science. It leads Mises to assert, "By means of its subjectivism the modern theory becomes objective science" (1981b, p. 180), and it causes Rothbard to deny the objectivity of reputation and the validity altogether of the law of defamation (Rothbard 1970, p. 157). Rand (1966a, pp. 21–27), in the author's opinion, resolves the problems of the objective/subjective dichotomy by proposing a trichotomy: objective value, on the one hand, and either intrinsic or subjective value, on the other.

(3) *Advertising creates inelastic demand*. The concept of elasticity underlies both the neoclassical and Chicago theories of monopoly, the neoclassical school asserting that advertising causes inelastic demand, the Chicago school asserting the opposite. Both are wrong, according to the Austrians, because any measurement of elasticity is nothing more than a unique historical fact that applies only to one time and one place (Mises 1966, pp. 55–56). To understand this point, we must reduce "elasticity" to its individual components.

Elasticity is the consumer's intensity of desire for a product. Intensities of desire change—daily, monthly, hourly. The changing value judgments of market participants is what create the everchanging relations of market exchange ratios. A highly intense desire for a certain product such that an increase in the product's price fails to reduce its demand, does not mean that that entrepreneur has monopoly power. It means only that the consumer badly wants the product. Such entrepreneurs cannot continue to raise their prices indefinitely in the absence of a government–granted privilege.

This is true even for an entrepreneur who is sole owner of the resources necessary to make this inelastically demanded product. Entrepreneurs who hold patents and copyrights are merely exercising their property rights, not monopoly power (see Rand 1966b). This is also true of entrepreneurs who hold their methods of manufacturing as "trade secrets," and, for that matter, of anyone who has the foresight, intelligence, and initiative to see (and seize) profit–making opportunities long before anyone else. Such entrepreneurs earn entrepreneurial, not monopoly, profits; morally, they deserve all the entrepreneurial profits they can acquire.

(4) *Advertising causes high profits*. The answer to this charge follows directly from the last point. Competition leads to lower prices and better products. It does not necessarily lead to low profits—and advertising may or may not cause high profits. One thing, however, is certain about the consequences of an everchanging, competitive market: profits above the average rate—i.e., entrepreneurial profits—will be earned by those entrepreneurs who perceive opportunities ahead of anyone else and proceed to cash in on them. High profits are a consequence and reward of successful entrepreneurship, which means: high profits are a consequence of competition, not of monopoly, which means: high profits are the incentive by which human progress is achieved—through innovation, through lower prices relative to wages, and through better products.

(5) *Advertising contributes to industry concentration*. If high profits are irrelevant to the issue of monopoly, so also is industry concentration. This charge stems directly from the "single seller" concept of monopoly and the narrow definitions of "relevant market" that go along with it. If four firms happen to hold, say, eighty per cent of a particular—arbitrarily defined—market, or even if one firm, such as Alcoa Aluminum from 1910–1937, is sole producer of a given product, these firms would not constitute oligopoly or monopoly according to Austrian theory. The number of firms in a given industry is a function of many factors, not least of which is the participants' innovative and entrepreneurial competence at continually anticipating the needs and wants of consumers and doing so ahead of others. Such firms deserve praise, not antitrust judgments (Armentano 1982).

(6) *Advertising causes product differentiation*. This issue is the core of the problem, for it is the assumption of homogeneous products around which the perfect competition doctrine revolves. Yet it is a logical puzzle as to why it must be discussed at all: the assumption of homogeneous products violates the law of identity. To exist is to be something specific, but to be something specific is to be different from something else. Indeed, product homogeneity seems to exist only in the minds of the observing neoclassical economists, or in a primitive society (Abbott 1955, p. 19). To be sure, product heterogeneity is the norm in the minds of both consumers and Austrian economists, and in progressing, industrial societies. Product differentiation, whether created physically in the factory or in the media through advertising, is an essential requirement of entrepreneurial competition.

Certain categories of products—e.g., consumer convenience goods—sometimes appear to an outside observer to be homogeneous, but to the consumers they are not. Market value, according to the Austrians (and to consumers) ultimately is *psychological* value or "psychic profit," as Mises puts it (1966, p. 289–290). The law of marginal utility, which explains the origin of market prices, "does not deal with the physical or chemical capacity of things to bring about a definite effect in general, but with their relevance for the well–being of a man as he himself sees it under the prevailing momentary state of his affairs. It does not deal primarily with the value of things, but with the value of the services a man expects to get from them" (Mises 1966, p. 125).

A product, therefore, in Austrian theory, is most emphatically not just its physical and chemical properties—it is a bundle of physical *and* psychological utilities. This means that Austrian theory has no problem with two brands, say, of aspirin that are physically identical to the last molecule but at one point in time are perceived so differently by consumers that one brand—the one more heavily advertised—commands a substantial price premium. The conclusion is that the advertising has created, first of all, a *different* product with *different* costs of production and, second, one of *greater value* to the consumers who pay the higher price. There is nothing phony or non–existent about such a phenomenon; advertising *can create real*—albeit intangible, psychological—*value*. (This last does not contradict the second point above. The charge against advertising is that it increases prices *without adding corresponding value*. Recognition, however, of the reality of psychological value demolishes any contradiction. Further, cross–sectional studies of this issue ignore that over time all real prices in a free market decline.)

Besides, since advertising is "just salesmanship," the "good will" created by the advertising of an alleged homogeneous product differs not a whit from the good will created by a salesperson of a homogeneous product (or any other representative of the entrepreneur's firm, for that matter). All good will—regardless of how intangible or psychological it may be and regardless of how it is created—according to the Austrians, is economically valuable (Böhm–Bawerk 1962, pp. 119–127; Mises 1966, pp. 379–383).

CONCLUSION

Reavis Cox (1975, p. 371), in a review of Kirzner's book *Competition and Entrepreneurship*, states that Kirzner "puts aggressive marketing (including advertising and selling) into the heart of the economic operation instead of making it peripheral and somewhat questionable." Indeed, marketing and advertising are at the center of entrepreneurial competition in the writings of the

Austrian economists. In fact, interesting discussions of marketing research and market segmentation can be found in Menger's *Principles* (1981, pp. 89–94 & 236–256)—a work first published in 1871. Alderson (1957, p. 22; 1967, p. 567) has cited Mises and Böhm–Bawerk as influences on both his own theory of functionalism and on the development of the discipline of consumer behavior. And Reekie and Savitt (1982) have discussed similarities between the ideas of Alderson and Mises.

Precious few other marketing scholars—Fisk (1982) to some extent and Kirkpatrick (1982)—have examined the ideas of the Austrian school of economics. The author would like to issue a call for marketers and advertisers to consider this theory the next time critical remarks are made about advertising and its place in the economic system. Those marketing and advertising scholars who do undertake the task of reading the Austrians just might discover a sound theoretical foundation that embraces, rather than rejects, marketing and advertising.

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