

KARL KNIES' THEORY OF ADVERTISING, PART II: ITS SIGNIFICANCE IN THE INTELLECTUAL HISTORY OF ADVERTISING THOUGHT

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ABSTRACT

This paper interprets the pioneering theory of advertising by the German political economist Karl Knies' (1857); develops a concise intellectual history of advertising thought from Knies into the second half of the twentieth century with particular reference to other theorists' reception of Knies' work.; and ends with a critical evaluation of Knies' significance and relevance.

INTRODUCTION

This paper builds upon work which I presented at the 1989 Marketing History Conference (Fullerton 1989). That work explicated the German economist Karl Knies' (1821-1898) pioneering theory of advertising. Today's paper has three related aims. One is to demonstrate more thoroughly how Knies' theory, which was published in 1857 (Knies 1857), embodies the methodology of the German historical school of economic thinking. The second is to present a concise intellectual history of how advertising thought did develop from Knies' work into the second half of the twentieth century, on both sides of the Atlantic, with particular reference to other theorists' reception of Knies' work. Initially neglected, Knies' work was eventually recognized by German advertising thought, but has remained unknown in the United States. Counterfactual argument, which is often employed in historical work, is used here to suggesting how the development of advertising thought might have differed had the attention to Knies' 1857 ideas been earlier and more widespread. Others' reactions--or lack of reaction--to Knies' 1857 work offer a telling case example of how scholarly thought can develop, pointing up that "development" need not be a triumphant unidirectional march towards progress.

The third aim of the paper is to critically evaluate Knies' work on advertising, showing how Knies' insights can enrich current advertising thought and practice.

KNIES' THEORY

According to Knies, communication is essential to human life and advertising is an increasingly important method of communication which enables information to be spread widely and efficiently, in turn permitting commerce to expand beyond traditionally small spatial confines. By allowing sellers to provide information about their offerings to physically dispersed buyers, advertising fosters market transparency and stimulates competition. It enabled sellers to reach out to those who would be most likely to be interested in their products. In providing information about what is available at what prices and quantities, it helps keep production and consumption in balance. Moreover, advertising stimulates latent consumption urges, enabling markets to expand -- and people to enrich their lives by gaining access to a fuller array of products. Knies firmly believed that the expansion of what today would be termed consumer society broadened most people's social, mental and cultural horizons and was unequivocally improving life for his contemporaries. To Knies, the enormous contribution of advertising to this process outweighs the undeniable fact that much advertising is tawdry and preposterous.

KNIES AND ECONOMIC THOUGHT

THE GERMAN HISTORICAL SCHOOL

Knies was the only economic thinker to deal seriously and positively with advertising at a time when it first began to take on its modern intensity and pervasiveness; his contemporaries either ignored it, or judged it by its excesses. Knies perceived the increasingly important information role which advertising was to play in economic life, as expanding markets made person-to-person interaction impractical.

Knies' theory of advertising represents one of the earliest and finest examples of work from the then-emerging

German Historical School of economics. Knies was one of the intellectual founders of the school. He believed that economic scholarship had "a new and important task: overcoming the narrow-mindedness which characterized not only the traditional theoretical conflicts between free trade and protection, but also the contending claims of capitalism and socialism" (Knies 1883, p. iii). Narrow-mindedness, he believed, characterized the two then-dominant schools of European economic thought, the classical school which dated to Adam Smith (1723-1790) and the more recent socialist school. Economists' horizons were constricted, he argued, by "the absolutism of theory" (Knies 1883 p. 24), which compelled a monomaniacal quest for "natural" economic laws, i.e., laws which applied to all times and places. Obsessed with formulating such inevitably abstract and general laws, Knies asserted, economists were ignoring major economic developments in actual life.

Knies' point was well-taken. Historians of economic thought find that distribution was neglected until almost the end of the nineteenth century, and that little attention was paid to demand (Gide and Rist 1913, pp. 170-197; Stigler 1941). The influential early classical economists Ricardo (1772-1823) and Say (1767-1832) had decreed that demand expanded as production did, automatically and without limit. "The [classical] economists...gave little thought as to how the consumer with a continually expanding range of choice was to be influenced in his selection" (Goodall 1914, p. 73).

In place of the hypothetical reasoning process of classical economics, which emphasized elegant logical deductions from principles which might or might not correspond to economic reality (Stigler 1941, p. 7), Knies' methodology of historical economics emphasized abstracting theory from "the study of empirical reality," (Knies 1883, pp. 23, 24). It advocated a broadened research agenda which would explore "the causal connection between economic phenomena and the other important aspects of human social life" (Ibid., p. iii), and which would draw upon several disciplines in addition to economics--geography, history, philosophy, and jurisprudence (Knies 1883; Schmoller 1888). With such an agenda it would be possible to explain theoretically the underlying dynamics and significance of phenomena observable in actual economic life. Knies' work into the 1860s reflected this historical economical research agenda.

KNIES' INDIVIDUALITY AS A SCHOLAR

Knies differed from other German historical economists in a few respects. In contrast to the slow, painstaking gathering of detail about the centuries-distant past which characterized the inductive work of Gustav Schmoller and his disciples (See Jones and Moneison 1990), Knies' strongest interest was the recent past which he himself had experienced. His insights came rapidly and forcefully. He was much quicker than other historical economists to generalize, to abstract, to produce formal theory. His statements are neither descriptive at the expense of analysis, nor fussy and tentative, traits for which German historical economists were later criticized (e.g., Gide and Rist 1913, pp. 379-406).

THE RECEPTION OF KNIES' WORK

For thirty years after its publication Knies' theory of advertising was ignored. While advertising practice developed vigorously in the during the second half of the 1800s, theory which could illuminate it was neglected. Knies himself grew increasingly famous, most of his work was cited and discussed frequently--but never that on advertising (See for examples Schmoller 1888, 1900-1904; Roscher 1878).

ADVERTISING'S WORSENING REPUTATION

While Knies' rationale for it was ignored, advertising drew increasingly frequent and vitriolic attacks from political and cultural leaders. Ironically, these intensified even as advertising practice gradually became more honorable (Fullerton and Nevett 1986).

The worsening reputation of advertising kept the subject beyond the pale of scholarly respectability. Advertising is not discussed at all, for example, in the 1871 revision of John Stuart Mill's *Principles* (Mill 1871), a major work of nineteenth century economic thought. The German school of historical economists revered Knies' methodological work, but avoided his work on advertising (e.g., Roscher 1878). Gustav Schmoller (1838-1917), the historical economist whose commanding personality held sway over most other German economists for decades, denounced advertising as "an indecent art, which calculates more on deception, gullibility and stupidity than on genuine teaching, which works more through lying than truth-telling" (Schmoller 1904, p. 55).

Even when demand and consumption came eventually to draw more attention from economists, advertising did not.

Carl Menger, a leader of the Austrian economists who wanted to bring theory closer to observed reality, acknowledged advertising's role in making products known, but had nothing else to say about it (Menger 1871). Marshall (1920) had but a few parenthetical comments.

MARX AND KNIES

Knies was a contemporary of Karl Marx (1818-1883) and was among the earliest critics of Marx's Capital; one of his students, Boehm-Bauwerk, became a well-known critic of Marx (Meghnad 1991, p. 4). Marx does not mention Knies' work in his writings, but as an economic scholar presumably had some knowledge of it. Was Marx aware of Knies' theory of advertising? It is impossible to say. What can be said, however, is that Marx shared with economists of opposing schools then the belief that advertising could be ignored. He does not mention advertising at all in either the three thick volumes of his magnum opus Capital (Marx 1867-1894) or the massive Selected Works (Marx and Engels 1969-1970). Since advertising was a topic shunned by all rival economic thinkers except Knies, perhaps Marx saw no need to deal with it.

The fact that Marx ignored advertising is, however, ironical given two important thrusts of his oeuvre. In one, his famous theory of "commodity fetishism", he argues that products produced by capitalists - "commodities" in his rhetoric - are transformed by the exchange process into "something transcendent,... [into] social things whose qualities are at the same time perceptible and imperceptible by the senses,... [into] independent beings endowed with life" (Marx 1887, reproduced in Arthur 1992, pp. 31, 32). To the present-day reader versed in promotion, it would seem as if Marx would have to consider the power of advertising in transforming seemingly ordinary objects into products which are highly valued by consumers. But he does not. Marx nowhere refers to advertising. Instead, the transformation process is rather vaguely attributed to the warped nature of exchange in capitalist societies.

A second important element of Marx's work was his emphasis on the unremitting competitive pressure which a capitalist economic system imposed upon producers to sell their output (Baumol 1978). Marx, who disputed Say's Law, believed in the ever-present possibility of overproduction (Foley 1986, pp. 146-148). Here too he might have been expected to examine the use of advertising to stimulate demand. Although advertising was being employed by more and more capitalist businesspeople during the decades when he wrote, Marx ignored it.

Yet it is clear by this point that the logical implication of Marx's theories would be to posit advertising as playing a role in promoting mass "commodity fetishism", which in turn sustained the ever-growing productive prowess of capitalist producers. If Marx had taken it upon himself to analyze advertising, in other words, he would logically have condemned its effect while recognizing its potency, just as he did with the overall phenomenon of high capitalist economic modernity.

During his lifetime, however, the explicit potitical criticism of advertising came from such socialist groups as the German Social Democratic Party, which Marx disdained. Social Democrats denounced the ever-increasing volume of advertising as a telling symptom of sickness in capitalist industry (Wehle 1880, pp. 82-83). But these attacks were not contributions to economic theory.

THE POVERTY OF ADVERTISING THOUGHT

Outside centers of formal learning, an advertising "literature" of sorts did grow. It took as its Bible Barnum's Autobiography (1855), which became available in Europe almost as soon as it appeared in the United States. The German translation appeared two years before Knies' "Telegraph" (see Wehle 1880, pp. 73-100). Much of the "literature" was produced by British and American advertising agents, for example William Smith (1863), Donald Nicoll (1878), Charles Bates (1896), and the Rowell Agency (Advertiser's Gazette 1872). It was transmitted to Germany by journalists such as Marahrens (1875) and Cronau (1887).

This literature tended towards anecdote, homily, and how-to advice rather than theory. The Austrian writer Wehle (1880) promised his German-language readers "theory" but actually provided an extensive rehash of Barnum, ambivalent, rambling, ruminations on the good and evil of advertising, and practical advice on how to do advertising. Bates assured his readers "a mass of facts and information, taken alive from the very heart of actual business" (Bates 1896, p. iii). Lengthy digressions from the topic of advertising were common (e.g., Smith 1863; Nicoll 1878). Little attempt was made to explain how advertising worked, or to back up assertions about such matters as media habits and circulation figures; the latter were often false (Fox 1984, Chapter 1).

Business success, according to this practice-oriented literature, required ceaseless advertising. It was impossible to have too much. "Only in the rarest of cases will a single application of advertising bring success," counselled the Swiss author Raeber (1886, p. 58). "ADVERTISE UNTIL PEOPLE CALL YOU INSANE; then keep advertising, and the fickle goddess [of luck] will smile," advised the *Advertiser's Gazette* for April 1872 (p. 57). The message was driven home with countless success anecdotes, many involving patent medicine.

Despite its self-serving hyperbole and low intellectual level, however, the advertising literature did provide plausible advice about planning, timing, media selection, copy strategy, and layout. When not digressing, Smith (1863) persuasively advocated clarity and informativeness in copy; and Nicoll (1878) emphasised avoiding asinine attention-grabbing. The *Advertiser's Gazette* provided many illustrations of attractive, eye-catching layouts; Wehle offered extensive examples of (purportedly) effective layouts, graphics, and copy; and raised issues which today would be termed "wearout" and "clutter" (Wehle 1880, pp. 16, 47-71, 86, 129-228). Segmentation was assumed or suggested in much of the writing. Conceptually, most of these utilisation issues had been discussed by Knies, but now were fleshed out with examples and guidelines accessible to businesspeople.

KNIES REDISCOVERED

It is likely that only the imposing growth of Knies' overall reputation prevented his work on advertising from being forgotten. Finally, after thirty years had passed, the German journalist Cronau drew explicitly upon Knies' insights in a thoughtful book on advertising in Germany and America (Cronau 1887, pp. 55, 67). (Raeber's superb 1886 manual echoes Knies' ideas extensively, but does not explicitly mention Knies). Then during the 1890s German political economists begin to develop the macromarketing aspects of the research agenda which Knies had laid out, some stressing advertising as a means of communication, others its role in competition (See van der Borcht 1900, pp.182-198; Cohn 1898, pp. 274ff.; Redlich 1935, pp. 177-178). The influential Karl Buecher (1906, p. 504) revived Knies' phrase that advertising was "the fundamental lever of competition".

With the establishment of business universities in Germany and Austria during the late 1890s and early 1900s, Knies' work became one of the foundations of German-language advertising thought. Viktor Mataja (1857-1934), a respected Austrian economist and high government official whose book on advertising became the principle textbook in German-speaking countries from its first publication in 1909 into the 1930s - and who knew the academic and practitioner advertising literature of the U.S. as thoroughly as he did that from all Europe - declared Knies' rationale for advertising to be among the most profound contributions to the entire literature (Mataja 1926, pp. 48-49). Mataja built upon Knies' work in his superb discussion of advertising's macromarketing role, a discussion whose importance has recently been re-asserted in the German-Austrian literature (Fullerton 1988b).

Knies continued to be cited actively through the 1930s in German-language publications (e.g., Eliasberg 1936, p. 101; Fluss 1932, pp. 20-21). If anything, his reputation increased, as the extent to which he had prophesied the entire field of modern advertising became more apparent. The later-famous economic historian Redlich (1935) and the business scholar Hunke (1938) both drew attention to Knies' achievement. After the Second World War, almost a century after Knies' had published his "Telegraph", the advertising scholar Carl Hundhausen declared that Knies had achieved "a depiction of the phenomenon of advertising so lucid, that even today it has not been surpassed" (Hundhausen 1954, p. 44). Repeatedly, Hundhausen built upon Knies' insights to illuminate the various facets of advertising (Hundhausen 1954, pp. 44-46, 63, 76, 93, 141, 194-195). A few years later another major figure, Professor Rudolf Seyffert (1893-1971), drew upon Knies considerably more in the final revision of his great standard work than he had in the first, thirty seven years before (Seyffert 1929; 1966). Through the works of Seyffert and Hundhausen, which remain standard in German-speaking Europe, Knies' insights on advertising have been incorporated into the current corpus taught advertising students there. One indication of this is the greater awareness of advertising's societal impacts. The author has found that there is still some recognition of Knies' name.

NEGLECT IN THE UNITED STATES

In the United States, on the other hand, Knies' work on advertising has remained obscure, even though several of the first generation of American academic marketers had been educated in Germany--a few under Knies himself. American advertising thought developed independently, characterised by a pragmatic approach which drew far more upon psychological theory and research methods than upon any of the several schools of economics which were active during the

late 19th and early 20th centuries.

Scholarly study of advertising began in the U.S. about 1900. From today's perspective, the most striking advances came in advertising research methods, which by the 1920s enabled precise evaluation of issues such as comprehension, eye tracking, and layout effectiveness (See White 1927). Development of true high-level theory, on the other hand, was slowed by its heavy reliance upon psychology, which itself was a new discipline in the early 20th century; psychological theories have been in continual flux. The lengthy analyses of innate human instincts (e.g., "cunning", "competition", "cleanliness"; see Tipper et al., 1919) which were offered as the last word on advertising thought from the 'Teens into the Thirties, for example, were based on theory since discredited. Today these works seem quaint and archaic. Knies does not.

Knies foresaw nearly the whole topical scope of what today is acknowledged as advertising thought, and presented it as theory, that is, as "a systematically related set of statements, including some lawlike generalisations, that is empirically testable [and which is capable of] both explaining and predicting phenomena" (Hunt 1991, p. 4). Had the American flair for empirical research been applied to Knies' hypotheses, American advertising thought might have developed more rapidly. Again, had American advertising scholars been exposed to the depth and power of Knies' macro-level rationale for advertising, they might have been able to formulate more compelling defenses of it against the humanities criticisms analysed by Pollay (1986).

WHY WAS KNIES' WORK NEGLECTED FOR SO LONG?

The sheer originality of Knies' theory worked against its acceptance. Since other economists ignored advertising, and educated opinion found it beneath contempt, how could anyone believe that advertising merited serious thought? Knies himself did not challenge Schmoller's blanket denunciation. Too, Knies' work could have been more effectively presented. Knies' daunting writing style had slowed acceptance even of his methodological work on historical economics--which many German scholars were ready to accept (Schmoller 1885). Few were ready to accept a positive view of advertising.

Knies himself was distracted by an unsuccessful foray into governmental service during the early 1860s. He appears to have been badly bruised by bureaucratic battles--which may explain his reluctance to challenge the prevailing negativity towards advertising. He wrote nothing more on advertising. When he subsequently assumed a university chair at Heidelberg, his interests had moved towards more conventional economic theorising, particularly about money and credit (Schmoller 1904, p. 117; Spiegel 1983, Chapter 18). Hence the students who flocked to Knies during his period of greatest fame later in life, would have encountered a different scholar with different interests than the Knies of 1857.

Knies' American students dated from his later period. He may or may not have remained interested in advertising; there is no record. None of the essays in the Festschrift with which his students honored him during the last decade of his life deals with advertising. Presumably the Americans who were attracted to Knies were interested in money and credit, and in his methodological work on historical economics. It is not surprising that they did not bring back his theory of advertising. Very likely most of them shared the still-conventional view that advertising was not a suitable subject for serious scholarship; Knies, who was known for tolerating diverse viewpoints, would have not have insisted that students or colleagues accept his own views (See Schumpeter 1954, pp. 539-540). He would not, for example, have tried to dissuade his American student John B. Clark from the belief that advertising was sheer economic waste.

CRITICALLY EVALUATING KNIES' ACHIEVEMENT

The temporal context amidst which Knies worked, combined with his "keenness and penetration of reasoning powers" (Cohn 1899, p. 492), enabled him to see advertising with a freshness which would be impossible to achieve now. Moreover, Knies' theory has held up well. Knies was an important prophet of modern advertising. He was the first to articulate systematically the basic issues about the role and usefulness of advertising, to businesspeople and buyers on the micro level, and to society at the macro level. Before anyone else he realised that advertising had to be understood within the framework of communication theory, that its psychological effects had to be investigated, and that understanding of media was essential. He perceived that advertising provided the opportunity to expand markets by efficiently reaching large and dispersed audiences--but also that it exposed advertisers to the risk of disbelief and ridicule from such audiences.

KNIES' LIMITATIONS

Though brilliant, Knies' work does have some limitations. He said little about persuasion, which in the 20th century has been a major issue in both advertising thought and practice. He did not foresee that the growth of advertising would bring clutter, which could work against the efficacy of many advertisements. The clutter problem is particularly serious today in the advanced economies, above all in the United States. Knies' enthusiasm about advertising reflects an optimism which few would accept fully today. In the hands of the unscrupulous--and the tasteless--advertising's power poses a greater risk to social and cultural wellbeing than Knies realised. Advertising can spread deliberate misinformation and deception; Knies tended to see only useful information. His assertion that advertising lessens price differentials appears one-sided today. We are ambivalent about advertising's impact on prices, arguing on the one hand that it can differentiate products hence permit higher prices, and on the other that by making information available it encourages competitive pricing.

WHAT CAN WE TODAY LEARN FROM KNIES?

Two important lessons can be derived from Knies' work. The first involves its intellectual history, the second its usefulness to managers and scholars today. The slow reception of Knies' theory of advertising is a powerful example of how innovative thought may be ignored by serious thinkers. It also illustrates how the development of advertising thought has been influenced by both personal characteristics--Knies' shifting interests and obtuse literary style--and by cultural/intellectual fashion--the long-held conviction that advertising was an unworthy subject for serious analysis. As several distinctive schools of economic analysis battled over a set of issues which dated to Adam Smith (1776), they ignored completely the ever-bigger elephant which the growth of advertising was putting in the middle of the room of economic life. Their reasons for doing so were more reflective of intellectual snobbery and intellectual dogmatism, than of evidenced critical reasoning. But there is no reason for us today to feel superior. Doctoral students and untenured faculty still today encounter dogmas about what are and what are not "suitable" topics for scholarly investigation--in marketing and communications as in other disciplines--and these dogmas may pose the same risk to innovative thinking that those of Knies' contemporaries did.

The fact that U.S. advertising scholars remained unaware of Knies' theory points up how ignorance of thought from outside the country can retard the discipline's progress.

Knies' work provides one of the finest arguments for advertising ever given, one which may be used by academics and practitioners alike. He had grown up in an environment where there was relatively little advertising, in which many markets were still tiny and isolated, and in which many businesspeople still had to transact all of their exchanges in person. As a young adult he witnessed an enormous expansion of advertising--he personally observed, therefore, the benefits which large-scale advertising brought to economic, cultural, and social life.

He was able to see beyond the tawdriness and excess which obsessed advertising's critics in his time and later. Knies' arguments remain telling rejoinders to the criticism that advertising necessarily promotes deception. The shadiest businesspeople, according to Knies, are those who hide in silence, not those who appear before publics to advertise. Too, those who come forth with absurd messages, become the subjects of derision and jest a point which current advertising thought slights, despite recent reports of the vigorous efforts by automobile manufacturers to restrain buffoonery among their retail dealers in the United States.

MANAGERIAL IMPLICATIONS

For the contemporary advertising manager Knies offers a powerful rationale for energetic promotion which may disarm vocal critics, guidelines to effective practice, and a perspective of enormous value in understanding the expanding international markets in the "Second" and "Third" Worlds. Knies perceived an essential economic role for advertising. A dynamic, expanding economy, he argued, cannot exist without far-flung and efficient exchange of information; and advertising is the irreplaceable source of much of this information. To a manager today considering entering a former Communist country, where attitudes antithetical to advertising have had wide currency, Knies' arguments have particular value. Under Communist rule, product advertising was severely limited if allowed at all and people were taught to distrust for-profit enterprise. The only heavy advertisers were the since-discredited political leaders, who example filled billboards and other media with pompous self-praise. In such environments the social value of commercial advertising needs to be asserted very effectively; Knies provides the most telling message.

Knies' work can also aid the manager who is entering a Third World developing country, where advertising has hitherto been limited by illiteracy, state-owned media monopolies, and by the existence of sheltered parastatal and private ventures which could survive without a customer orientation. These barriers to advertising are falling now. As powerful world economic trends encourage a new era of commercial outreach into the developing world, managers will contend with environments where advertising is not yet widespread--environments analogous to that which Knies experienced. Instead of perceiving advertising through the world-view of one who has grown up amidst its massive and pervasive use, a manager would gain far more insight by attempting to perceive it as Knies did.

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