

Theory and History in Marketing: Reply*

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In essence, my article 'Theory and History in Marketing' (Kirkpatrick, 1983), which Professor Runde now challenges, states the following:

- (1) Marketing theory is a set of concepts, principles and laws that can be and ought to be based on and derived from the concepts, principles and laws of Austrian economics.
- (2) The role of the Mises/Kirzner entrepreneur in a market economy is identical to the essence of the marketing function in a business.
- (3) Much of what passes today for theoretical research in marketing and consumer psychology (consumer behavior, as it is more commonly designated) is merely positivist/behaviorist histories which 'verify the obvious and belabor the trivial' (p. 48).
- (4) Histories of marketing thought and marketing actions (practices), on the other hand, are desperately needed.

Professor Runde's comments can be discussed as follows:

- (1) Runde's understanding of marketing is much too narrow; he considers marketing only in its tactical functions. To be sure, there are marketing managers who define markets for existing new products and who determine how best to persuade prospects to buy the new products. But, in fact, strategic marketers are entrepreneurs in the sense used by Mises and Kirzner. Strategic marketing unites innovation with execution. Just as individual acting man chooses his goals and then acts to achieve them (with no guarantee that he will achieve them), so also the strategic marketer chooses his

company's goals (including what products to offer and what markets to serve) and then sets out to achieve them. That is entrepreneurship (cf. Drucker, 1974, pp. 58-73, 121-9).

- (2) This narrow conception of 'tactical' marketing seems also to lead Runde to conclude that Kirzner's notion of entrepreneurship has little or nothing to do with marketing. Moreover, Kirzner himself, in the article Runde cites (Kirzner, 1982, pp. 140-2) and in Kirzner's book (1978, pp. 86-7), states that the entrepreneur of *Competition and Entrepreneurship* had a specific 'didactic purpose' which was not meant to be taken as lacking the element of uncertainty or speculation. Mises (1966, p. 290), with Kirzner concurring, states that 'an entrepreneur's profits stem from his ability to anticipate better than other people the future demand of the consumers'. That is marketing.
- (3) Runde's most serious comment, however, appears to be his charge that my article, in fact, fails to provide a theoretical basis for marketing—because the 'only "theoretical science" referred to' (consumer psychology) is a historical science. Therefore, according to Runde, my article fails to deal appropriately with the problem of 'having to base present decisions on uncertain future conditions'. This, with certain qualifications, I respectfully submit, is a misunderstanding of the distinction between theory and history.

The distinction between theory and history is, in essence, the distinction between thought and action. Man's basic means of survival is his capacity to reason. Reason is the faculty of consciousness that identifies and integrates the

* From *Managerial and Decision Economics*, 6:3, September 1985, 186-188. See J. H. Runde, "Theory and History in Marketing: a Comment," *Ibid.*, 183-85, which preceded this Reply, and Runde, "Theory and History in Marketing: Rejoinder," *Ibid.*, 189-90, which followed.

facts of reality. By exercising this capacity, which is neither automatic nor infallible—that is, by thinking—man forms concepts, principles and laws to explain the world in which he lives and to guide his actions. Every individual—in varying degrees—exercises this capacity for thought; every individual acts to achieve values which he has chosen on the basis of a 'theory' he has formulated and accepted. Every individual has a 'history' of past choices and actions. As thought guides action, the scientist formulates theory—in a more rigorous and formalized fashion—to guide man's future and to record and analyse his past.

Some sciences are more fundamental than others. Philosophy, for example, is the most fundamental of all sciences—fundamental in the sense of being more basic, general or universal in applicability than the others. The other sciences, in other words, depend on, are derivatives of, or are applications of the fundamental sciences. Physics, biology, economics and psychology are other fundamental sciences. Engineering, medicine, marketing and consumer psychology (consumer behavior) are applied sciences. No matter how general or how specific a science may be, however—even the science of 'basket-weaving', for instance—all sciences have both theoretical and historical components. (History in the physical sciences means recording and analysing the actions or changes in the entities that the particular science focuses on.)

As stated above, marketing is a theoretical science; so also is consumer psychology. In marketing, the product life-cycle principle is a derivative and application of the 'uniformity-of-profit' principle in economics (see Reisman, 1979, pp. 5-12). In consumer psychology, the 'hierarchy-of-effects' principle—the stages through which a consumer passes to process and accept an advertising message—is based on the principle from general psychology that man is a being of conceptual and volitional consciousness (see Branden, 1971, pp. 28-63).

As stated above, psychology and consumer psychology are theoretical sciences, not just historical sciences. Here, I disagree significantly with Mises. Psychology—literary psychology or thymology, as Mises described it (1969, pp. 264-84)—is, in fact, a *formal* science, as economics is, 'that aims at universally valid cognition' (1976, p. 143). And, just as in economics, the principles of psychology are independent of time, nation, class or race. The 'material content and the particular features of the actual case' (1966, p. 32) in psychology are the material of (psychological) history. Psychology, and consumer psychology,

identifies and explains universally valid principles—in specifically defined contexts (which is what economics does, too).

A universally valid principle is true for all instances to which it applies—past, present and future. Man discovers these principles and defines the theory which provides the universals. Acting man, however, must apply each principle to his own particular, concrete situation. For acting man, psychology is a vitally important science. It tells an individual (or an entrepreneur) what other people will do—if you know the choices they have made in the past. Psychology and consumer psychology state precisely—in general, formal terms, not in concrete, quantitative detail—what another person will do in the future. Only one proviso is stated, hence the 'inherent uncertainty': the individual could change his basic choices and values at any point in time. But once those basic choices and values are made, and are known, the actions that that person takes are, *ceteris paribus*, universally certain. Thus, the principles of psychology and consumer psychology are universally valid—in this kind of context.

A popular misconception today views theory as a monolithic, abstract—even abstruse—deductive/rationalistic system that arises prior to and is distinctively separated from practice. Consequently, such 'practices' as medicine and marketing are not considered to be sciences, but only arts at best. (The root of this view is positivism.) Theory, simply put, is a body of concepts, principles and laws that explains some aspect of reality and/or guides human action to the achievement of goals. For applied, practical disciplines, practice is the application of theory to concrete problems or situations. Just as (one certainly hopes) there is theory guiding the surgeon's knife, so also there is theory guiding the decisions and actions of the marketing manager.

Where Runde is particularly mistaken, I think, over the distinction between theory and history is in equating 'speculative insight into the future' with 'universally valid cognition' or theory. Mises does not do this, nor do I.

Runde's quote from Mises (1966, pp. 30-1) that history 'does not by itself provide any knowledge and skill which could be utilized for handling concrete tasks' is better understood in the context of Mises' earlier work on epistemology (1976, p. xxiii), where the nearly identical statement appears. The context makes it clear in this work that Mises is arguing against his lifelong nemesis: historicism. Historical (empirical, statistical) studies, Mises is saying here, cannot generate universal laws or principles, nor can any kind of

history *by itself* guide action. But history is utilized by acting man and the entrepreneur to gain speculative insight into the future. Mises makes ample reference to the use of history to guide future action. This is the function of the 'specific understanding' (1976, pp. 132-7). I disagree with Mises that this is a non-conceptual process. Rather, it is a very rational and conceptual process—to take another person's present (historical) values as the given, then apply the universal principles of psychology to that person to trace the causes and consequences of his further choices and actions. Lack of 'apodictic' certainty—yes; lack of causality—no!

Consequently, statistics—which after all is a science, a theory of measurement—can be used to provide a summary of the present state of the market to aid the entrepreneur. (Runde's statement that purposeful human action makes random events impossible is not at all relevant; statistics is a valid science, if the theory is applied in the carefully defined contexts that are its domain. What statistics is not is a form of proof or theoretical justification.) The kind of probability that entrepreneurs (and market researchers) use is not 'class probability' or gambling (an error that Kirzner lapses into on p. 86 of his book); it is case probability, where the case is a class by itself, where some of the factors that determine the outcome of an event are known, but others are not (Mises, 1966, pp. 110-15). All speculative insight into the future, in fact, is case probability.

One term I have not used so far in this Reply is 'Praxeology'. Mises uses the term to name a science of human action. Much of his theoretical work, however, is in epistemology. For all practical purposes, praxeology stands for

philosophy (though sometimes it seems it could easily represent the social or behavioral sciences). In any event, Mises makes the distinction between theory and history epistemological: it is the distinction between universal and particular. Though Mises is explicitly a philosophical Kantian, epistemologically he is an Aristotelian realist. This realist position, however, is philosophically untenable (see Jones, 1952, pp. 251-3, 422-30). It is this universal/particular distinction that leads Mises to deny the existence of a science of psychology—because psychology studies the unique, particular case which, according to Mises (and Aristotle), cannot be universal.

The philosophy that I base my epistemological comments on above is that of Ayn Rand. Her philosophy—Objectivism—provides a solution to the 'problem of universals' in epistemology and, consequently, it provides a theory of objective value in ethics that is fully compatible with the Austrian theory of 'subjective' preferences. It involves neither the intrinsicism of classical economics nor the a-theoretical subjectivism of historicism, positivism, or behaviorism. (See Rand, 1967a, especially pp. 52-72; 1961, pp. 10-57; 1964, pp. 13-35; and 1967b, especially pp. 21-6; also Peikoff, 1982, pp. 328-38.)

To conclude, I would say that the applied science of marketing requires an economic foundation that can best be provided by the Austrian school of economics. But I would also say that Austrian economics requires a philosophical foundation that can best be provided by the philosophy of Objectivism.

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