Avenues for theorizing about markets and marketing

Why there might be no theory of the market?

Forum on Markets and Marketing 2012
9-12 December 2012
Agenda

1. About markets.
2. What has been said about “markets”? (in Marketing, Sociology, Economics, and Forms of Institutionalism)
3. Why there might be no theory of the market? - A perspective (answer?).
Markets are anything but natural!!

There is no market in a Command Economy; central planned economy

GDR, Fall 1989
Probably most of us agree that the market economy has outperformed other forms of economy. (Socialistic forms, command economies etc.)
However this was not always known:

Adam Smith proposed it as a hypothesis: “The rich...are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society...” (The Theory of Moral Sentiments, 1759)
A theory

What is a theory?

“More formally, positive theories are systematically related sets of statements, including some lawlike generalizations that are empirically testable.” (Hunt, 2002, 193)

Empirically testable $\Rightarrow$ criticizable
Markets in Marketing

1) A market is set of people

Markets in Marketing

2) A market is a place

• Sherlekar & Gordon (2010) Marketing Management, p. 1b
Markets in Marketing

3) A market as having a function

“We define a market as any place where supply meets demand, thus leading to the formation of prices. Supply and demand can meet at a physical location (e.g. in a store or at a trade fair) or at a virtual location (e.g. on the internet or by telephone).”

Markets in Marketing

3) A market as having a function

Area Concept: It is the economic concept. Any area providing a set of price-making forces may become a market; we need three conditions: (1) Unmet wants. (2) Products to meet this demand. (3) Means of interaction or intercommunications so that forces of demand and supply can interact to determine the prices even without face-to-face meeting of seller and buyer. (Sherlekar & Gordon (2010) Marketing Management, p. 1)
Markets in Marketing

4) A market as symbols, sins, culture etc.

A market as symbols, signs, culture etc.

What do we gain if “market” is referred to symbols, signs culture etc.

What do we gain if these references also provide no theory?
And it they provide a theory it isn’t a theory of the market.
 Markets in Sociology  
 Market as Concept

„A market may be said to exist wherever there is competition, even if only unilateral, for opportunities of exchange among a plurality of parties. The physical assemblage in one place, as in the local market square,..., only constitutes the most consistent kind of market formation. (Weber, 1922 (1976), 635)

Exchange represents „the archetype of all rational social action.“ (Ibid. 635)
Markets in Sociology

“The interest here (in economic theory) was not in studying the empirical functioning of markets and its institutional preconditions (Coase 1988: 7–8; Lie 1992: 508), but rather in the mathematical proof of efficiency postulates, conducted under a variety of simplifying assumptions.” (The social order of markets, Jens Beckert 2009, 246)

However it (economic theory) convinced not only scholars but also politicians and ‘ordinary’ people.
It was only the developments in economics and sociology since the 1970s and the 1980s, respectively, that put markets back in the spotlight as a field of empirical study (Krippner 2001; Lie 1997; Swedberg 2003: 115). I argue that the core issue of the sociology of markets is to explain the order of markets. How is it possible that economic activities can be coordinated through markets despite the heterogeneous and partly antagonistic motives and interests of the participants? The invisible hand
Are all these economists ignorant of the importance of markets?
“For the early economists, the market had been something concrete but of limited analytical interest... Now, (second half of 19th century, the author) however, the thinking became almost reversed: the market became an abstract concept that acquired tremendous analytical interest as a price-making and recourse-allocating mechanism” (Swedberg, R., 1994, p. 259)
Markets in Economics

From “place” to “Concept”

“The central point of a market is ... exchange” (W. Stanley Jevons (1871, iv.15)

“Even though criticism can be directed at the marginalist revolution, it must be acknowledged that one of its great accomplishments was to conceive of the market as the central mechanism of allocation in the economy.” (Swedberg, ibid, 259)
Markets in Economics

From “place” to “Concept”

“The market is not a place, a thing or a collective entity”…”…it is a process, actuated by the interplay of the actions of the various individuals cooperating under the division of labor.” (Mises 1949, 258)

...,so that the whole is not a single market.., but a network of related markets. (Chamberlin, 1933, 69)
Markets in Economics

From concepts to lawlike statements

The markets for Lemons (Akerlof 1970)

This paper relates quality and uncertainty in asymmetric information

Markets as signals:

“One might accurately characterize my problem as a signaling one, and that of the reader, who is faced with an investment decision under uncertainty, as that of interpreting signals.” Spence (1973, 355)
Markets in Economics

From concepts to law-like statements

Implicit markets or the markets of characteristics. Becker

Theory of Value G. Debreu 1959, ix: “The two central problems of the theory that this monograph presents are (1) the explanation of the prices of commodities resulting from the interaction of the agents of a private ownership economy through markets... (2) ...”
Markets in Economics

From concepts to lawlike statements

“His (A. Smith’s) perspective (the idea of the invisible hand, added) has provided the intellectual basis for a theory of economic organization -competitive markets-... (Siglitz, 1991)

Hence the market is the theory.
The theory of economic organization.
Consequences

A theory of markets does probably not exist because the market is the theory!

Do we really need a theory of a theory?

What (among other thing) does that theory say?
“The Fundamental Theorems of Welfare Economics are generally viewed as the culmination of this search for a precise interpretation of what I shall refer to as the Smithian view.”
(Siglitz, 1991)
“The first theorem states that (under certain conditions) the competitive economy is always Pareto efficient; The second theorem says that every Pareto efficient allocation can be attained through the price system.” (Siggli, 1991)

It (the 2\textsuperscript{nd} Theorem) says that every Pareto efficient allocation of resources can be attained by means of the market.
A condensed version of a theory

“His (A. Smith’s) perspective has provided the intellectual basis for a theory of economic organization – competitive markets – provide an efficient way of organizing economic activity - and economic policy - to ensure that efficiency is attained, it is best to rely on markets.” (Siggitz, 1991)

This does obviously not mean to relay on a place or on a set of consumers!
A theory

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Market as a theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hunt 2002</td>
<td></td>
</tr>
<tr>
<td>systematically related sets of statements</td>
<td>✔</td>
</tr>
<tr>
<td>Law-like generalizations</td>
<td>✔</td>
</tr>
<tr>
<td>empirically testable (criticizable)</td>
<td>✔</td>
</tr>
</tbody>
</table>

The market as a theory doesn’t need a theory of the market.
Thank you for your attention!
A condensed version of a theory

theory of economic organization -competitive markets –
Commentaries: On Marketing Thought and the Further Development of Marketing Theory

Stanley J. Shapiro: Marketing thought and the further development of marketing theory
Shelby D. Hunt: On the intersection of marketing history and marketing theory
Eric H. Shaw: A comment on the relationship between the history of marketing thought and the development of marketing theory
Christine Domegan: Co-authoring tomorrow: On how past marketing knowledge enlightens future marketing theory
Ben Wooliscroft: Marketing theory as history
Jagdish N. Sheth: The double helix of marketing: The complementary relationship between marketing history and marketing theory
Robert D. Tamilia: Reflections on the history of marketing thought and theory development
However this was not always known:

Adam Smith proposes an hypothesis: “The rich...are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society..." (The Theory of Moral Sentiments, 1759)
Market as Institutions

New institutional economics (Ronald Coase, Oliver Williamson, Douglas North:

“Institutions are rules of the game in a society or, more formally, are the humanly devised constrains that shape human interaction. In consequence they structure incentives in human exchange.” (North, 1990, 3)
Market as Institutions

“That institutions affect the performance of economies is hardly controversial.” (Ibid, 3)

“We cannot see, feel, touch, or even measure institutions; they are constructs of the human mind.” (ibid, 107)

A market is “a social institution which facilitates exchange”

Coase 1988, 8)
Market as Institutions

The market overall is a mixed bag of institutions;” North 1990, 69.

(Giddens 1984: 24): “Institutions by definition are the more enduring features of social life.”
Ideational Institutionalism

Ideational institutionalism states, that **ideas are institutions**. (Schmidt, V. 2008; Hay, C. 2001,2006; Jabko, N. 2006, Jacobsen, J.K. 1995). **Hence the idea of the invisible hand is an ideational institution.**

The market is an ideational institution and the market economy is a political, social institution.