

Emerging macromarketing concepts From Socrates to Alfred Marshall

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Abstract

Intellectual history concerns efforts to understand the world in which we live. The development of macromarketing concepts is part of intellectual history because the relationship between the market and other social institutions has had a significant impact upon people's lives. As the analytical focus shifted from the Socratic Philosophers' interest in the "good life" to that of the late medieval nation builders, new macromarketing concepts emerged. As the social sciences developed, theories of human behavior were integrated with earlier work and reflected increasing specialization in the market. By the beginning of the twentieth century, models integrating micro- and macromarketing had become part of the general economics literature. © 2001 Elsevier Science Inc. All rights reserved.

The market is a unique social institution that plays a part in the provisioning process that is crucial to the livelihood of mankind. Since society is structured by social institutions, the nature of the market and the role that it plays is interrelated with other institutions. Macromarketing is the study of such interactions. After exploring the concept of institution, this paper traces the development of intellectual efforts to understand some of the interactions between the market and other social institutions. The discussion extends to the end of the nineteenth century, partly as a counterpoise to the myth that marketing thought originated in the United States early in the twentieth century (Bartels, 1962, p. 4).

1. The market's institutional setting

Since no consensual definition of "institution" exists, "The ambiguity of the term gives authors both the obligation and the license to adopt their favorite definition" (Hechter, 1990, p. 14). Given this encouragement, the present discussion adopts Hamilton's (1930) definition of institution as a term that "connotes a way of thought or action of some prevalence and permanence which is embedded in the habits of a group or the customs of a people

...they constitute standards of conformity from which an individual may depart only at his peril" (p. 84). Although no generally accepted list of social institutions exists (Schneider, 1965), "Major institutional spheres" may be identified (Eisenstadt, 1968, p. 84). For example, cultural values are sanctioned by religious, scientific, and artistic institutions, and educational institutions transmit cultural values from one generation to the next. Political institutions establish collective goals and control resources to achieve these goals. Economic institutions are involved with provisioning.

A variety of provisioning techniques are employed by individuals and groups: self-provisioning, the unilateral provision of benefits from others, communal arrangement, social exchange, and market exchange. In self-provisioning, inputs may be acquired directly from the material environment by hunting, gathering or agriculture, for example. Other persons or organizations may provide inputs, either unilaterally or jointly. One example of unilateral provision is theft, which involves two parties; one party extracts a benefit from another, and confers none. Theft is sanctioned by the institution of Piracy. Altruism also involves two parties. If one party has an unselfish concern for the well being of others, another party receives a benefit but confers none. The anonymous giver receives no return from the recipient; the sole benefit is the intrinsic satisfaction gained from "doing good." Transfers may take the form of entitlements to qualified individuals and groups or private bequests; in neither case does the recipient provide a reciprocal benefit. The joint provision of inputs involves

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sharing, which occurs when resources are held in common by members of a group. Sharing is contingent only on group membership, not on previous or future acts. Individual shares are not identified; what one acquires from the pooled resources is not monitored, and does not depend upon one's contribution.

Other means of acquiring goods and services from others require some return to the provider. Social exchange, voluntarily providing benefits to another in the expectation of future benefits from others, is ubiquitous and engenders feelings of personal obligations, gratitude, and trust. Neighbors exchange help with chores, children exchange toys, and friends exchange social support and colleagues exchange information. Social exchange may be reciprocal or indirect. Indirect exchange occurs when one party confers a benefit and expects a benefit from a third party; charity, for example, generates prestige to providers when donations are publicized.

Reciprocal exchange imposes an obligation to receive a benefit when offered; refusing a present would significantly alter the institutionally defined social relationship. Exchange is unbalanced when the inputs conferred are unequal, but commensurate with the status of each party; the family as an institution sanctions unbalanced exchange between parents and children. Equal exchange occurs when benefits are returned in kind, but at different times, such as dinner invitations. In balanced exchange, each party receives a benefit greater than the cost of conferring a benefit to the other. Receiving advice from a colleague is an example. When the provider's superior competence prevents one from reciprocating in kind, offering approval that raises the provider's status may discharge the obligation.

These various provisioning techniques have emerged over time to meet different societal needs. As individual actions have been repeated, and adopted by others, these actions have become the usual manner of achieving desired results and are sanctioned by tradition. Such normative patterns of behavior are the social institutions that provide guidance for social interaction in myriad concrete situations.

Market exchange is analogous to balanced reciprocal exchange. However, the nature of the market relationship is unique because buyers acquire ownership from sellers and sellers convey ownership to buyers in return for a regularized exchange value. A regularized exchange value enables cultural meanings to be displaced by materialistic concerns so that market participants become "individuals" isolated from the rest of society rather than "persons" participating in social exchange.

In this paper, the term "marketing" is used in the traditional sense referring to acts of buying and selling in a market. The *Oxford English Dictionary* traces the use of this term to the 16th century; it certainly did not originate in the United States between 1906 and 1911 (Bartels, 1962). Buying and selling is sanctioned by the market institution; macromarketing is the study of market institutions and the relationships among market and other social institutions.

The development of macromarketing thought reflects changes in social and intellectual conditions. The market institution could not be analyzed until such an institution came into being, and the relationship of the market institution with national political institutions, for example, could not be analyzed until nations existed.

The development of macromarketing thought is sketched in the context of changing social institutions. The Socratic Philosophers were concerned with achieving the good life; the medieval Scholastics were concerned with man's eternal life. In the later Middle Ages, interest centered on increasing the wealth and power of the national state. As humanistic ideas overcame medieval tradition, and the social sciences emerged, the behavior of people pursuing their own interests, and the evolution of new social institutions, became objects of study. As scientific method advanced, the assumptions underlying traditional conceptual schemes were questioned. Ultimately, intellectual interest was focused on the linkage between human behavior and social institutions. Since the market played a central role in Western societies, an understanding of market behavior and the market institution arose as part of the social sciences.

2. Interaction with cultural values: justice and the good life

Macromarketing thought begins with the Socratic philosophers because they experienced the decline of the rural life described by Homer, and the growth of urban life and markets. As the extent of commerce increased in ancient Greece, part-time traveling merchants became full-time sedentary specialists, and periodic markets became permanent. Herodotus (5th century BC) considered the market a Greek innovation: "They have markets for buying and selling, unlike the Persians who never buy in open markets, and indeed have not a single market place in the whole country" (p. 75). By the 5th century BC a sophisticated pattern of market trade had developed in Athens; retail sales were made in shops and the Agora was a permanent market. The market became a social institution as a distinct type of behavior developed, and special rules were established that reflected the differences between market and social exchange.

Market exchange was a matter of gaining personal advantage rather than a means of maintaining social relationships. This new behavior was no longer regulated by status relationships but by a new concept, the contract. Contractual relationships represented erosion of the institutional structure and threatened the prevailing social order. For example, in the ancient Greek democracy, sovereignty was vested in the entire body of citizens, each of whom was equal. However, women and slaves were not "citizens," so those members of these groups did not have equal political rights. On the other hand, in the market each unit of currency is equal; the resources commanded by a buyer do not depend upon social status.

The Socratic philosophers attempted to relate the newly formed market institution to the ideal man living the good life. The market fit into the existing conceptual scheme because social structure was thought to emerge from the mutual dependence arising from differences in people's natural abilities. In this context the market is a social institution that provides social benefits. Plato (4th century BC) asks: "How can any man be anything but a benefactor if he renders even and symmetrical the distribution of any kind of goods which before was unsymmetrical?" (XI, p. 918). However, this useful social institution has a social cost.

An exchange transaction raises the question of how the benefits will be shared by the parties. This sharing must conform to the laws of justice. However, a conflict arises between the market institution and other social institutions, even when the market operates justly, because of the very nature of the institution. Roles in a market differ from those appropriate for the whole man and the good life. Outside the market, wealth is a collection of tools necessary for the good life. Since wealth is a means to an end, a natural limit is reached when one has sufficient resources for a virtuous life. But market behavior leads to a confusion between ends and means: "Wealth is often assumed to consist of a quantity of money, because money is the thing with which business and trade are employed" (Aristotle, 4th century BC, I. iii. 16). This change in value occurs because men exchange money for goods so that they may obtain more money. In contrast, the "natural" exchange of goods for money occurs so that other needed goods can be obtained. The desire for money has no natural limit: Some people believe that "the whole idea of their lives is that they ought either to increase their money without limit, or at any rate to safeguard it" (4th century BC, I. iii. 20). Thus marketing activity leads to values and norms that can reduce social welfare.

Socratic thought had an important influence on the medieval Scholastics who also were concerned with justice. But the Scholastics were not interested in man's life on earth, but life in the hereafter. The analysis of human behavior centered upon the fulfillment of the law of God, and involved the relationship between the market institution and the Church, as a religious institution.

Since justice must rule in society, there arose the question of whether market exchange was just. The definition of a just transaction, equal value exchanged for equal value, raised an analytical problem. A market intermediary gained from a transaction because a product was sold for more than its purchase price. However, it was not clear what the buyer gained when a product was resold without being altered in any visible manner. St. Jerome, a Scholastic who lived from 340 to 420, contended that the seller's gain must be the buyer's loss, so that market exchange is a sinful activity (Ashley, 1909).

St. Augustine approached this issue by distinguishing the person performing a task from the task itself. If the task is useful, then the person who performs the task deserves a wage for his labor (Augustini, 5th century, Vol. XXVI). In

the following centuries analytical attention was focused on what merchants did, and in the course of their work the Scholastics recognized that the merchant altered the goods that he resold, and a list of marketing functions emerged. Transportation alters the product's physical location. Storage alters the product in time and involves protection from damage and theft. Merchants also perform risk-bearing functions; their lives often are at risk while they transport their goods. Furthermore, demand estimates may be incorrect and goods must be sold at the market price even if this results in a loss (Aquinas, 13th century; Alexander of Hales, 13th century; Duns Scoti, 13–14th century; Bernardini, 15th century). The merchant is worthy of his hire because he performs functions that are useful to society.

In the thirteenth century, Ricardus de Media Villa integrated the Scholastic arguments by linking the finding that both parties gained from a transaction with the recognition of the social benefit of market exchange. Since the merchant buys in one market and sells in another, and the market price rules in each market, the exchanges are equal in both cases. The merchant's gain is achieved because of price differences between markets, and this gain is deserved because the merchant performs useful functions. Moreover, market exchanges result in the equalization of supply in different areas, so that the entire society benefits. Of course market exchanges are unjust when people sin, but this is due to man's weakness, and is not inherent in market exchange. The Church acts as a social control mechanism, helping people to overcome their weaknesses (Beer, 1938).

In the later Middle Ages new social forces brought a new focus to the study of market institutions; interest was shifted from the individual to the nation as a whole.

3. Interaction with the political institution: the national interest

The decline of feudalism in Europe during the later Middle Ages was paralleled by a rise of national consciousness. Loyalty to cities or feudal principalities was superseded by loyalty to national groups of people sharing common languages and traditions, often within natural geographic frontiers. Although Europe had long been characterized by an awareness of national differences, "The term 'nation' has been most commonly applied to European peoples since the end of the Middle Ages" (Rustow, 1968, p. 11). Once the king was no longer a feudal overlord economically dependent on his own estates, he became a symbol of unity around whom national traditions developed. Commerce and industry came to be regulated by the nation rather than the city or principality. The new patriotic and political ideal of a strong national state was stimulated as commercial rivalries became predominately national: "the greatest Trade of one Countrey hath a capacity of undermining, and eating out the lesser Trades of any other Countreys . . . what Nation soever can attaine to and continue

the greatest Trade, and number of shipping, will get and keepe the Sovereignty of the Seas, and, consequently, the greatest Dominion of the World” (Robinson, 1649, p. 1).

With the rise of national states, analytical effort focused on the contribution of the market institution to national objectives. The primary objective was growth in a nation’s wealth and power, which required increases in the output of goods and services. Output can be increased either by increasing resource inputs or by increasing the efficiency of resource use. Although the nation’s population represented the basic potential resource, increased employment required an increase in investment, which required an increase in the money supply.

The money supply consisted of the monetary metals, but the world’s production of gold and silver could not be increased rapidly. Thus, if a nation is to increase investment, it must obtain a larger share of the world’s stock of precious metals. The way to accomplish this is to “cunningly withdraw and bring to their own countries the money of the neighboring countries” (Le Debat des Herauts, 1549, p. 64). Although nations sometimes resorted to piracy and exploitation, it was preferable to obtain gold and silver by selling goods abroad and maintaining a favorable balance of trade: “we must alwaies take hede that we bie no more of strangers then we sell them; for so wee sholde empoverishe our selves and enriche theme” (A Discourse of the Commonweal of This Realm of England, 1581, p. 63). Hence, the market institution was assigned an important role in national policy.

Merchants who sell the nation’s “superfluity” in foreign markets contribute to the national goal: “A well governed traffike, practiced in a Kingdome by judicious and expert Merchants, to forraigne and remote countries, will easily bee granted, and confessed to bee both honourable, and of singular reputation, both to the Sovereigne in his particular, and to the nation in generall” (Robinson, 1641, p. 51). The market institution is responsible not only for information gathering and physical supply but also for stimulating demand. The “demonstration effect” causes output to increase and the income generated by increased employment further increases demand: “The meaner sort seeing their Fellows become rich, and great, are spurr’d up to imitate their Industry. A Tradesman sees his Neighbour keep a Coach, presently all his Endeavors is at work to do the like” (North, 1691, p. 27). Moreover, merchants tended to invest their money rather than purchase consumer goods, so that their profits led to still greater investment. Because of the shift in analytical focus, the quest for monetary wealth that deeply concerned the Philosophers and Scholastics now was praised.

Since expenditures for unneeded personal consumption reduces the level of investment, such expenditures should be discouraged. The situation is even worse if foreign goods are consumed because this represents an outflow of monetary metals. Thus, although international marketing

effort contributes to national policy objectives, domestic marketing effort interferes with these objectives, and should be restricted. Retailers “may advance their private Stocks and Estates by buying cheaper and selling dearer, but cannot (meerly by this way of Trade) add a peny to the National Riches, so that it may treuly be said of one poor Manufacturer, that he adds more in a year to the Wealth of the Nation than all such Retailers and Shop-keepers in England” (Petyt, 1680, p. 19).

During the eighteenth century, as an understanding of interrelationships within the market institution slowly emerged, attention was directed toward the relationship of the market to other social institutions. Sir James Steuart (1767) presents a comprehensive model linking the market and political institutions. If a nation is to grow, people must produce more goods and services. But what will cause people to produce more than they require for their own needs. Marketing efforts popularize luxuries and create new wants: “The free hands of the state, who before stopped working because all their wants were provided for, having this new object of ambition before their eyes” are willing to work harder (p. 163). Merchants increase market efficiency by studying “the balance of work and demand” and disseminating information about market prices. Merchants also employ market research: “Workmen will even be employed at home to study the taste of the strangers, and to captivate their desires by every possible means” (p. 163).

The market institution requires a specific social structure. People must not act in any manner that defeats national objectives even though their private interests are hindered, but “To suppose men, in general, honest in such matters would be absurd.” Thus the political institution must support the market institution. However, the political institution is constrained by the market institution, whose laws have a life of their own. A statesman “is neither master to establish what economy he pleases, or, in the exercise of his sublime authority, to overturn at will the established will of it, let him be the most despotic monarch upon earth” (Steuart, 1767, p. 16).

4. The individual and the market institution: consumer sovereignty

The Intellectual Revolution of the seventeenth and eighteenth centuries focused analytic effort on the role of the individual in social institutions. The direction taken in political theory is of special interest because of the parallel between democratic political and market institutions; the mechanism by which business responds to consumer demand came to be expressed as the casting of “dollar votes” in the market.

In the seventeenth century John Locke offered a view of government, grounded in individual will and consent, that had an immense influence on the principles embodied

in the U.S. Declaration of Independence and Constitution. Locke argued that it is self-evident that all persons possess the natural rights of life, liberty, and property, and that people to protect these rights create governments. The people themselves are sovereign.

The classic work in eighteenth century political economy, Adam Smith's (1776) *Wealth of Nations* was in harmony with the philosophic spirit of the time. Smith was searching for natural laws by which a nation might increase its wealth. The role of the market institution is to increase efficiency. Since efficiency is a function of the volume of output, the market institution encourages industry by developing markets, and marketing specialists encourage industry because they can do the work of marketing more efficiently than non-specialists can.

The market is directed by the individual buyer; Smith's statement of the "marketing concept" is clear: "The real and effectual discipline which is exercised over a workman is not that of his corporation but that of his customers" (Vol. I, p. 161). A later writer, James A. Lawson (1844), identifies the marketing structure that enabled the ultimate consumer to direct production, and to exercise his sovereignty. The production process is seen to involve a sequence of activities that is completed only when the retailer makes a sale. The importer invests in ships and cargo, the manufacturer invests in buildings and machinery and advances wages, and the retailer invests in the goods purchased from the manufacturer. However: "If it were to stop here, all would have been labour in vain; and it is not until the goods find their way into the possession of the consumer, and he pays for them at the shop, that the profit has been made, and the transaction wound up" (p. 113).

The market is not entirely self-regulating, but is influenced by other social institutions. Individuals are not entirely free to pursue their own interests as they wish, but are constrained by the laws of justice. Smith (1759) is concerned with the conflict between private interest and public welfare and does not assert that a competitive market alone resolves this conflict. The spontaneous behavior of each person contributes to the common welfare only when people achieve a moral consensus and a system of rights and liberties, as well as reciprocal duties.

Although the self-interest maxim holds freedom to be the rule and restraint the exception, this is not a dogma of classical economics; the conceptual model is clearly distinguished from reality. For example, John Stuart Mill (1848) supports "the popular dictum, that people understand their own business and their own interests better, and care for them more, than the government does, or can be expected to do." However, this support is qualified; it is only when this statement holds that "we ought to condemn every kind of government intervention that conflicts with it" (p. 947). Mill sees that economic freedom contributes to political freedom, and emphasizes that the exercise of individual choice is itself important for the society: "In

proportion as the people are accustomed to manage their affairs by their own active intervention, instead of leaving them to the government, their desires will turn to repelling tyranny, rather than to tyrannizing" (p. 950).

Although classical economics showed that the individual directs the market, this individual tended to be a disembodied rational calculator. Moreover, attention was focused on material goods, and productive activity often was defined as adding exchange value to material goods. But the "material goods mentality" was challenged by a conception of value determined by human beings rather than by an attribute of material goods.

5. Marketing as exchange

The scientific investigations stimulated by the Intellectual Revolution led to an examination of the assumptions underlying traditional theory. Archbishop Whately (1831) holds that human exchange behavior, rather than the things exchanged, should be the object of study and suggests that the term "political economy" be replaced by the term "catallactics," meaning "the science of exchanges" (p. 253). The focus on human behavior leads to the conclusion that value is not an attribute of a good but is subjective. And once real people direct the market, the relationship between market goods and individual satisfaction must be explored.

One benefit of a focus on individual satisfaction was that it offers a solution to the ancient paradox that if exchange is equal, it must then be a zero-sum game in which one party gains only at the expense of the other. Although the Scholastics had solved this paradox, the zero-sum view persisted. For example, Montaigne (1588) argues that "no profit can be made except at another's expense ... The merchant only thrives on the extravagance of youth" (p. 127).

William N. Hancock (1851, pp. 9–10) points out the detrimental effect of the zero-sum misconception. Losses in economic welfare arise from "The common notion that in an exchange whatever one party gains the other loses." Sellers who believe that one party to a transaction must lose "try on each occasion to take as much from a customer as possible." However, "the true economic principle is, that in every prudent and fair exchange both parties gain. Hence the interests of buyers and sellers, however opposed they may appear to be, are really, in the long run, identical."

In the 18th century Condillac argued that an exchange transaction itself increases value, but it was not until the next century that this proposition became a significant part of economic analysis. Montifort Longfield (1835) states that the very act of exchange increases economic welfare: "In every exchange a person receives an article of equal value, and of greater utility to him, than that with which he parts, and in many cases he parts with that which to him

would be of no use at all” (pp. 2–3). William Stanley Jevons (1871) takes the position that “he who pays a high price must have a great need of that which he buys, or very little need of that which he pays for it; on either supposition there is gain by exchange” (p. 145). This emphasis upon exchange behavior not only clarifies the manner in which marketing contributes to economic welfare, but also focuses analytical effort on market behavior. Actors become whole individuals, not simply economic agents. John E. Cairnes (1874) argues that market contracts between human beings are an expression of the volition of each party, and thus human wills “must form the primary link in the causal chain” (pp. 104–105).

Since information flows provide the means of linking people together, the information available to each contracting party must be addressed. For example, retail transactions take place between sellers, who are experts, and buyers, who are “persons in most cases wholly ignorant of the circumstances at the time affecting the market.” This disparity of information leads to a consideration of the ethical system within which the market institution exists. Because of the potential unfairness of retail transactions, retailing must rest “upon a moral rather than upon an economic basis.” The moral principle is that “the dealer should not demand from his customer a higher price for his commodity than the lowest he is prepared to take” (Cairnes, 1874, pp. 113–14).

Buyers also must meet their responsibilities if the market is to function properly. It is the “duty” of buyers “to deal where they are most honestly and best served. To give the man who employs skill, enterprise, and capital in procuring goods and cheap commodities for them, the natural reward for his exertions.” For example, customers must not purchase from small shops, rather than large shops selling at lower prices, because of “sentimental notions” (Hancock, 1851, p. 30).

The political system also must play its part. If competition is to perform its function, the market must remain free of external constraints. Robert Torrens (1821) asserts that “Every legislative restriction, which in any way interrupts the free interchange of commodities between one part of the country and another, necessarily checks the division of employment, and lowers the productive powers of labour and capital.” Restrictive legislation has the same effect as “intersecting a country with inaccessible mountains and impassable swamps” (p. 209).

The concept of competition became more realistic with the introduction of real people into the market model. Thomas E. Cliffe Leslie (1888) holds that sellers make decisions in a world “of obscurity, confusion, haphazard, in which, amid much destruction and waste,” not a “world of light, order, equality, and perfect organization.” Thus, success depends upon many external conditions, such as “the ramifications of commercial relations and credit, the sudden changes in the activity of business and in demand, the fluctuation of prices.” These influences are often so

much more important than one’s own “skill and care,” that many sellers “hardly try to exercise judgment or foresight” (p. 235).

The explanation of buyer decisions was expanded to include the impact of other social institutions. The wants encompassed in “the desire of wealth” are not derived from “innate, original, and universal propensities of the individual man, but from the community and its history” (Cliffe Leslie, 1888, p. 212). Moreover, the buyer cannot be understood apart from family influences: “Deeply affecting consumption and distribution, are conjugal and parental affection . . . without the family, and the altruistic as well as self-regarding motives that maintain it, the work of the world would come almost to a standstill.” Finally, “The exertions of that hardest-worked of all labourers, the poor man’s wife, can hardly be explained by the love of wealth and ease” (pp. 196–197).

The 19th century analytical concerns with market participants as human beings led to the next theoretical problem of how individual behavior was linked to form the market institution. The Austrian School and Marshall, the father of Neo-classical Economics, addressed this problem.

6. Explicit integration of macro and micro perspectives: marketing as a system

The ultimate objective of the Austrian economists is to understand how the national economy develops from individual decisions. Carl Menger (1871) concludes that this requires an investigation into “the manner in which the more complex economic phenomena evolve from their elements” (pp. 46–47). Since market behavior is only one aspect of social behavior, other disciplines are needed for a full explanation. Eugen V. Bohm-Bawerk (1888) notes that the contributions of these disciplines must be interrelated: “No single branch of inquiry explains to the very end the facts with which it deals, but breaks off at some point or other, and passes on its facts to some sister science for further treatment, so that the total explanation is only given by the totality of all sciences” (p. 7).

The starting point is the rational consumer who wishes to maximize satisfaction. Satisfactions can be ranked, and since the means of satisfaction involve the future, uncertainty must be recognized. The value of a good is its contribution to the ultimate consumer’s satisfaction. Individual behavior occurs within households and other groups, so that it varies across groups. Interactions within a household differ from external interactions such as market contracts, which interconnect to form the national economy as they “join to form a never-ending chain; every pair of them is connected with the preceding and succeeding pair by one of the contracting parties” (Wieser, 1914, p. 169). The economy is coordinated by social institutions, such as the market, which evolves as indivi-

dual behaviors are repeated over time and become expected patterns of behavior.

However, social organizations do not arise spontaneously. Although individual behavior drives the economy, the average person is not likely to initiate change. Only part of one's behavior is the result of conscious deliberation. Man is "a creature of his period and his environment — of his nation, his class and his profession. . . .Needs, impulses and egoism itself are dominated by social powers. . . .Fundamentally every man requires that which the standard of living of his circle forces him to demand" (Wieser, 1914, p. 159). Thus, leaders are needed for change to occur, and the entrepreneur is such a leader. Intermediate markets emerged when "it occurred to some bright men that. . .they should introduce a third into the trade" (p. 164). And more and more persons use this process as they find it beneficial. Specialization increases as economic development proceeds, so that goods "often follow very complex paths through the hands of more or less numerous middle men" (Menger, 1871, p. 239).

The market institution evolves as individuals habitually meet to exchange goods and services. Although any specific market transaction is a matter of individual choice, each party to a transaction is influenced by the behavior of other market participants. Thus the market institution arises not from conscious deliberation, but from the unintended consequences of individual decisions: "Neither in the beginning nor later did the leaders have in mind a social institution. Their wishes were confined to much smaller, more proximate goals. The tremendous influence of the mass practice that grew up extended the final result far beyond their expectations" (Wieser, 1914, p. 156).

Although Alfred Marshall (1891, 1907) accepts the general outline of the Austrian analysis, he is especially concerned with the way in which the development of social institutions can be influenced to improve social welfare. His *Principles of Economics* is of special interest to micromarketing since the static equilibrium model of contemporary micromarketing theory can be traced from the *Principles* through Sraffa (1926), to Chamberlain (1933), who provided the analysis of product differentiation, and Robinson (1933), who introduced the concept of market segmentation. The resulting neoclassical theory of the firm, utilized in contemporary micromarketing textbooks, deals with decisions made within a single organization in a static environment.

The static model plays a limited role in the *Principles* because Marshall's objective is to find solutions to social, not management problems. He recognizes that the static model does not represent real people interacting with changing environments, and must include information about human motives and the influences of social customs and institutions. Social scientists are concerned with individuals as members of a social organism, and just as

"a person is something more than a series of thoughts and feelings, so the life of society is something more than the sum of the lives of its individual members" (Marshall, 1891, p. 180).

The individual is a real flesh and blood person, not an agent "who is under no ethical influences and who pursues pecuniary gain warily and energetically, but mechanically and selfishly." (Marshall, 1891, p. x). People act rationally, but "It is deliberateness, not selfishness that is the characteristic of the modern age" (Marshall, 1891, p. 6). And although people choose "useful material things," the concept of "usefulness" includes inputs from the sociocultural environment, such as "all rights to hold, or use, or derive benefits from material things, or to receive them at a future time." "Material things" thus include "opportunities of travel, access to good scenery, museums, etc." (Marshall, 1891, p. 54).

The first step towards a dynamic model is taken with the introduction of long period supply and demand curves. Marketing plays an important role in the discussion of internal and external returns, so that marketing activity is woven into the fabric of "organic growth." In later editions of the *Principles*, Marshall asserts that this biological model shows that mankind not only is influenced by the material and non-material environments but also influences these environments: "The human will, guided by careful thought, can so modify circumstances as largely to modify character; and thus to bring about new conditions of life still more favourable to character; and therefore to the economic, as well as the moral, well-being of the masses of the people" (Marshall, 1920, p. 48).

The needs that generate demand also change over time; each of man's forward steps "increases the variety of his needs together with the variety in his methods of satisfying them." It is not larger quantities of the goods presently consumed that are wanted, but more variety and better quality: "He desires a greater choice of things, and things that will satisfy new wants growing up in him." Moreover, "As his mind becomes developed . . .his wants become rapidly more subtle and more various; and in the minor details of life he begins to desire change for the sake of change" (Marshall, 1891, p. 144). Need satisfaction is a means or improving man's character: "Speaking broadly . . .each new step upwards is to be regarded as the development of new activities giving rise to new wants, rather than of new wants giving rise to new activities" (Marshall, 1891, p. 147). This is the driving force of social progress.

Marshall's view of economics as the study of mankind leads to a discussion of the manager's social responsibility. A firm selling in a heterogeneous market, where buyers have preferences among sellers, implements marketing policies. A "characteristic task" is that of "creating new wants by showing people something which they had never thought of having before; but which they want to have as soon as the notion is suggested to them"

(Marshall, 1891, p. 339). Sometimes, however, the manager must choose policies that are “more beneficial to society as a whole than those which he would adopt if he consulted only his own interests” (Marshall, 1920, p. 477). That is, ethical considerations must be included in the manager’s decision model.

Ethical considerations also are integrated into Marshall’s theory of social change. Social development is explained in terms of “organic” growth; changes in behavior modify man’s character, which bring new circumstances that are even more favorable to character development. The ultimate result is further social progress, as people respond to motives such as “the claims of family, municipality, the oppressed classes, their country, humanity and morality” (Marshall, 1920, p. 680). The main opportunity for developing higher motives is found in business relations that “assume honesty and good faith” and often “take for granted, if not generosity, yet at least the absence of meanness, and the pride which every honest man takes in acquitting himself well” (Marshall, 1891, p. 80).

The market institution tempered this optimistic view of man’s nature much as it tempered the “good life” envisioned by the Socratic Philosophers and conformance to God’s will as envisioned by the Scholastics. A significant amount of money is spent “in ways that do little or nothing towards making life nobler or truly happier” (Marshall, 1891, p. 747). Subsequently, Marshall argued that the underlying motive that created this situation was man’s desire for the approval of others; much expenditure fails to “confer any large and solid benefits on the spenders beyond the honour, the position, and the influence which it buys for them in society” (Marshall, 1907, p. 9).

The social problem is to direct people’s energies toward socially beneficial objectives. This can be accomplished by means of one of the higher motives — a devotion to public well being, termed “Economic Chivalry.” Marshall believes that “there is much latent chivalry in business life, and . . . there would be a great deal more of it if we sought it out and honoured it” (Marshall, 1907, p. 14). Society might use public honor as an alternative indicator of success and social status. The policy implication is clear: “If coming generations can search out and honour that which is truly creative and chivalric in modern business work, the world will grow rapidly in material wealth and wealth of character” (Marshall, 1907, p. 26). That is, Marshall envisions changes in social institutions that will lead to modifications in the market institution which in turn will increase social welfare.

7. Concluding comments

At the beginning of the 20th century the market was recognized as both a social organization and a social

institution. As a social organization, people subject to family and other group influences as well as the socio-cultural environment formed the market. Buyers interacted with market intermediaries who in turn interacted with suppliers representing various sectors of the economy. These interactions took the form of flows of information, legal claims, and physical movement. Microanalysis explained decision making by buyers, who maximized satisfaction by choosing among assortments of goods and services and sellers, whose manipulation of marketing variables contributed to social welfare.

The market also was recognized as a social institution formed by patterns of exchange behavior that had evolved over time. The market institution consisted of a network of contractual relationships that both influenced, and were influenced by, other social institutions. The contract was influenced by trade custom, legislation and judicial rulings emerging from the political institution, and general ethical standards derived from religious and other social institutions. The market institution influenced other social institutions because behavior patterns that evolved in the market altered behavior patterns associated with roles outside the market.

Elements of macromarketing thought are found in the early literature because the market was an important part of the worlds that were to be explained. Micromarketing was of interest because individual behavior was a necessary starting point. However, market behavior could not be studied in isolation. It not only was subject to so many influences, but it also had a significant impact upon other aspects of life. Macromarketing concepts thus emerged because of the issues that were examined and the methodology employed.

The contrast with much of contemporary marketing thought is illustrated both by the purpose of Marshall’s work and his methodological view. Marshall’s purpose, the study of mankind, led to an understanding of social institutions and the place of the market institution in social structure. The lack of such an understanding is evident in the wretched experience of Eastern European nations attempting to introduce market behavior into an inhospitable institutional structure. Marshall’s addition of “Common Sense” to scientific method would help dispel marketing myths that threaten the discipline’s integrity. An egregious example, that has persisted despite decades of worldwide political, religious, and ethnic conflicts, is that “Different cultural preferences, national tastes and standards, and business institutions are vestiges of the past” (Levitt, 1983, p. 96).

The limited outlook of much current work, and the lack of coherence among the increasingly narrow threads of thought, reinforces an observation made a half century ago: “The multitude of facts thus far assembled seem to add up to very little. One must conclude that something has gone wrong with the method of attack — a new and creative analysis is required” (Alderson and Cox, 1948, p. 138). Such “a new

and creative analysis” is suggested in some of the work that constitutes the intellectual heritage of marketing.

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