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Services in Society and Academic Thought: An Historical Analysis

Stephen L. Vargo and Fred W. Morgan

This article traces the development of economic activity and the sociopolitical, philosophical, and scientific agenda from which the present goods-centered paradigm of marketing emanated. The authors suggest that the services-centered model of exchange, abandoned during this development, is more appropriate for the advancement of the understanding of exchange relationships.

Keywords: *service marketing; marketing history; economic history; service-dominant logic*

The science of marketing focuses on exchange relationships (Hunt 1991) is based on explanatory concepts inherited from economics more than a century ago. Classical and neo-classical economics look at relationships among supply, demand, and value of tangible goods, especially manufactured goods. This limited focus, in turn, is rooted in the philosophical and scientific thought that preceded the development of economic science as well as in the intentional limited purposes of its early scholars.

The focus of marketing has shifted from tangible goods and activities associated with their delivery to include the exchange of activities (i.e., service provision). The growing interest in services has been attributed in part to the existence of a structural shift in mature economies from production-dominant toward services-dominant economic activity, labeled the “post-industrial society” (see, e.g., Bell 1953; Noyelle 1983) and the “services economy” (e.g., Giarini and Stahel 1989; Riddle 1986). Others posit that the shift is related to practitioners’ interest in human relations aspects of “product differentiation” (Berry and Parasuraman 1993) and the view that “goods” do not characterize all of exchange (Shostack 1977).

Given marketing’s foundation in economic science, this shift has given rise to a dichotomy in the way we think about what is exchanged. That is, since marketing is grounded in the inherited notion that the unit of exchange is goods, services must be a different type of good or “intangible product.” Services thus became defined residually—services are what

agriculture, extracted, and manufactured commodities are not. Therefore, early research on services focused on the explication of these differences (e.g., Zeithaml, Parasuraman, and Berry 1985). This dichotomy has led to the creation of a subdiscipline of services marketing.

We argue that this dichotomy limits our fully understanding exchange processes (Shostack 1977; Vargo and Lusch 2004a). Service is more than merely what goods are not. Service represents activities that provide benefits for another party, and these activities are primarily what are exchanged in markets. Some of these activities result in goods, or appliances, that derive their value through service provision.

Thus the purposes of this article are to reexamine economic activity, the role of service, and the goods versus service question from a historical and a service perspective. We suggest that the present dichotomy is an artifact of the governing paradigm rather than the result of empirical or rational analysis. From this perspective, we conclude that service activities emerge as essential ingredients of the economic interdependence that we call civilization (Bastiat [1848] 1964; Riddle 1986). We argue that service, rather than goods, is the common denominator in exchange. The historical perspective presented herein¹

- indicates the essential role of service in societal development;
- traces the inextricably intertwined philosophical, sociopolitical, and scientific developments that have resulted in the static, goods-driven economic model from which service has inherited its subservient role; and
- suggests a reformulation that may be necessary before the role of service can be appropriately advanced.

FORMAL ECONOMIC THOUGHT

Foundations of Formal Economic Thought

Every history has its own history, usually a series of converging histories. The history of the development of civilization is more a history of mutual service than of things: a

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history of the development of the specialization of labor, both mental and physical, and the exchange that necessarily accompanies this specialization. The view that exchange can be understood in terms of innate properties of tangible things, which only sometimes are used as vehicles for exchange, is a recent paradigmatic development. It is attributable to the convergence of the philosophical, sociopolitical, and scientific thought that dominated the Industrial Revolution and is a direct result of intellectual choice associated with the development of formal “economic science” that emerged during this period.

For most scholars, the temporal line of demarcation for both the Industrial Revolution and the beginning of modern economic thought is the publication of *The Wealth of Nations* by Adam Smith ([1776] 1904). Smith neither invented economics nor did he cause the Industrial Revolution. He did, however, explicate and integrate the dominant “world views” that served as the foundations of both. Among these were (see Bell 1953; Delaunay and Gadrey 1992; Schumpeter 1954)

- the Aristotelian view of *social virtue* being defined in terms of the degree to which an individual’s service contribution—especially the conceptual contributions of government—provided for the common benefit of society, modified by the more recent Christian precept of the virtue of labor;
- the mercantilist idea that what was good for society was the production of surplus tangible commodities that could be exported in exchange for precious metals;
- the philosophy that social exchange and civilization were governed by *natural law* and that the normative laws of society should be derived from the laws of nature; and
- the related view that while the *laws of nature* could not be changed, humans, through scientific discovery and rationality, could master them. The model for this mastery of nature by science was *Newtonian mechanics*, a model of things (matter) having innate properties and relationships to other things that could be manipulated by human effort.

Smith ([1776] 1904) integrated these views into a model of normative economics. He transformed Aristotelian virtue into the view of what was “productive,” which he defined in terms of the contribution to national wealth. He held to the mercantilist idea that natural wealth was created through production of tangible surplus for export but insisted that this process was governed by the “invisible hand” of natural law rather than the restrictive laws of man. To the land and agricultural labor foundations of productivity proposed by the physiocrats, he added the labor of industry and capital, the embodiment of past labor. Value was a property of tangible things, derived from the rent of land, capital, and labor that created tangible objects.

“Productive” and “Unproductive” Services

Like most scholarly pursuit at the time, the formal development of economic thought generally developed within the confines of the university. Though the Church had lost its

dominant grip on these institutions, the structure that emanated from its influence had not. Economic thought developed from *moral philosophy*. Its focus was as much a normative concern for what was right and *good for society* as a positive concern for *how economic activity functioned*. Those scholars who provided the services of formal inquiry were “political economists.”

Not all economic philosophers agreed with mercantilist thought. For instance, Hume (1752; see also Marshall 2000) recognized the necessity of the merchant not only in external trade but also in the internal creation of industry. Hume documented the fallacy of the imbalance of trade, which he saw as driving up the cost of capital and prices. He favored free and extensive trade but felt that a nation could be economically powerful without it.

François Quesnay (1694–1774), a natural law philosopher, founded the “physiocratic” school, as much a political movement as an economic philosophy. Quesnay (1962; see also Bell 1953) regarded land and agriculture as the driving forces underlying a nation’s economy. He recognized that production (agricultural services) resulted in a monetary surplus that would circulate through society and eventually return to agriculture to reproduce the surplus. He defined all other services, except those engaged in agriculture, as “sterile.” While extractive, manufacturing, and merchant services were necessary, they transformed and moved resources but did not create them. Only agriculture services produced the surplus that supported the rest of society.

Like Quesnay, an acquaintance, and Hume, a friend, Adam Smith (1723–1790) was a natural law philosopher. He derived his political economic views from the essential proposition of the efficiency of the “division of labor,” resulting in the necessity of “exchange.” For Smith, ([1776] 1904, 1), labor was the “fund which originally supplies (the nation) with all the necessities and conveniences of life which it annually consumes.” Thus, labor, the application of mental and physical skills (i.e., services), served as the foundation for exchange.

Though laying the foundation for the explanation of exchange and value, Smith ([1776] 1904) was not concerned with all of exchange. He was a moral philosopher seeking the normative explanation for how some services (types of labor) could contribute to national well-being through the production of surplus commodities that could be exported for trade. In effect, Smith’s theme was an updated version of Aristotle’s treatment of virtuous services. To Quesnay’s agriculture, Smith added the tangible products of the increasingly developing industry to the equation of national wealth determination.

Smith’s ([1776] 1904) narrowed focus can be seen in his discussion of “productive” and “unproductive” services—a discussion on which he is frequently misquoted. He is credited with the view that services are not valuable. This

attribution is usually grounded in some portion of Smith's statement that

the labor of some of the most respectable orders in society is . . . unproductive of any value, and does not fix or realize itself in any permanent subject, or venerable commodity which endures after that labor is past, and for which an equal quantity of labor could afterwards be produced. The sovereign, for example . . . produces nothing for which an equal quantity of service can be afterwards procured. (P. 314)

To this unproductive group, Smith ([1776] 1904, 314) added "churchman, lawyers, physicians, men of letters of all kinds, players, buffoons, musicians, and opera singers." Smith did not argue that services were not useful or unnecessary for individual well-being, just that some services were unproductive in terms of his national wealth standard. He noted that services such as those of physicians and lawyers were "useful" and "respectful" and "deserving of higher wages," but they were not productive in the contribution to surplus commodities. He did identify "those who undertake the improvement or cultivation of lands, mines, and fisheries," "manufacturers," "wholesale merchants," and "retailers," in that order, as examples of services that were both useful and productive since they were necessary for the production and trade of commodities.

Smith ([1776] 1904, 30–31) identified "real value" as the quantity of labor that was required to afford the "necessities, conveniences, and amusements of human life" through the labor of others. But Smith's focus was not on all exchange, just on the exchange of commodities that could contribute to national wealth. So having established that the exchange of labor, or services, was the fundamental source of real value, he partially abandoned this discussion and shifted his attention to "nominal value"—the price paid in the marketplace. Smith felt that people could more easily think in terms of quantities of things rather than quantities of labor, and his concern was with the former. This refocusing eased Smith's normative task of explaining how trade contributed to national wealth. However, he now faced the paradox of two standards of value, one based on consumption—*value in use*—and the other based on trade—*value in exchange*. And as noted by many of the economic scholars who followed him, it also limited the generalizability of the economic philosophy and economic science that developed from his work.

Jean Baptist Say (1767–1832) disagreed with Smith's treatment of services. For Say (1821), production was the creation of "utility," not matter. He defined services as those activities that are "consumed at the time of production itself" and described them as "immaterial products." Say's most notable contribution to economic thought was what became known as Say's law, the contention that production would generate an equivalent demand that would in turn generate employment in production.

John Stuart Mill's (1806–1873) treatise *Principles of Political Economy* (1848) was the most successful text on the subject in the second half of the nineteenth century (Schumpeter 1954). However, his treatment of services can be characterized as an exercise in reluctant resolve. Mill ([1885] 1929, 44) took exception to the practice of political economists of classifying labor as unproductive unless it resulted in some material object capable of being transferred: "production not being the sole end of human existence, the term unproductive does not necessarily imply any stigma." He recognized that since "no human being can produce one particle of matter" (p. 45), production of objects only represented the rearrangement of matter. He believed, like Say, that the value of production was *not in the objects* themselves, but in their *usefulness*. Therefore, labor was "not creative of objects, but of utilities" (pp. 45–46). Consequently, he asked, "Why should not all labor which produces utility be accounted productive," including labor that creates "utilities not fixed or embodied in any object, but consisting of a mere service rendered?"

Having established his case for all labor being viewed in terms of services resulting in utilities, Mill had difficulty reconciling this notion with the "received meaning" of "wealth" and acquiesced to the more popular understanding of wealth as "only what is called material wealth, and productive labor only those kinds of exertion which produces utilities embodied in material objects" (pp. 45–46). However, Mill ([1885] 1929, 48) asserted that this reluctant acceptance did not restrict "labor which yields no material product as its direct result, provided that an increase of material products is its ultimate consequence" from being considered productive. Mill had tried to "break free" from the emerging goods-centered paradigm but found it too compelling.

As Kuhn (1962) later pointed out, paradigms are both perceptually potent and normatively prescriptive. To be a "political economist" was to accept the moral prerequisite of the virtue of national wealth, and as Mill noted, national wealth had come to mean tangible production. Mill, like many of the economic philosophers of his time, was forced to reel himself in from a more positive analysis of the way economic activity works.

Equally important was the more generalized paradigm from which Mill did not retreat. The paradigm was evident in Mill's language. His statement that "labor . . . is always and solely employed in putting objects in motion; the properties of matter, the laws of nature do the rest" (Mill [1885] 1929, 25) clearly reflects the influence of the dominant Newtonian worldview. For Mill, as for Say, one of these properties of matter was utility. This notion of utility gave the economists a quantifiable unit of economic mass that not only allowed them to proceed with the development of positive science (Keita 1992) but also partially relieved them of the necessity to defend the tangibility requirement of productive labor.

Frederic Bastiat: The First Services Scholar?

Frederic Bastiat (1801–1850) did not ascribe to the accepted wisdom. He was critical of the political economists' position necessitating value being tied to tangible objects. For Bastiat (1860, 40), individuals who have "wants" and seek "satisfactions" were the foundation of economics. These satisfactions could be appeased by utilities of two kinds: (1) "gratuitous utilities" that were provided by Providence and (2) "onerous utilities" that must be purchased with effort. A want and its satisfaction were seen as specific to a single individual, while the effort required for the associated onerous utility was seen to often reside in other individuals. For Bastiat (1860, 43), "It is in fact to this faculty . . . to work the one for the other; it is this transmission of efforts, this exchange of services, with all the infinite and involved combinations to which it gives rise, through time and through space, it is THIS precisely which constitutes Economic Science, points out its origin, and determines its limits." Value was therefore seen as the "comparative appreciation of reciprocal services" exchanged to obtain utility. Like Mill ([1885] 1929), he recognized that humans could not create matter; rather, they transform it, through service, into a state that could provide satisfaction. Since the value of this matter resided in the service, and since material things that required no effort to provide utility (gratuitous) could not have value, it followed that material things cannot possess value. Bastiat ([1848] 1964, 162) summarized his view as follows:

The great economic law is this: Services are exchanged for services. . . . It is trivial, very commonplace; it is, nonetheless, the beginning, the middle, and the end of economic science. . . . Once this axiom is clearly understood, what becomes of such subtle distinctions as use-value, and exchange-value, material products and immaterial products, productive classes and unproductive classes? Manufactures, lawyers, doctors, civil servants, bankers, merchants, sailors, soldiers, artists, workers, all of use, such as we are, except for the exploiters, render services. Now since these reciprocal services alone are commensurate with one another, it is in them alone that value resides, and not the gratuitous raw materials and in the gratuitous natural resources that they put to work.

Fellow economists criticized Bastiat's views as not being economic theory (Schumpeter 1954). He had not accepted the dominant paradigm.

The Science of Economics

Say's concept of utility had been firmly implanted into economics by the middle of the nineteenth century. Utility could be treated as an embedded property of matter. With utility as an economic unit of analysis, the issue of use value could be ignored; value in use had been transformed to an

embodied property, essentially equivalent to value in exchange. The stage was set for turning economic philosophy into economic "science," in the Newtonian tradition.

Leon Walras ([1894] 1954) saw the function of pure economics as the theoretical determination of price. He felt that

all things, material or immaterial, on which a price can be set because they are scarce (i.e., both useful and limited in quantity), constitute social wealth. Hence pure economics is also the theory of social wealth. (P. 40)

Walras reasoned that the failure of most economists to include immaterial services of capital goods precluded the development of a pure science. He broke down the "services of capital goods" into "consumers' services" that have direct utility and "producer services" that have only indirect utility. Like Bastiat (1860), Walras ([1894] 1954, 225) acknowledged, "We may . . . simply consider the productive services as being exchanged directly for one another, instead of being exchanged first against products, and then productive services." He recognized that this had been Bastiat's original concept but felt that Bastiat "meant only personal services."

Walras's primary interest was the development of a pure theory of economics. For Walras ([1894] 1954, 29–30), pure economics was "a physio-mathematical science like mechanics and hydraulics and its practitioners should not fear to employ the methods and language of mathematics." Given the generalized concept of utility and his physio-mathematical perspective, his acknowledgment of services being exchanged for services could be abstracted away. As Walras asserted,

Following this same procedure (as physio-mathematical science), the pure theory of economics ought to take over from experience certain type concepts, like those of exchange, supply, demand, market, capital, income, productive service and products. From these real-type concepts the pure science of economics should then abstract and define ideal-type concepts in terms of which it carries on its reasoning. The return to reality should not take place until the science is completed and then only with a view to practical application. (P. 71)

Walras's ([1894] 1954) equilibrium theory was a mathematical derivation of the relationship among supply, demand, and price, based on the notion of the well-established "ideal-type" concept of utility, after employing a number of assumptions: (1) each individual has a utility curve for each good and service; (2) each individual will maximize his or her utility by exchange; (3) the greatest satisfaction will be attained when the price paid equals the marginal utility of the last purchase; and (4) the supply of each good and service is equal to the demand. Given these assumptions, Walras arrived at a static equilibrium where the price of each good and service would

be equal to the long-run cost of production (Bell 1953). For Walras, economic thought had finally caught up with the Newtonian model of a mechanistic, deterministic, rational, and certain world; hence, economics could be deemed a legitimate “science.” An artificial “economic man” had been created and substituted for the “inanimate Newtonian body in motion.” While the latter’s behavior was determined by Newton’s laws of motion, the former was motivated by the notion of utility and profit maximization (Keita 1992, 56).

Alfred Marshall (1842–1924) has been credited even more than Walras with the development and propagation of equilibrium theory (Schumpeter 1954). However, Marshall ([1890] 1927, 323–24) cautioned that there are

many problems with (the notion of equilibrium); . . . it is not descriptive, nor does it deal constructively with real problems; . . . it aims not so much at the attainment of knowledge, as at the power to obtain and arrange knowledge with regard to two opposing forces, those which impel man to economic efforts and sacrifices, and those that hold him back.

Unlike Walras’s “pure science” view, Marshall ([1890] 1927) saw “tendencies” toward equilibrium that were discoverable by the science of economics. These tendencies could be stated as normative “laws” if the caveat, *ceteris paribus* were fully understood by the reader. He found little use for distinctions between unproductive and productive labor. But much like Mill ([1885] 1929, 66), Marshall did adopt the convention of using the word “productive, by itself . . . to mean productive of the means of production, and of durable sources of enjoyment,” though he cautioned, “It is a slippery term, and should not be used where precision is needed.”

Thus, by the end of the nineteenth century, the same economic scholars often proffered parallel models concerning economic activity (see Delaunay and Gadrey 1992). The first perspective was a services-centered model that viewed economics in terms of the discrete and collective relationships between (among) specialized service providers exchanging services with other specialized services providers. It was intimated by Say, implied by Mill, explicated by Bastiat, and acknowledged by Walras.

The second view was a goods-centered model that attempted to describe economics in terms of abstract relationships between consumers and goods on one hand and producers and goods on the other. According to this model, what brought consumers and producers together was their common interest in goods. This interest was explained by assuming “goods” to be embedded with an abstracted property of utility or value. Consumers had utility curves for goods, which resulted in a demand function, and firms had cost curves for the production of goods, which resulted in a supply function. The “good” was the concept that brought these two curves together.

This latter model of economic activity was more compatible with the political prerequisites of the political economists’ view of materialistic virtue. Coupled with the assumptions of profit maximization, perfect information, perfect rationality, and stable and homogeneous supply and demand functions, the model was also more compatible with the “scientific” and mathematical prerequisite of the natural sciences. To mathematize the economic world, it had to be highly abstracted through many simplifying assumptions, one of the most central being that of the “good” as the unit of analysis for modeling firms via their supply functions and consumers through their demand function. Firms were viewed as selling homogeneous goods, and buyers had demand or utility functions for these homogeneous goods. Therefore, because of the desire for scientific respectability, the goods-centered paradigm survived. The services-centered model, including the work of Bastiat, became a footnote to economic science. Economics and the derivative disciplines of marketing and management emerged and developed from this goods-centered paradigm.

The Emergence of Marketing Thought

Economic science provided the foundation for the emergence of marketing as well as some of the urgency. Economics in its pure science form was lacking in the practical potency required by commerce and industry at the turn of the century. “Scientific management” had attacked issues of production efficiency and in so doing had exacerbated two related problems, distribution and oversupply. As Bartels (1986, 32) characterized the situation,

There remained, therefore, a gap in the theoretical explanation as social and economic conditions departed increasingly from the assumptions concerning the market on which trade theory was built. Competition no longer characterized some markets; demanders and suppliers were further removed from each other; customary relations of demand and supply were becoming reversed; and new patterns of living were evolving. New interpretations of economic activity were needed, as were new applications of management science to distributive business. These needs nurtured the discovery of “marketing.”

As with most emerging disciplines, early efforts focused largely on justification, differentiation, and classification. Shaw (1912) is generally credited as being the first to write a scholarly article on marketing (Sheth and Gross 1988). Shaw discussed distribution from the producer’s viewpoint and traced the development of the middleman from barter economies (nonexistent) to “a relatively efficient organization of production,” brought on in part by “scientific management” that “has outstripped the existing system of distribution” (p. 295). He believed that producers were moving toward the

elimination or reduced use of some middlemen, especially wholesalers, and the replacement of their necessary functions with “functional middlemen.” Shaw was identifying the increasing specialization in marketing services—sharing the risk; transporting the goods; financing the operations; selling; assembling, assorting, and reshipping; and the “functional middlemen” as institutions such as banks, insurance companies, and transportation companies. He acknowledged that middlemen could not be eliminated in all cases and foresaw problems with their wanting traditional compensation while performing only part of the functions.

This issue of the value and justification for the middleman and the distribution function occupied much of early marketing thought. The influence of the manufacturing perspective that was inherited from economics is evident in Shaw’s (1912, 12) contention that “industry is concerned with the application of motion to matter to change its form and place. The change in form we term production; the change in place, distribution” (see also E. Shaw 1994). He further classified this nonform utility to time, place, and conditions (e.g., ownership).

Weld (1916, 317), an economist, saw marketing as a production function. He extended Shaw’s reasoning by arguing that production was “the creation of utilities,” specifically form, time, place, and possession utility. Manufacturing and agriculture were concerned with the first of these utilities, marketing with the remainder. He saw marketing as a further division of labor employed for greater efficiency and questioned why division of labor was praised when used in manufacturing but mistrusted in distribution, especially in agricultural consumption. He argued that most misunderstandings were based on the general lack of a body of knowledge dealing with the role of marketing in utility creation in economic systems. He outlined the role of wholesale and retail agents that specialized in different aspects of the efficient marketing of commodities, primarily agricultural. The lingering mistrust of marketing intermediaries is evident in both of these articles.

The orientations spawned by these early marketers were later designated the functional and institutional schools, respectively (Bartels 1986; Sheth and Gross 1988). A third school differentiated marketing functions according to types of commodities being distributed. Copeland’s (1923) convenience, shopping, and specialty goods classification was generally considered to be seminal to this commodity school (Sheth and Gross 1988).

Early marketing thought represented an era of legitimization—both of the value of marketing functions in economic activity and of the emerging discipline itself—delineation, and modest integration of divergent perspectives. During the 1920s, interest in research methods and procedures developed and were integrated into both market and marketing research by proponents of all three schools (Bartels 1986; see

also Jones and Monieson 1990; Keep, Hollander, and Dickinson 1998).

The Depression and Postwar Years

The depression of the 1930s had a profound impact on thought in all disciplines concerned with economic society. Say’s law, backed by more than 100 years of “proof,” had become the fundamental tenant of economic progress. But in the years following the financial market crash of 1929, the world was reminded that Say’s law, like all economic laws, was subject to the *ceteris paribus* caveat (Keynes 1935). All economic, political, and social welfare thought that had evolved during hundreds of years became subject to scrutiny and reevaluation. Government intervention increased in the form of participation in and regulation of business. Government functions, at least since the time of Smith, had been considered services and, whether viewed as productive or unproductive, distinct from production. So with the depression came a substantial increase in employment that was classified as service.

During this same period, Fisher (1935) distinguished among the roles of the primary (agriculture), secondary (manufacturing), and tertiary stages or sectors in evolutionary economics. Fisher (1935, 28) saw the emergence of the tertiary sector as a twentieth-century phenomena. But like Smith ([1776] 1904), Fisher has often been misquoted. He did not say that services are equivalent to the “tertiary” sector, only that some of Smith’s unproductive activities may be considered productive in terms of labor that is useful to societies that have progressed beyond the basic needs of agriculture and manufacturing. Nonetheless, the notion of services as tertiary, though productive, activities has generally been attributed to Fisher (1935; see also Clark 1940). Vargo and Lusch (2004a) have more recently suggested that all economies are service economies, and the view that services are tertiary is grounded in goods-dominant logic of exchange (see also Riddle 1986, 28).

Marketing thought during the 1930s continued to develop within its commodity-functional-institutional framework, but did respond to changes in the economic and social environment. In the face of urban to suburban population shifts and the beginning of consumerism, marketing scholars began shifting their attention toward “the alteration of traditional distribution channels, the conformation of distributive activity to new social values and controls, recognition of consumer interests as the primary objective of marketing effort, and the evolution of marketing as a solution of new types of market problems” (Bartels 1986, 201).

During the economic expansion of the 1950s, marketing thought evolved and expanded as well. Demand was high, but so were production and competition. Academic marketing thought began to shift from aggregate analyses toward issues

concerned with the role of marketing in the exchange process. Two important views emerged: the “consumer behavior” and “marketing management” schools (Sheth and Gross 1988). Both were grounded in the “marketing concept,” the notions that the market is driven by consumers’ desires, the firm’s goal is profitable sales volume, and all activities of the firm should be integrated to meet these needs. Consumer behavior focused on the first of these ideas. Borrowing heavily from psychology, consumer behavior focused on consumer choice, the role of habitual behavior, information acquisition, perceptions of satisfaction, and postpurchase behavior. Marketing management, relying on management and management economics, was concerned with normative issues of product differentiation, market segmentation, market penetration strategies, and later concepts of relationship and internal marketing (for a more comprehensive view of these schools, see Sheth and Garrett 1986; Sheth and Gross 1988).

Marketing scholars also began to shift their orientation from selling and the movement of goods to the study of the process of exchange (e.g., Alderson 1957; McInnis 1964). This shift was a significant departure from economic thought and the foundation on which economic science was built. For marketing, the orientation was becoming not so much *national well-being* as the *individual’s perception of well-being*. This change in perspective implied the need for a similar shift in the treatment of the concept of utility toward usefulness or value in use and away from utility in terms of value in exchange.

What happened, however, was more of a bifurcation in the meaning of utility. As Dixon (1990, 337–38) noted in his discussion of Beckman’s and Alderson’s similar calls for a single, unifying concept of utility: “each writer uses a different concept of value. Beckman is arguing in terms of *value-in-exchange*, basing his calculation on value added, upon ‘the selling value’ of products. On the other hand, Alderson is reasoning in terms of *value-in-use*.” Dixon (1990, 342) further observed that

the “conventional view” of marketing as adding properties to matter, caused a problem for Alderson and “makes more difficult a disinterested evaluation of what marketing is and does” (Cox 1965). This view also underlies the dissatisfaction with marketing theory that led to the services marketing literature. If marketing is the process that adds properties to matter, then it can not contribute to the production of “immaterial goods.”

Alderson (1957, 69) had advised, “What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process of creating utility.” But economic theory based on the concept of embedded value was itself deeply embedded in marketing thought. During this period, services as an academic marketing concern began to take on an increasingly separate identity.

THE RISE OF SERVICES IN ACADEMIC MARKETING

References to services have been present since the origin of academic marketing thought, but services were typically described as “aids to the production and marketing of goods” (Converse 1930, vi; see Fisk, Brown, and Bitner 1993). However, notable exceptions exist. For instance, Converse (1930, 1936) included a chapter on the selling and marketing of services in his distribution and marketing texts. Converse (1936, 492) defined service broadly to include “all of those nonphysical things for which we spend money,” but noted the heterogeneity in characteristics of services resulting from this definition. Much of his discussion was focused on specific marketing approaches applicable to these “radically different” types of services. Breyer (1931, 1934), while not dedicating a specific chapter to services, did address the marketing of specific services, such as electric and telephone services, defined as intangible goods. Countless additional references to marketing issues concerning specific “service” businesses can also be found. Macklin (1922) took a somewhat more integrative view of services, especially in relation to production and marketing. He defined both as the “rendering of essential services” (Macklin 1922, 26–28) and maintained that production is in no sense complete until all of these services have been rendered.

A single precipitous cause for increased and focused attention to services, as distinct from goods, in academic marketing thought is difficult to pinpoint. Some of the reasons may have been

- an indirect outgrowth of the consumer behavior movement—recognition that consumer choice was not just a function of the utilitarian benefits of goods;
- due to the increased salience of services in academic and popular literature (e.g., Porat 1977; Stanbeck 1979) outside of marketing—the view that developed economies evolve into services economies (Berry and Parasuraman 1993);
- spurred by marketing and management practitioners’ interest in the human relations aspects of “product” differentiation (Berry and Parasuraman 1993); and
- initiated by the realization that marketing was concerned with the process of exchange, which could not be adequately understood from the economic science perspective of goods embedded with utility (Dixon 1990; Shostack 1977).

Regardless, the emergence of services marketing as a subdiscipline has been slow. Fisk, Brown, and Bitner (1993) called the pre-1980 period the “crawling out” stage of services marketing. They cited a number of dissertations (e.g., Johnson 1969; Parker 1958) devoted exclusively to service issues. The first services marketing articles (Judd 1964; Regan 1963; Rathmell 1966) were also published during this period, as was the first book (Johnson 1964). The foci of these early scholarly endeavors were generally the delineation of services from goods, as well as issues of management in the

marketing of intangibles. During this early period, the relative difficulty of defining services became apparent. Most attempts at defining services relied on exclusionary definitions—lists of services characteristics that differed from goods or illustration by example (Judd 1964). Rathmell (1966, 33–34) delineated most of what would later become the generally accepted differences between goods and services (intangibility, heterogeneity, inseparability of production and consumption, and perishability). Shostack (1977) noted, “The classical ‘marketing mix,’ the seminal literature, and the language of marketing all derive from the manufacture of physical-goods” and issued her challenge for services to break “free from product marketing.”

The next period (1980–1985) was characterized by the end of the goods versus services debate and by a focus on more substantive issues. Lovelock (1983) offered a set of matrices describing services from which management strategies could be derived; Zeithaml, Parasuraman, and Berry (1985) developed a conceptual model for understanding perceptions of service quality; and Solomon et al. (1985) outlined the components critical for understanding the service encounter.

The present period of services thought has been labeled “walking erect” and described by Fisk, Brown, and Bitner (1993, 74) as “a period of explosive growth in numbers of publications and increasing empirical and theoretical rigor in their content.” Their survey showed 720 journal articles, books, proceeding papers, and book chapters produced during this period, as compared to 287 and 120 for the second and first periods, respectively. They observed, “Not since the strong emergence of interest in consumer behavior in the 1960s has a field developed within the marketing discipline with the passion and determination of services marketing” (p. 62).

Berry and Parasuraman (1993) took a different approach in their analysis of the emergence of services marketing as a legitimate academic field but arrived at conclusion similar to that of Fisk, Brown, and Bitner (1993). Indicative of the paradigmatic potency of the goods-dominant model, they likened the development of services marketing to the “growth of a new product,” albeit an “intangible product.”

The analyses of Fisk, Brown, and Bitner (1993) and Berry and Parasuraman (1993) indicate that services marketing had succeeded in “breaking free from products marketing” (Shostack 1977). We acknowledge that service scholars have made major contributions to the discipline and that service marketing has gained the respectability of a full-fledged subdiscipline. However, the goods-dominant paradigm of exchange still serves as the foundation for marketing thought, regardless of whether tangible or intangible offerings are being discussed (Vargo and Lusch 2004a). More importantly, we question whether breaking free, at least in terms of establishing a subdiscipline, is the proper course for marketing (see Vargo and Lusch 2004b).

CONTEMPORARY TREATMENT OF THE ROLE OF SERVICES IN MARKETING

The influence of the goods-centered paradigm, with its manufacturing perspective, is evident in the ways service has been delineated in terms of managerial implications. Most attempts to define services have relied on residual meaning by first assuming a tacit definition of a “good” and then defining services in terms of how they differ. Judd (1964, 58) noted the difficulty in defining services and settled for a “definition by exclusion,” of a “market transaction by an enterprise where the object of the market transaction is other than the transfer of ownership (and title, if any) of a tangible commodity.” Rathmell (1966, 33–34) noted that “most marketers have some idea of the meaning of the term ‘good’ . . . but services seem to be everything else” and distinguished among “rented goods services,” “owned-good services,” and “non-good services.” Rathmell also found very few “pure goods” or “pure services” and settled on a continuum of goods and services. Lovelock (1983, 13) defined service as a “process or performance rather than a thing.” Bateson (1991, 7) avoided any formal definition or classification of services but said that both products and services deliver a “bundle of benefits” and settled for an “implicit assumption that service benefits are delivered through an interactive experience involving the consumer to a greater or lesser extent.” Solomon et al. (1985, 106) observed that “services marketing refers to the marketing of activities and processes rather than objects.”

The manufacturing perspective and the goods-dominant paradigm is manifest in the attempt to delineate the characteristics of services, also by contradistinction from goods (Vargo and Lusch 2004b). For instance, Lovelock (1983, 13) identified seven characteristic distinguishing goods and services. The most common of these residual definitions include one or more of the four service characteristics identified in Zeithaml, Parasuraman, and Berry’s (1985) review of the services literature:

- intangibility—lacking the palpable or tactile quality of goods;
- heterogeneity—the relative inability to standardize the output of services in comparison to goods;
- inseparability of production and consumption—the simultaneous nature of service production and consumption as compared to the sequential nature of production, purchase, and consumption that characterizes physical products; and
- perishability—the relative inability to inventory services as compared to goods.

These characteristics are often said to represent the disadvantages of services in relation to goods and therefore imply normative implications for services marketing managers (Zeithaml, Parasuraman, and Berry 1985, 44). But ought services be characterized by their antitheses, and are these disadvantages of services or merely remnants of the goods-

centered model of economics and a reflection of the manufacturing perspective (Vargo and Lusch 2004b)?

Scholars have noted problems with both the residual approach and these specific characteristics. Gummesson (1993, 32) points out two problems with using physical products as a point of reference: (1) "it presupposes that there is a fairly unambiguous definition of goods" and (2) "it forces services to exist on goods' conditions instead of allowing them to exist on their own conditions." Beaven and Scotti (1990, 7-8) stress the constraints imposed by trying to conceptualize services in terms of product antitheses and point out that the use of common descriptors both (1) fails "to differentiate between these two production processes and confuse(s) outputs with outcomes" and (2) "inhibits the development of services as a truly distinct subdiscipline."

Moreover, these attributes also characterize goods. Goods are tangible by definition, but consumers buy the services that goods perform for them, as well as other intangibles, such as the assurances of the brand. Consumers buy benefits. Homogeneity is desirable to manufacturers for the sake of production efficiencies, but consumers prefer goods that can be customized to their specific needs. As marketers work with buyers to implement mass customization programs, production and consumption of goods move closer together in time. Finally, goods are as perishable as services from a marketing perspective. Changes in taste, competitive product enhancements, and technology render goods obsolete, often before they are sold (see Vargo and Lusch 2004b).

Several authors suggest that goods and services can be described by varying levels of most, if not all, of these attributes (e.g., Beaven and Scotti 1990; Gummesson 1993; Riddle 1986; Shostack 1977; Swartz, Bowen, and Brown 1992). Shostack (1977) questioned "either-or" views of products versus services and called for a "molecular" model that describes market entities in terms of combinations of tangible and intangible elements with marketing strategies developed based on the relative weight of the tangible elements. Gummesson (1993, 29) questioned the utility of making distinctions between goods and services, asked if other classifications might be more meaningful, and asserted "what these dichotomies imply and how they contribute to greater understanding or effectiveness is unclear." It may be, as suggested by Beaven and Scotti (1990, 6), that the use of manufacturing-oriented descriptors to characterize services "may have been necessary to legitimize services management and marketing to traditional audiences," but service marketing is now considered a legitimate subdiscipline.

Riddle (1986, 28), took exception to a number of "myths" associated with the subordinate and subservient role of services fostered by manufacturing dominant perspectives (see, also, Gummesson 2000; Vargo and Lusch 2004b). However, while acknowledging the essential role of services, Riddle (1986, 28) seemed to maintain that the ultimate end of economic activity was production of goods:

The fallacies perpetuated by labeling the service sector as "tertiary," "residual," or "post-industrial" have been explored. Because of the inadequacy of prior definitions of services, major misconceptions about the perishability and intangibility of services have persisted... Services are the glue that holds any economy together, the industries that facilitate all economic transactions, and the driving force that stimulates the production of goods.

As noted, Alderson (1957, 69) advised, "What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process of creating utility." Shostack's (1977) call to "break free from product marketing" urged more than the creation of a subdiscipline. She opined that "if 'either-or' terms (product vs. service) are inadequate, then it makes sense to explore the usefulness of a new structural definition." Similar to Alderson, she argued for a "new conceptual framework" and suggested,

One unorthodox possibility can be drawn from direct observation of the nature of market "satisfiers" available to it. . . . How should the automobile be defined? Is General Motors marketing a *service*, a service that happens to include a by-product called a car? Levitt's classic "Marketing Myopia" exhorts businessmen to think exactly this generic way about what they market. Are automobiles "tangible services"?

Similarly, Gummesson (1993, 250) argues that

customers do not buy goods or services: they buy *offerings* which render services which create value. . . . The traditional division between goods and services is long outdated. It is not a matter of redefining services and seeing them from a customer perspective; *activities render services, things render services*. The shift in focus to services is a shift from the means and the producer perspective to the utilization and the customer perspective.

We agree with Alderson, Shostack, and Gummesson and feel this shift implies a movement away from the goods-centered, value-in-exchange model of economics to a value-in-use perspective. We believe this shift implies a view that service is the common denominator in exchange.

TOWARD A RECONSIDERATION OF THE ROLE OF SERVICE

One purpose of this review of economic development and academic thought has been to suggest that our ability to "break free" is constrained by paradigms with deep historical roots. Among these roots are (1) the notion of virtuous contribution to the common good; (2) the system of self-regulation developed by the Romans; (3) the mechanical, deterministic, static, and certain model of Newtonian physics; (4) the physiocratic and mercantilist conception of tangible

necessity; (5) the moral and political agenda of the political economist; and (6) the marginal utility and equilibrium theories of economic science. The explication of these historical antecedents is not intended to imply pejorative connotations. They are offered simply to illuminate the restricted vision with which we now attempt to understand exchange in general.

These constraints do not just affect how we formulate answers to our inquiries; more significantly, they affect how we frame the questions. The question of how service differs from goods is intractable. The question of how they are related is not.

We argue that in the division of labor and specialization that creates the interdependent interactions that we call society and civilization, service, and only service, is exchanged. Service is the exercise of specialization. Service is the application of specialized competences (skills and knowledge), through deeds, processes, and performances for the benefit of another entity or the entity itself (self-service; Vargo and Lusch 2004a, 2). Some of these activities involve the rearrangement matter and result in tangible output. If tangible output is produced and exchanged economically, the tangible product is a "good," or appliance; goods are economically exchanged, tangibilized services. They are intermediate artifacts of service provision that allow the indirect transfer of specialization.

This construal is not novel. Several contemporary scholars have intimated this relationship between service and goods (e.g., Gershuny 1983; Gronroos 2000; Gummesson 1993; Riddle 1986), and Vargo and Lusch (2004a) have more fully explicated the relationship. Furthermore, this interpretation is consistent with the services-centered explanation of economic activity espoused, but not adopted, by a number of political and classical economists, with the exception of Bastiat. Perhaps he was correct all along!

Why does any of this matter? What do we gain by viewing goods as a special case of intermediate service provision rather than both as alternate types of output? A full explication of all potential ramifications is beyond the scope of this article (but see Vargo and Lusch 2004a, 2004b); however, some general observations are offered.

First, consistent with (Vargo and Lusch 2004a), we believe that a service-dominant logic of exchange may be more integrative than the goods-dominant logic. The role of goods can be explained in terms of service, but service cannot be adequately understood from a goods perspective (Dixon 1990). Thus, it is more useful to view marketing, both positively and normatively, from a service-dominant paradigm than from the limited perspective of the physical products that are only sometimes involved.

Second, the goods-dominant paradigm was adopted for specific reasons, one of the most compelling being the desire to establish economics as a science at a time when science was defined by the Newtonian paradigm. Science is no longer

so restrictively defined. Even as economics was legitimizing itself and marketing was establishing its own identity, Darwin (1859) was developing the foundation for more dynamic evolutionary models; Einstein (1920) was establishing the concept of time as a basic variable in scientific thought; Heisenberg (1926) was finding that at least in quantum mechanics, the indeterminacy of initial states undermined the deterministic notion; and others were showing that this "uncertainty principle" was not just a quirk of quarks.

More recently, scholars from diverse disciplines (e.g., Gleick 1987; Holte 1993; Prigogine and Stengers 1984) have explored nonlinear, dynamic systems under the rubric of "chaos" theory. Much as the uncertainty principle had undermined the premise of classical deterministic predictability, chaos theory has undermined the conclusion (Peitgen 1993). Even more significantly, scholars studying complexity are starting to make sense of how order, structure, and life emerge from chaos. Indications are that information exchange (mutual service provision) may be the central and essential activity (e.g., Holbrook 2003; Prigogine and Stengers 1984; Waldrop 1992). These recent and emerging paradigms are dynamic, interactive models of exchange, characterized by relationally determined outcomes emerging from conditions of disequilibria. They are models with which a relational, services-dominant logic of exchange is compatible. The more static model of homogeneous products being exchanged for other homogeneous products is incompatible.

Finally, a number of marketing scholars have been trying to distance the discipline from the perceptual and analytical constraints of classical economics theory. For example, Houston and Gassenheimer (1987) define marketing as the study of potency variation achieved through exchange processes and point to a number of ways the assumptions of marketing differ from those of economics. Dickson (1992) takes exception with microeconomic assumptions of perfect knowledge and perfect rationality and proposes a theory of "competitive rationality," which assumes imperfect procedural rationality, limited knowledge, and uncertainty and is based on disequilibrium analysis. Similarly, Hunt (2000) and Hunt and Morgan (1995) take a stand against the perfect competition and rationality assumptions of classical and neoclassical economic theory, argue that these assumptions do not contribute to meaningful strategic theories of competition, and propose a "theory of comparative advantage."

In these and other contemporary academic marketing articles, the "good," or more generally, units of output, seems to be decreasing in focus. The emphasis is shifting toward relationships among cooperating suppliers, competitors, and customers. The goods-dominant model and the static assumptions of economic science are of little help in understanding these relationships. Vargo and Lusch (2004a) point out the shift in focus from operand resources—resources such as tangible assets that are acted on—to operant resources—resources, like competences, that do the acting—and suggest

that exchange is fundamentally about the application of operant resources. This shift seems to imply the appropriateness of a commensurate shift from the plural term “services”—implying units of output, intangible goods—to the singular term “service”—implying doing something for another entity, reflecting marketing’s evolution from a goods-dominant logic to a service-dominant logic. We feel that a service-dominant model—the mutual exchange of service—is one from which we can advance our understanding of service relationships as well as their derivative goods.

CONCLUSION

The way we see the world is necessarily an outcome of our perceptual heritage. Marketing inherited a product-dominated view of economic activity from economic science. This view served several purposes for economics. Among these was legitimization within the context of the intertwined social, political, and philosophical milieu of the time of its development. In academic marketing’s originally construal as the distribution of physical products, the product model may have served similar purposes for our discipline. However, marketing is presently considered to encompass considerably more than the facilitation of the movement of goods. The focus of marketing is now generally acknowledged to be exchange, only some of which involves goods and only some of which is economic. Our understanding of exchange is constrained by the goods-dominant paradigm. Service marketing scholars have made significant strides in understanding exchange relationships, but they have not yet broken free. Additionally, many of the observations that the early economist made concerning the role of services in economic activity were abstracted away for purposes of their own agenda, but they may still be useful to marketers.

These observations that were bypassed by the early economists, coupled with the work of services marketing academics and supplemented by complementary work in relationship marketing, should form the basis for a paradigmatic shift. The underlying service activities perform the mutual and complimentary transformations, both physical and non-physical, that are exchange relationships. It is this exchange of service for service that is the essence of exchange relationships, not the physical output that is sometimes produced as intermediate transformations. Marketing is fundamentally about service, not goods.

NOTE

1. While the history of any subject is one of nonlinear bifurcations, only those most critical to the present purpose are addressed. The analysis is limited primarily to the treatment of services in Western academic thought.

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