

Theory and History in Marketing*

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This article presents a theoretical foundation for marketing based on the ideas of the Austrian school of economists. After a discussion of the methodological foundations of Austrian economics, which reject the statistical and experimental methods of the physical sciences as the means to verify theory in the social sciences, the article presents the Austrians' principle of methodological individualism, which provides the basis for a theory of entrepreneurship and marketing.

INTRODUCTION

Alderson (1967, p. 567) has cited Eugen von Boehm-Bawerk, an Austrian economist, as the originator of the modern conception of consumer behavior. He also has acknowledged the influence of Austrian economist Ludwig von Mises' theory of human action on his own theory of functionalism (Alderson, 1957, p. 22). The Austrian school of economics has been enjoying something of a resurgence of interest among economists, especially in recent years since the celebrated failures of contemporary micro- and macroeconomics to explain current economic events. In light of this, it seems fitting to examine a different and perhaps radical approach to economics and its implications for marketing. The full elaboration of a marketing science based on Austrian principles has not yet been undertaken, although certain clear-cut implications for marketing are present; the present writer ventures to mention some of the implications in this article, after a discussion of the above foundations.

THE FOUNDATIONS

A Science of Human Action

Praxeology, or the science of human action, is largely the work of Ludwig von Mises. Mises states the foundations as follows:

The characteristic feature of man is action. Man aims at changing some of the conditions of his environment in order to substitute a state of affairs that suits him better for another state that suits him less . . . Action is purposive conduct. It is not simply behavior, but behavior begot by judgments of value, aiming at a definite end and guided by ideas concerning the suitability or un-suitability of definite means (1976, p. 34).

The science of human action, in other words, begins with the axiom that human beings act to attain certain goals and that consciously chosen ideas or value judgments direct this action. Praxeology holds it as axiomatic that man possesses a non-material consciousness and it holds that man is free of restrictions from the external world to employ his consciousness to act in such a way as to alter the external world for his own purposes. Consciousness and free will are axiomatic concepts that form the foundation of knowledge. As axioms, they are self-evident and undeniable; that is, as axioms they cannot be denied by anyone without assuming them in the process of denial. Anyone who attempts to deny consciousness, free will, or action is acting to achieve a definite end by employing his mind with freely chosen means. Such an attempt at denial is stopped in its tracks as inherently self-contradictory (Rothbard, 1974a, pp. 19-21; Mises, 1966, pp. 11-13).

Thus, the foundations of praxeology are held to be universally true and manifestly empirical—not in the sense of modern empirical research, but in the sense used by the Greek philosopher Aristotle. The axioms are

* From Ronald F. Bush and Shelby D. Hunt, eds., *Marketing Theory: Philosophy of Science Perspectives* (Chicago: American Marketing Association, 1982), 47–51. Reprinted in *Managerial and Decision Economics*, 4:1, March 1983, 44–49.

empirically evident through the senses in observations of the actions of others and through the inner experience of introspection. This Aristotelian empiricism is no accident, since the Austrians acknowledge an explicit intellectual debt to the works of Aristotle (Rothbard, 1974b). The defense of axioms as self-evident is sheer Aris-totelianism (see Jones, 1952, pp. 208-210). The defense of consciousness and free will as essential foundations of science has been presented by many philosophers and psychologists (for example, see Blanshard, 1939, pp. 313-340; Locke, 1966 and 1969; and Branden, 1971, pp. 1-15, 36-63). The Austrian economists take these axioms as the ultimate given and seek to elaborate their logical implications for human action. Though products of logical reasoning, the implications of the axioms, in true Aristotelian tradition, are nevertheless empirical, since for Aristotle the logical is the empirical. A proposition, in other words, that is logically false is a proposition that does not correspond (empirically) with the facts of reality.

Theory and History

Praxeology for the Austrians is a theoretical science, not a historical one. This distinction is essentially Aristotle's distinction between form and matter. Mises holds that the scope of praxeology is:

. . . human action as such, irrespective of all environmental, accidental, and individual circumstances of the concrete acts. Its cognition is purely formal and general without reference to the material content and the particular features of the actual case. It aims at knowledge valid for all instances in which the conditions exactly correspond to those implied in its assumptions and inferences (1966, p. 32).

Praxeology is a science looking for the universal or essential in human action, not the particular or concrete. It is history that studies the particular case or event, the material content of action, and aims at explaining the relevance of particular factors in bringing about a particular event. Praxeology studies the 'form' of human action which, as such, is not tied down to a specific point in time or space. History, on the other hand, studies the 'matter' of action and aims precisely at explaining the occurrence of an event at a specific point in time and space. To bring about this explanation, history utilizes the principles of the non-historical, theoretical sciences. That is, theory comes first, then history uses theory to explain past events.

Human Action and the Physical Sciences

Theory in the physical sciences has essentially the same objective as theory in the sciences of human action, namely the identification of 'form' in the material world,

the identification of what is universal and essential. For example, the physicist or chemist looks for the essential characteristics of various physical phenomena and tries to explain their relationships among each other and the conditions and causes of their motions or behavior. He can abstract the 'form' of a situation from any time or space constraints; he can, for example, identify the nature of billiard balls, cue sticks and pool tables. But the physicist and chemist can do something more than the scientist of human action. The physical scientist can examine the 'matter' of a situation, the particular case or event, with the tools of mathematics. The physical scientist can measure the relationships between the cue stick, the cue ball and eight-ball on a pool table and formulate predictable mathematical propositions. Because the relations among physical phenomena are constant over time, the physical scientist can obtain not just a formal (timeless, spaceless) precision, but a mathematical precision, that is repeat-able and invariant from time to time and place to place, given the same conditions. It is this mathematical precision that enables the engineer to design and build bridges and machines that do not fall apart. The observation of the eight-ball going in the side pocket is the parallel of the observation of a rise in the supply and a fall in the price of a product. Both events in the present instant are historical facts. The physical scientist can mathematically measure his historical fact and use his measurements with universal applicability to predict the fact's occurrence in the future because the event is completely repeatable. (The work of some physical scientists, such as that of Einstein, which has failed to make precise predictions does not refute this claim. Failure to predict in the physical sciences likely indicates a flaw in the theory.) The scientist of human action, on the other hand—in this example the economist—can measure his historical fact, but cannot make accurate, universal predictions—because there are no constant relations among human actions, because historical events among the actions of men are unique and unrepeatable. The mathematical economist is not a theorist, but an economic historian.

The relations are not constant among human actions because of the axioms of consciousness and free will. All economic phenomena, such as a rise in supply and the fall in price, are the result of human action. All human action is produced by internally generated and freely chosen goals; particular actions—generated by, say, a decline in the intensity of many consumers' desires to buy a given product and/or an increase in the intensity of desire of producers to supply the same good—*happen to have* occurred at this point in time and space, but they do not *have* to occur again in another time and space, nor are they likely to occur. Free will precludes the possibility of mathematical measurement or prediction. The law of supply and demand is strictly a *formal* law, devoid of mathematical content. It is useless to supply it with content because the mathematical data

is all historical data, not applicable to prediction at another time and place. The law says only that price falls when supply rises and demand falls; the law cannot specify by how much the price will fall (Mises, 1966, pp. 54-56, 350-357).

The events of human actions are inherently uncertain because any individual person can at any moment change his mind and do something other than he planned to do, which leaves the phenomena of the market that are quantifiable—prices, costs, quantities of goods supplied, numbers of consumers demanding—forever changing. Any recording of these numbers is a unique historical fact. The method of dealing with the uncertainty of the future in the realm of human action, that is, the uncertainty or unpredictability of other people's actions, is that of the speculator. The speculator, like the historian, attempts to understand the relevance of various factors that determine future (unique, unrepeatable) events. 'Action necessarily always aims at future and therefore uncertain conditions and thus is always speculation. Acting man looks, as it were, with the eyes of a historian into the future' (Mises, 1966, p. 58). The engineer, on the other hand, can predict with near-certainty—given particular conditions and tolerances—that his bridge will continue to perform in such and such a way for the next x number of years. The relations are constant; among men they are not.

It should be mentioned here that the probabilistic nature of social science generalizations, utilizing either the relative frequency approach or the sub-jectivist approach, as discussed by Hunt (1976, p. 29), is speculation as defined by Mises and is clearly based on uniquely historical data. Such generalizations lack universality and therefore theoretical validity. Mathematical probability, on the other hand, because it does not depend on any element of human choice, does exhibit universality.

Thus, the Austrian economists reject any attempt to define theory—praxeological theory, which roughly is equivalent to what is meant by the social or behavioral sciences—in terms of the physical sciences. Theory cannot be defined in mathematical terms because there are no constant relations among the events of human action. For the same reasons, 'empirical testing' of verbal or non-mathematical propositions is useless. Empirical testing of hypotheses in the physical sciences by means of statistical or experimental methods requires quantitative variables. In the social and behavioral sciences, this means operationalizing verbal concepts into something measurable. This process, however, ignores the legitimacy of consciousness as an object of scientific study and reduces possibly viable theoretical concepts (which are empirical, if logical, according to Aristotle) to mere historical data which, according to Mises, are fairly useless data. Mises says the self-styled behavioral sciences disparage history, but resort to the methods of historical research, omitting its key element:

the principle of relevance (1976, pp. 101-102). Austrian economist and recent Nobel laureate, F. A. Hayek says the serious student of human action can learn more about human behavior by reading *The Wealth of Nations* than by reading any of the 'pretentious modern treatises on "social psychology" ' (Hayek, 1948, p. 11). Hayek has referred to the attempts by the social and behavioral sciences to imitate the methodologies of the physical sciences as 'scientism', a pretense at science (Hayek, 1955).

Economics and Methodological Individualism

The aim of economics, as a branch of praxeology, is the investigation of 'market phenomena, that is, 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' (Mises, 1966, p. 232). The key to this definition is that the origin of market phenomena is in the actions of individual human beings, and the origin of these actions is in the individual's ideas and value-judgments. Ultimately, the entire social system, its prices, costs, supply, demand, the division of labor, money etc., must be traced to their roots in the actions, decisions and plans of individuals, nothing more.

Action is generated fundamentally by a desire to remove a felt uneasiness. This is axiomatic. Individuals act to attain a better state of affairs than the present state. What 'better' means of what specific ends the individual seeks, the economist does not consider. The economist studies the formal fact that individuals seek specific goals. He does not pass judgment on the ends sought; he takes the individual's values as the given. The individual, in seeking to remove his uneasiness, co-operates with other individuals through the market process to achieve his chosen ends. The individual produces a quantity of goods with his own labor and offers them for exchange with other individuals and their produced goods. In a modern economy the goods themselves are not exchanged in barter, but money is used as the medium of exchange. The money price represents the quantity of goods the buyer is willing to produce and give up for exchange, and it represents the quantity of goods the seller must obtain in return for giving up his supply. Mises describes the situation:

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 co-operating 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).

Another way of summing this up is that the market economy, 'the social system of the division of labor under private ownership of the means of production' (p. 257), begins and ends with the consumer—and this is a phrase that marketing writers frequently use to describe the marketing concept.

The Austrian economists thus begin their analysis by taking the consumer's needs and wants as the given. This is sometimes called extreme subjectivism or extreme marginalism, meaning that the value of a product, and hence its price, on the market is strictly a subjective judgment of the consumer in accordance with his perception of the marginal utility of the product. This is the original meaning of Menger's delineation of the law of marginal utility, to which all Austrians have remained faithful. The conclusion of an analysis based on extreme marginalism is complete consumer sovereignty and hence an advocacy of *laissez-faire* capitalism. Jevons and Walras, the other two discoverers of the law of marginal utility, did not hold to such an extreme position, which led their followers, especially in the British and American neoclassical schools, to adopt a modified position based on marginal revenue and marginal costs (Rothbard, 1976b, pp. 69-71). This retention of the concept of an objective or intrinsic value enables such economists to 'analyse and declare' certain kinds of prices to be unfair, and consequently to 'pass judgment' on what consumers desire.

MARKETING AND ECONOMICS

Marketing as Entrepreneurship

The lack of knowledge that man has about the state of the market, which includes an inherent uncertainty about the future, leads the Austrians to analyse the role of information and knowledge in the market. Hayek comments that equilibrium analysis, because it assumes perfect information, leads contemporary economists to a 'blindness' about the role of advertising (Hayek, 1948, p. 55). Mises says:

The consumer is not omniscient. He does not know where he can obtain at the cheapest price what he is looking for. Very often he does not even know what kind of commodity or service is suitable to remove most efficaciously the particular uneasiness he wants to remove. At best he is familiar with the market conditions of the immediate past and arranges his plans on the basis of this information (1966, p. 320).

It is the purpose of advertising to convey to the consumer the present state of the market.

According to Mises every acting individual, who always acts in the face of the uncertainty of the future, plans his actions as a form of speculation. The speculator, whether producer or consumer, acts similarly to the historian, assigning relevance to various factors, both human and non-human, that will determine future events. The speculator then makes judgments about what he thinks will occur and consequently plans his actions. The entrepreneur is the speculator when operating as a businessman. The entrepreneur decides what ends the firm should pursue, i.e., what products to produce, and what means to employ to achieve the ends, i.e., what factors of production to utilize. The entrepreneur is a decision-maker concerning ends and means in the face of uncertainty. The manager carries out the entrepreneur's decision by making lower-level decisions that direct the employment of the already chosen factors of production to the achievement of the already chosen ends; the manager, in other words, does not face the kind of uncertainty the entrepreneur does (Mises, 1966, pp. 303-311).

Kirzner (1973) elaborates this concept of the entrepreneur into a function that is essentially one of arbitrage. The entrepreneur for Kirzner is a speculator who exercises 'alertness to opportunities'—alertness to opportunities to satisfy needs and wants not now being satisfied by anyone else and needs not likely to be satisfied in the future. This alertness is an alertness to opportunities to buy factors low in the factor market and sell products high in the product market. The opportunities here, it should be noted, are competitive opportunities. To be competitive, however, the opportunity must be attractive to the consumer; it must in some way remove an uneasiness felt in the consumer. This can be accomplished by selling either a cheaper product than the competition or a better one — 'better' in the sense of meeting a consumer need not now being met. This immediately implies that product differentiation is essential to the competitive process, since there will be no opportunity if the entrepreneur attempts to sell the same thing as the competition at the same price (Kirzner, 1973, pp. 11-19).

This entrepreneurial alertness, then, includes anticipating the needs and wants of the consumer, designing and developing products to satisfy those needs at prices the consumer is willing to pay, and making the products available to the consumer at a location that is convenient — all of this done in a way that is more attractive to the consumer than any competitor can do. But this entrepreneurial opportunity is not fully created, in accordance with extreme subjective marginalism, until the consumer is *aware* of the existence of the opportunity. The product, in fact, does not obtain value until the consumer recognizes it to have value (witness the many products that die on the shelf and can be sold

only for scrap; some products fail to be valued that much). The demand for the product facing the firm is all anticipated demand, anticipated in the mind of the entrepreneur; demand for a product does not exist in actuality until the consumer is aware of the product and declares it to be valuable.

Kirzner puts the issue this way:

Producer-entrepreneurs are not only engaged in producing commodities for the consumers to purchase, they are concerned also *to make the consumer know* of the existence of these purchase opportunities. Thus we can see that the selling effort of producers goes beyond 'persuasion' (attempting to change consumer's tastes), and beyond the mere provision of 'knowledge' ('making available' information concerning the purchase opportunities). Selling effort fills the need for the producer-entrepreneur *to get potential consumers to know* about these purchase opportunities (1973, pp. 148-149, emphasizes his).

The objective of the entrepreneur is to make the opportunity available to the consumer in such a way that he cannot miss it. It is evident from the above quote that Kirzner (and the Austrians) reject Chamberlin's (1962) distinction between production costs and selling costs. All costs can be viewed as one or the other. For the entrepreneur advertising and selling costs are part of the factors of production that he must buy in order to create the opportunity for the consumer. Promotion in effect is the production of consumer awareness of need-satisfying opportunities.

Competition for the Austrians is a rivalry among producers who seek the same source of consumer revenue. The rivalry is exemplified by the entrepreneur's alertness to create, promote and deliver opportunities to the consumer. But this entrepreneurial alertness is the very essence of marketing, since the creation of opportunity is what this writer calls the innovation function of marketing (which includes market research and product and pricing strategies) and the promotion and delivery of opportunity are the communication and distribution functions of marketing. Hence, Kirzner places marketing at the very center of the competitive process.

Theory and History in Marketing

Given the basic foundations of Austrian economics, especially the distinction between theory and history, the present writer sees a few additional implications for the science of marketing and related disciplines.

Marketing as a science is a technological or applied discipline (i.e., an art or applied science) that aims at defining the formal character (general principles) by which to create, promote and deliver need-satisfying products to consumers. It is a science devoted to

discovering the means by which to achieve the goal of being alert to opportunities. As a historical science, marketing records the activities of past marketers; the history of marketing is valuable to illustrate the theoretical principles of marketing and to offer speculative insight into events that may occur in the future.

For speculative insight into the future, the marketer must resort to the theoretical science of consumer psychology. This is a branch of psychology that defines the formal character (general principles) of the mental processes by which the consumer generates and directs action to the purchase and use of products to satisfy his needs. The material character of consumer psychology—the actual values chosen and ends sought—as well as other market-related data are identified and collected by market research. Market research is a branch of history that defines the state of the market at a given point in time and space. These data are then used for extrapolative purposes to try to gain speculative insight into the next x number of time periods in order to identify opportunities.

A few words about the use of statistics in consumer behavior and market research are in order here. Statistics, according to Mises, is a method of the historian, not the theoretician. Consequently, the use of statistics in the basic research of consumer behavior is largely a futile exercise in the compilation of historical data. Much of this data merely verify the obvious or belabors the trivial. In any event, the consumer's freedom to change his mind at will precludes making universal statements about the consumer's behavior. Market research, which is usually considered a type of applied research, and particularly as practiced by marketing practitioners, makes the very appropriate use of statistics by taking averages at specific points in time or over a period of time. The data are openly acknowledged by marketing managers as historical and used for extrapolative purposes to predict future events. The statistics compiled by the consumer behaviorists only establish historical facts. A different kind of history—concerning the development and practice of marketing and advertising over the past two hundred years—is something that is sorely needed and has recently been called for by several writers (for example, see Pollay, 1978, Savitt, 1980, and Evans and Berman, 1981)

CONCLUSION

The Austrian school of economists rejects mathematical economics in general and in specific the possibility of testing or verifying theory via the statistical or experimental methods of the physical sciences. Such empirical research, say the Austrians, is historical

research and consequently has little relevance for the theoretical science of economics, or other theoretical sciences, for that matter. The real world market, according to Austrian theory, is a dynamic process and competition is a rivalry. Hence, economic theory must explain these real world phenomena in terms of the plans and actions of individual human beings. It is these plans and actions that generate the competitive process. At the center of this process is the entrepreneur, who happens to be very similar to the marketer. The entrepreneur-marketer's function is to be alert to profit-making opportunities ahead of anyone else. This alertness must anticipate the needs and wants of the consumer, then find factors of production that can be transformed into a profitable, need-satisfying product and deliver to the consumer ahead of the competition. The Austrian economic theory, in other words, fully embraces marketing and the marketing concept.

The present writer contends that much theoretical and historical research in marketing needs to be conducted in

the context of Austrian economic theory. This research could shed light on the many criticisms leveled against marketing, such as the alleged high costs of distribution, the wasteful and monopolistic nature of advertising, the coercive and deceptive nature of persuasive communication and planned obsolescence. Austrian economics provide a theoretical foundation with which to challenge every one of these criticisms, something contemporary micro- and macroeconomics cannot do. The greater application of logical, rather than statistical, reasoning to the study of marketing problems and consumer psychology should move marketing scholars closer to an understanding of the universal and essential in marketing, rather than the accidental or particular. Finally, a thorough history of marketing practices could give marketing scholars, students and practitioners a much-needed understanding of the development of their discipline.

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