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Jesse F. Dillard

Linda V. Ruchala

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Jesse F. Dillard  
PORTLAND STATE UNIVERSITY  
and QUEEN'S UNIVERSITY, U.K.  
and

Linda V. Ruchala  
UNIVERSITY OF NEBRASKA-LINCOLN

## VEBLEN'S PLACEBO: ANOTHER HISTORICAL PERSPECTIVE ON ADMINISTRATIVE EVIL

*Abstract:* Thorstein Veblen was a turn of the 20th century American economist concerned with the implications of financial capitalists directing the means of production. Veblen proposed that the rationality of "material science" as practiced by the "production engineers" is fundamentally different from the rationality of market capitalism. If this claim is valid, our previous contentions regarding accounting, as a facilitating technology, for administrative evil warrant reconsideration. Veblen's position provides a historical perspective on one dimension of administrative evil that is generally unquestionably accepted, especially within accounting. That is, technology, such as accounting and the related information systems, is amoral, and it is only through ideologically instigated applications that any moral value accrues. We discuss administrative evil and the role of instrumental rationality generally, and accounting specifically, in creating it. Veblen's characterization of financial capitalism and production engineers and his arguments for the primacy of economic efficiency versus "pecuniary gain" provide a basis for evaluating the legitimating action. We consider how Veblen's work relates to notions of instrumental rationality and then undertake a critical assessment of the ideas. Some of Veblen's ideas, while utopian, might be seen as an elixir for the detrimental influences of financial capital; however, at best, they provide a placebo for the ills of administrative evil and, as such, do not provide an amoral basis for legitimating the associated accounting systems.

### INTRODUCTION

Ideology and technology form a nexus in fostering and

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perpetuating conditions that deprive innocent people of their humanity. In previous work [Dillard and Ruchala, 2005], we argue that the ideology of capitalism and the instrumental rationality of accounting, as a facilitating technology, advance this administrative evil within work organizations. Thorstein Veblen, an American economist writing in the early 20th century, recognized the possible dangers associated with financial capitalists' control of the means of production with their sole perspective being reduced to financial returns.<sup>1</sup> As the solution, Veblen proposed that the conduct of "business" be removed from financial capital and placed in the hands of the "production engineers." Such a move shifts control from a group whose legitimacy is based on the rationality of capitalist markets to one predicated on the rationality of "material science." Similar arguments have been made by Johnson and Kaplan [1987] and others with regard to "management accounting." That is, the relevance of the technology of cost and management accounting (information for running the productive core of the work organization) was lost when it was colonized by the rationality and information demands of financial capital (financial reporting). If the rationality of Veblen's "material science" is fundamentally different from the rationality of market capitalism, then our previous contentions regarding accounting and administrative evil warrant reconsideration.

By gaining an historical perspective on instrumental rationality, we extend the previous analysis exploring the nexus between ideology, technology, and accounting and how instrumental rationality has been used to legitimize the actions within and through large work organizations. Veblen's work represents an early socio-economic analysis of large corporate enterprises [Raines and Leathers, 2001], providing a critique of capitalist ideology and the role of technology and technicians and being severely critical of the former while adamantly embracing the latter. He proposes the shift in control as a response to the dehumanizing and inefficient march of financial capital. If Veblen is correct, then it may be possible to ameliorate the effects of administrative evil by "returning" to the spirit of the halcyon days before management accounting became colonized by financial accounting. That is, returning to the conceptualization of management accounting systems based on relevant production-related data needed by production managers in managing pro-

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<sup>1</sup>As discussed more fully later, while we also rely on many of Veblen's writings, our primary source is Veblen [1921].

duction and output, not the reductionist demands of financial capital. Can proposals such as activity-based accounting [Cooper and Kaplan, 1988], activity-based management [Johnson, 1994], or the balanced score card [Kaplan and Norton, 1996] assist in enhancing human dignity through work and production as Veblen implied? Can these ways of framing, understanding, and acting provide a means for ameliorating administrative evil?

Veblen's work provides an historical perspective on the generally accepted legitimacy of technical expertise as justification for corporate action. That is, technology as applied by professionals/experts is amoral and only through ideologically instigated applications do any moral implications arise. Because of their superior technical knowledge of production and uncorrupted nature, Veblen proposes that society would be better served if technicians replaced absentee owners/capitalists as the primary guardians and managers of corporate resources. Engaging Veblen's ideas helps articulate more clearly the different manifestations of expertise, especially within work organizations and helps recognize technicians as implementers, purveyors, and repositories of technology. As such, these "experts" represent the human manifestation of technology, taking on its cloak of amorality.

Veblen differentiates between "physical" and "financial" expertise and lays out a plan whereby the former is to replace the latter. This proposal purports to be a panacea for the evils of capitalism and absentee ownership that follow from the self-serving programs of the "captains of industry." At one level, Veblen's recommendations/remedies seem imminently "logical" in that the capricious, socially grounded, and legitimized controlling/organizing systems of self-motivated financiers are replaced with those grounded in the "laws of nature" and implemented by those who understand, respect, and are held accountable by these natural laws.

Writing in the same era as the development of management/cost accounting,<sup>2</sup> Veblen's arguments are useful in understanding the underlying logic of these systems of management and cost accounting. We believe that Veblen's position provides a perspective on one dimension of administrative evil that is generally accepted, especially within accounting. That is, technology, particularly as associated with material science, is amoral,

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<sup>2</sup>See Chandler [1977], Johnson and Kaplan [1987], Miller and O'Leary [1987, 1994, 1998], Hopper and Armstrong [1991], Arnold [1998], Fleischman [2000], and Hoskin and Macve [2000].

and it is only through ideologically instigated applications that any value accrues. While this, in fact, does displace one instigator of administrative evil, we argue that the primary culprit for divorcing moral context from collective action is still very much activated, and maybe made even more insidious, because it is now masked by the legitimating veil of physical laws of nature and their perceived amoral status. These “laws of nature” are no less a social construction than those Veblen proposes they replace. “In reality, technology is nothing but a form of applied economics, which is determined by a certain problem, since in the last instance each technician asks, What does it cost?” [Weber quoted in Swedberg, 1998, p. 148]. Both, we argue, are legitimated and perpetuated by appeals to and the application of instrumental rationality.

The technological imperative is one of the primary structural foundations upon which administrative evils is predicated and legitimized. We view Veblen’s work as an early example of a somewhat misdirected/misleading panacea for overcoming the administrative evils associated with administrative control. Thus, Veblen’s work is useful in dimensionalizing the forms of legitimating structures within administrative evil. We argue that “pecuniary” and “industrial” activities do not represent opposing constructs or dualisms<sup>3</sup> but, in fact, exist as a duality in which both represent different dimensions of a common construct that is grounded in instrumental rationality. Production engineering, and the related systems of management and cost accounting, is a socially constructed technology predicated and legitimized by its logical grounding in instrumental rationality. The underlying ideology of the technology also constitutes the underlying rationale for capitalism. Such “remedies” will only shift the genesis of the forces, depriving innocent human beings of their humanity.

The remainder of the discussion is organized as follows. Section two describes administrative evil and the role of instrumental rationality in creating it. The third section presents Veblen’s position on financial capitalism and production engineers and the presumed primacy of economic efficiency versus “pecuniary gain” as the basis for legitimate action. In this section also, we consider Veblen’s work as it relates to current notions of instrumental rationality and then undertake a critical reassessment of his technocracy. We end our investigation of Veblen and administrative evil with discussion and conclusions.

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<sup>3</sup>Dualisms are constructs that cannot be synthesized or reduced to the other.

## ADMINISTRATIVE EVIL, INSTRUMENTAL RATIONALITY, AND ORGANIZATIONAL ACTION

Several recent papers in the accounting literature<sup>4</sup> explore the idea of “administrative evil” and the role that instrumental rationality plays in initiating and perpetuating such evil. Adams and Balfour [1998] coined the term “administrative evil” to describe the use of technology, professions, and bureaucratic structures in ways that divorce collective actions from their moral context, removing any sense of personal accountability. Dillard and Ruchala [2005] conclude that contemporary accounting is constituted by “rational” practices of modernity from which administrative evil emerges.

As in the prior work, administrative evil describes actions that ordinary people take while carrying out their normal organizational responsibilities that result in depriving innocent people of their humanity. These acts/circumstances include depriving an individual of life, dignity, health, justice, security, opportunity, or freedom.<sup>5</sup> We consider the deprivations to be immoral acts. Examples of administrative evil can be direct, such as the loss of life experienced by Holocaust victims, or indirect, such as organizationally sanctioned actions as knowingly hiding health risks of medical pharmaceuticals, the loss of employees' pensions as the result of corporate malfeasance, or the loss of property because of sanctioned aggressive lending tactics.<sup>6</sup>

Administrative evil is an outgrowth of social roles and institutional structures motivated by the application of instrumental rationality. Instrumental rationality is an integral part of accounting and represents one primary component of its claim to significance. As currently practiced, accounting represents an ideologically saturated calculative technology; a group of experts to implement and sustain the technology and its application; and, as such, provides a sustaining medium for the perpetuating mechanisms of capitalism.

Dillard and Ruchala [2005, p. 617] recognize the interplay between the individual or collective and ideology and technology in separating collective actions from moral content:

The application of the technology in the cause of maxi-

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<sup>4</sup>Williams [2002], Dillard [2003], Dillard and Ruchala [2005], Dillard, *et al.* [2005]

<sup>5</sup>See United Nations [1948].

<sup>6</sup>Adams and Balfour [1998] provide extensive examples, including the Challenger space shuttle and the tobacco industry's actions in concealing the known hazards of cigarette smoking.

mizing shareholder wealth enhances the dominance of the prevailing capitalist ideology. The economically grounded and unequally privileging aims are developed, clarified, and expanded through instrumentally rational problem solving and physical and administrative technology. Technology can enhance and accelerate the capitalists' demands. Coupling the capitalists' demands with advanced information technology implemented through bureaucratic hierarchies facilitates their immediate, disciplined, and efficient implementation.

Instrumental rationality implies a neutral orientation in which decision processes and actions are focused on achieving the specified end without the need to appraise the legitimacy of the end [Jary and Jary, 1991]. For example, an accountant is tasked with representing the financial position of a firm using generally accepted accounting principles. Generally, the accountant does not question the legitimacy of creating such statements or their use.

Adams and Balfour [1998, p. 25] note that: "Technical rationality, professionalism, and bureaucracy all redefine ethics out of the picture in many instances." They go on to describe how "moral inversion" and administrative evil can evolve such that choices depriving innocent people of their humanity can be legitimized as the "good or right thing to do" by material or external authority structures. Building on Adams and Balfour's work, Dillard and Ruchala [2005] argue that instrumental rationality fosters and perpetuates administrative evil through the roles played by ideology in shaping accounting systems, expertise, and technological processes.

Following Dillard and Ruchala [2005], instrumental rationality represents the enabling logic of modernity; however, its application restricts the conceptualization of legitimate alternative action sets. The logic of instrumental rationality is implemented through technicians,<sup>7</sup> machines, and organizing hierarchies. Within and facilitated by these manifestations, one can be an accomplished professional/worker and still enable extreme acts of violence.<sup>8</sup> The technician can faithfully and correctly apply their skills to the task at hand while abdicating any personal

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<sup>7</sup>Following Veblen, we use the term technician in its broadest sense of possessing expertise.

<sup>8</sup>Violence, as used in this paper, refers to the harm resulting from administrative evil. Workplace violence differs from the harm resulting from administrative evil in that the individual perpetrating the violence is not acting within his or her organizationally sanctioned responsibilities.

responsibility for the ultimate results of the actions. Within the rational regime of technical expertise, individual conscience is subjugated to professional values. A strictly technical perspective dehumanizes the objects of actions by expressing them in technical, value-neutral terms, thereby allowing them to be viewed in an amoral fashion. As these actions become increasingly quantitatively represented and manipulated, the human subject is further obscured. Administrative evil is perpetuated as the ability for ethical evaluation is lost.

Next, we consider the socializing conditions that facilitate the abdication of moral responsibility by professionals within work organizations. Kleman [1973] postulates three enabling conditions – organizational violence is authorized and sustained by organizational primacy and discipline; action is routinized through role specification and rule-governed practices; and the victim is dehumanized through abstraction and quantification.<sup>9</sup> Moral responsibility arises from being held accountable.<sup>10</sup> The prevailing professional and organizational norms and values dictate the decision rationale.<sup>11</sup> Legitimizing criteria are synonymous with instrumentally rational decision making, and moral responsibility is narrowly defined as applying instrumentally rational logic in arriving at, and carrying out, a course of action.

Organizational violence is authorized, often indirectly, through the single-minded pursuit of the ultimate “legitimate” goal(s) of the organization. Within Veblen’s critiques of the financial management of corporations, maximizing shareholder value, or some derivation thereof, represents the ultimate legitimizing criterion. However, we would argue that Veblen’s reliance on engineering approaches does not ultimately change the maxim of efficiency that drives the organizational structure, although it may be broadened a bit. Regardless of the technological base upon which the criteria are situated, the well-being

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<sup>9</sup>These conditions are not seen to be mutually exclusive. Bauman [1989] has employed these conditions in illustrating how conscientious technicians and administrators facilitated the Holocaust through organizational and technical roles and responsibilities. For a discussion of the role of accounting and accountants see Funnell [1998], Dillard [2003], Lippman and Wilson [2007], Lippman [2009].

<sup>10</sup>See Roberts [1991, 1996, 2001], Schweiler [1993], Shearer [2002].

<sup>11</sup>We neither assume in this discussion that fixed, immutable foundations exist for making moral choices, nor do we assume that all individuals would reach similar conclusions in similar circumstances. We do suggest, however, that individuals within the organization are empowered to use critical evaluation and critique such that “actors and organizations can evaluate and be held accountable for their actions in terms other than those dictated by instrumental rationality” [Dillard and Ruchala, 2005, p. 618].



of the organization is to be accepted as synonymous with the well-being of the individual, and there must be disciplinary forces to motivate the actors to act in accordance with these goals. The organizational hierarchy controls the distribution of resources. Instrumentally rational decision processes are privileged as legitimizing criteria and, thus, provide the means by which discipline is imposed on individual actors whether financial technicians or production technicians are in control. An instrumental perspective blurs, and ultimately obscures, the moral issues<sup>12</sup> associated with the actions undertaken to satisfy the organization's needs. The hierarchy authorizes the actions; the professionals insure that technically rational knowledge is appropriately applied; and the technology facilitates the efficient and effective disposition of one's duties. All three provide the legitimizing basis for actions and evaluation, and all three mask the potential for organizational violence.

Kleman's second condition facilitating the abdication of moral responsibility routinizes the action through role specification and standardized procedures. Routinization shields the participants from having to confront moral consequences of their actions. At some point, the discipline of narrowly focusing on the technical and administrative details of one's work can create a "taken-for-granted" quality that reduces the capability to question the underlying principles or consequences of one's actions [Baumeister, 1997] and substitutes technical responsibility for moral responsibility. Technical responsibility requires that the best available technology be applied in a cost-effective manner. The means become an end in itself, and the intermediate steps connecting the means with the ultimate outcome are not recognized. The ethical dilemmas associated with the ultimate outcome are not confronted, only the daily ones related to effective and efficient processing.

Dehumanization of the victim represents the third dimension that facilitates the abdication of moral responsibility by eliminating any subjective affiliation with the objects of concern. Phenomena are translated through technology filters into dehumanizing quantitative representations. Those who work within hierarchical control structures are primarily measured on, and therefore interested in, the quantitative impact of their actions. Thus, dehumanization is commonplace with and within

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<sup>12</sup>In fact, the moral issues are presumed to be responsibly addressed by applying a "rational" decision process in evaluating and selecting alternatives. See, for example, Lampe and Finn [1992].

organizations, which are predicated on instrumentally rational manifestations such as bureaucratic control hierarchies.

Our premise is that Veblen rued the use of economic efficiency defined in terms of financial returns within Kleman's first condition (legitimized violence through organizational primacy and discipline); yet, he proposed an alternative organizational goal (technical efficiency) which also enables Kleman's remaining conditions – routinization and dehumanization. The next section explores Veblen's ideas regarding each of these conditions more completely.

### VEBLEN'S IDEAS

Raines and Leathers [2001, p. 309] suggest that: "Veblen was the first economist to systematically analyze the social and economic effects of technology on modern culture within the context of large corporate business enterprises." Analyzing the rapid changes in technology and in corporate growth, Veblen's work provides insight into the dialectical relationship between administrative and scientific/physical technology. While we refer to other writings, the primary compilation of Veblen's ideas and the primary source for our analysis is one of his last works, *The Engineers and the Price System (EPS)*, published in 1921. The following discussion differentiates between the financial and the production technician and their related technologies and provides a general outline of the arguments set forth as to the why and how of the technological imperative within business organizations.

First, we briefly describe the socio-economic context within which Veblen was writing as it relates to our discussion. Veblen was writing in a time of growth and change,<sup>13</sup> such as the growth of productive capacity and industrial capital especially as reflected in the large trusts of the day; the changes and upheaval associated with World War I and the Bolshevik Revolution; and the emerging management-labor relationships across the industrializing world.

Much work considers the context and practice of management accounting during the period in which Veblen was writing in the early 20th century.<sup>14</sup> As Fleischman [2000] points out,

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<sup>13</sup> See, for example, Chandler [1962, 1977, 1990] for discussions of business within this larger context.

<sup>14</sup> See Fleischman and Tyson [2007] for a recent review. See also Johnson [1975a, b, 1978, 1983], Chandler [1977], Johnson and Kaplan [1987], Miller and O'Leary [1987], Hopper and Armstrong [1991],

the different perspectives taken by the various authors lead to somewhat different, though not necessarily mutually exclusive, interpretations. Our discussion presumes that the traditional perspective is grounded in economic rationalism reflected primarily in neoclassical economics [Fleischman, 2000]. The period can generally be characterized by the rise of the vertically integrated mega-corporation and the onset of managerialism exemplified by the work of Fredrick Taylor [e.g., 1912] and scientific management. Not unrelated, standard management accounting and costing systems were emerging [Fleischman and Tyson, 2007] as a means for managing the integrated work organizations and implementing change. Several authors consider the relationship between Taylor's ideas and Veblen's proposals with respect to a technocracy.<sup>15</sup> Bruce and Nyland [2001, p. 955] state that:

Taylor, an engineer from Philadelphia, emphasized the application of the scientific method to the selection, training, and utilization of workers, highlighting the need for planning and management based on empirical investigation rather than "rule of thumb" or tradition. This emphasis on empiricism and planning found a particularly receptive ear among members of the institutionalist school [Veblen and his disciples], many sharing misgivings about neoclassical economics' deductivist method and its laissez-faire philosophical underpinnings.

Two strands of Veblen's thought are of particular relevance here. First, Veblen draws a clear distinction between "pecuniary" and "industrial" activity.<sup>16</sup> The former are activities characterized as exploitive, predatory, and/or wasteful functions of business, while the latter includes those functions that produce socially useful products and services. Speculation, financial management, and "salesmanship" are examples of the business functions that Veblen cites within the former category. Production engineering and material science<sup>17</sup> are examples of the latter. Using these distinctions, Veblen criticizes the growth of financial capitalism and the dangers of capitalist control over the means of production with their sole focus on growth and wealth

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<sup>15</sup> See Nyland [1996]; Knoedler [1997]; Knoedler and Mayhem [1999]; Bruce and Nyland [2001].

<sup>16</sup> This distinction is referred to by Veblen as the ceremonial-technological dichotomy.

<sup>17</sup> Veblen even includes "production economist" in this category.

accumulation (profit) to the detriment of providing the goods and services needed by the members of society.

Veblen's second relevant theme considers the relationship between large corporations and techno-economic change. According to Tilman [2004, p. 8], Veblen attempts to explain "the economic history of the West by linking cultural anthropology and social history with changes in the techno-economic base." Veblen is concerned with agency in the form of cultural malleability, structure in the form of institutional rigidity, and the motivating and moderating influences of technology as they relate to economic activity.

Veblen's criticisms of corporate interests and absentee ownership are well recognized. The implications and modifications associated with large-scale work organizations are more nuanced and debatable. For example, Veblen seems to acknowledge both the positive and negative potential of industry on the lives of the affected workers pointing out the industrial setting's emancipatory impact as well as its mechanistic effects [Veblen, 1919, p. 39; Tilman, 2004]. In *EPS*, Veblen is committed to the "physical" technicians as the group that should control the industrial sector of the economy. He proposes that the conduct of "business" be removed from the "captains of industry" (financial capital) and given to the "production engineers" (scientific technicians).

Veblen's solution is spelled out in Chapter VI of *ESP*, "Memorandum on a Practicable Soviet of Technicians." The central feature is the establishment of a central directorate of "industrial statesmen" composed of a loosely tripartite executive council with power to act in matters of industrial administration. The three primary groups are resource engineers, transportation-system technicians, and distribution-system technicians. The council would be relatively small, supported by presumably larger staffs. The central council would provide guidance and coordination of subcenters and local councils. Veblen envisions constant consultation with accreted spokesmen from the main subdivisions of productive industry, transportation, and distribution traffic. The primary actors are production engineers who exhibit expertise in material processes; that is, the ways and means of producing goods and services and production economists who maintain expertise in planning and resource allocation.

While Veblen's unequivocal denunciation of financial capital is rarely questioned, an equally unequivocal promotion of production technicians is not universally supported by

some scholars.<sup>18</sup> We accept Veblen's stated position in *EPS* as representing an important historical perspective on scientific technology and technicians in large organizations that provides the grounds for prevailing attitudes. As such, Veblen's position provides an historical perspective on one dimension of administrative evil that, in general, has become accepted unquestionably within large-work organizations – technology, including its application by technicians, is amoral and this amorality has been confused with “value neutrality.” This perspective, we suggest later, obscures the moral implications of an organization's actions and reduces the opportunity to question consequences within the context of the situation. We suggest that Veblen's critique of capitalism and absentee ownership of the means of production led him to propose a technological imperative in which a belief in the material laws of nature qualifies their high priests and disciples to serve as the guardians of society's economic resources.

With respect to accounting technologies and control structures, the role of ideology is central to perpetuating administrative evil through its singular objective of maximizing shareholder wealth. In his last work, *Absentee Ownership* [1923], Veblen elaborates on the evils of financial capital which here include militarism, industrial strife, and “business sabotage.” These are manifestations of the inherent conflict embodied within the prevailing socio-economic system that pits the interests of the workers/citizens against those of the financial capitalists. Explicitly, according to Veblen, profits are maximized through unemployment and privation, restricted output, and price inflation. Gesturing toward our conceptualization of implicit administrative evil, Veblen views these conflicts as more a result of the business system's internal logic than moral failings, malice, or greed. “Once money-values are accorded primacy over use-values, once net profit is elevated to the primary goal all else follows” [Spindler, 2002, p. 84]. Next, we consider the two primary groups in Veblen's analysis, the financial capitalists and the production engineers.

*Financial Capitalists and Production Engineers:* Veblen referred to four broad evolutionary eras of economic development – the savage, barbarian, handicraft, and machine eras. Technological improvements motivated the evolution from the handicraft

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<sup>18</sup> For example, some suggest that such a position is out of character with the larger body and spirit of Veblen's work. See Edgell [2001] and [Tilman [2004].

to the machine era in that technological advances facilitated technological processes and increased scales of production that required the development of the industrial plant, the concentration of ownership of the capital assets, and the separation of ownership through the sale of financial capital. The independent, skilled owner-craftsman gave way to the entrepreneurial owner-operator. However, as industrial processes became more complex, Edgell [2001, p. 71] notes: "the entrepreneur withdrew from engagement in the technical aspects to concentrate on the financial aspects. The captain of industry thus mutated into the captain of finance, who has been superseded by the impersonal corporation."

Veblen viewed the management of the corporation as evolving into two dimensions, an administrative (social) dimension and a technical (physical/scientific) one. The administrative dimension referred to the administrative-control hierarchies and the business managers who populated them. The technical dimension referred to the technical systems and the engineers who developed and applied the scientific technology.

Veblen [1921, pp. 55-56] saw administrative evil run rampant with the captains of finance colluding and manipulating in order to "divert whatever they can to the special gain of one vested interest and another, at any cost to the rest." He also itemized the forms of such evil: "the industrial system is deliberately handicapped with dissension, misdirection, and unemployment of material resources, equipment, and man power, at every turn...and all the civilized peoples are suffering privation together because their general staff of industrial experts are in this way required to take orders and submit to the sabotage at the hands of the statesmen and the vested interests."

*The Captains of Finance and Instrumental Rationality:* Veblen's critique of the bureaucratization of business functions shows remarkable similarity to Kleman's [1973] three conditions discussed above as antecedents of administrative evil. Kleman's first condition, the abdication of personal responsibility, was identified by Veblen [1918, p. 410] in his critique of the "new order." He notes that the corporate structure has severed the employer-owner relationship and has removed owners from responsibility for the actions of the firm: "...the place of the personal employer-owner is taken by a composite business concern which represents a combination of owners, no one of whom is individually responsible for the concern's transactions." He continues on to note that the "chief and abiding power conferred by

ownership” is that of being “personally responsible with discretion in all details.” However, he argues that corporate capital ownership has taken this power of personal responsibility away from the ownership. “Ownership now has virtually lost this essential part of its ordinary function. It has taken the shape of an absentee ownership of this corporate capital [where] the greater proportion of the owners have no voice.”

Veblen also finds Kleman’s second condition, depersonalization, occurring for both owners and workers in the corporation of his day. Veblen argues that “The personal equation is no longer a material factor in the situation. Ownership has been... depersonalized to a degree beyond what would have been conceivable a hundred years ago.” For workers, “...even that contractual arrangement which defines the workman’s relation to the establishment in which he is employed, and to the anonymous corporate ownership by which he is employed, now takes the shape of a statistical reckoning in which virtually no trace of the relation of man to man is to be found” [Veblen, 1918, p. 410]. Veblen saw that these two conditions result in a regimen that manifests a tunnel vision perspective focusing on the ends (profit) rather than the methods of achieving those ends: “... this state of things cannot be charged to anyone’s personal account and made a subject of recrimination. In fact, it is not a case for personal discretion and responsibility in detail, but rather for concerted action looking to some practicable working arrangement.”

Although Veblen found both the abdication of personal responsibility and dehumanization as problems, he presents a mixed analysis of the routinization of processes, Kleman’s third condition facilitating the abdication of moral responsibility. As a strong supporter of Frederick Taylor’s scientific management [Knoedler and Mayhew, 1999] and the use of technological improvements, Veblen predicted that increased standardization and mechanization of process would lead to greater intellectual development on the part of workers. Veblen held out this result as hope for the ability of workers to create social change. The root of the problem then, in Veblen’s perspective, was not the use of technology itself but the application of technology in the control of “corporate captains.”

*Engineers and the State of the Industrial Arts:* Veblen believes that the industrial arts can be separated from the “business system’s internal logic.” Technology is seen as ideologically pure. The problem is not in the nature of the thing, the technology

and/or the expertise, but rather who owns/controls them and, more importantly, who receives the returns from their use. In contrast to the lack of value (indeed, evil) Veblen sees in administrative or "ceremonial" management, Veblen [1918, p. 413] holds the state of the industrial arts and the skilled craftsman in high regard. Technological change is a significant driver in moving the society forward. Thus, Veblen views technology as highly productive and as a critical community resource that is limited by the diversion of its use for private gain: "This body of technological knowledge, the state of the industrial arts...constitutes the substantial core of that civilization...It is a joint possession of the community, so far as concerns its custody, exercise, increase, and transmission."

Thus, as a community resource, Veblen [1921, p. 148] argued that the measurement of production should not be based on the accounting measures of profitability and gain but on community benefit:

Their units and standards of valuation and accountancy are units and standards of price, and of private gain in terms of price; whereas for any scheme of productive industry which runs, not on salesmanship and earnings, but on tangible performances and tangible benefit to the community at large, the valuations and accountancy of salesmanship and earnings are misleading.

Veblen [1921, pp. 148-149] states his position in no uncertain terms. The accountant and businessman are cut from the same cloth and must be excluded under the new order:

...the experienced and capable business men are at the best to be rated as well intentioned deaf-mute blind men. Their wisest judgment and sincerest endeavors become meaningless and misguided so soon as the controlling purpose of industry shifts from the footing of profits on absentee investment to that of a serviceable output of goods.

This view, with its emphasis on production-related measures, is reminiscent of the criticisms of using financial-accounting measures as the criteria for managing production operations set forth by Johnson and Kaplan [1987].

In his reach for a solution to those vested interests and absentee owners, Veblen [1921, pp. 53-54] suggests in his most controversial work that those who are experts in the physical process, the engineers, are uniquely suited to step in and control the industrial system: "...The industrial system of today...lends



itself to systematic control under the direction of industrial experts, skilled technologists, who may be called 'production engineers' for want of a better term." Later, in the same text, Veblen (p. 137) states: "The technicians are indispensable to productive industry of this mechanical sort; the Vested Interests and their absentee owners are not."

However, some engineers have compromised their birth-right by becoming commercialized and co-opted by vested interests and financiers. These technicians must begin to see themselves differently in order to bring about the new order. They must change their representations of how they fit within the overall system before they can see themselves as able to respond and change. Changes in their representations would then change their values and norms. Conflict could then be created as they tried to acquire power in order to implement their newly found understanding of their role. Although presently in the employ of the ownership class, Veblen [1921, p. 79] asserts that the growth of class consciousness on the part of the production engineers would motivate them to redirect their efforts for the benefit of the broader community good:

They are, by force of circumstance, the keepers of the community's material welfare; although they have hitherto been acting, in effect, as keepers and providers of free income for the kept classes. They are thrown into the position of responsible directors of the industrial system, and by the same move they are in a position to become arbiters of the community's material welfare. They are becoming class conscious, and they are no longer driven by a commercial interest, in any such degree as will make them a vested interest in that commercial sense in which the syndicated owners and federated workmen are vested interests.

In the 1920s,<sup>19</sup> Veblen worked with an engineer, Howard Scott, and a small number of "progressive" engineers and scientists to form a group called the Technical Alliance. The organization was reformed as "Technocracy Incorporated" in the early 1933 and is currently active.<sup>20</sup> The Technical Alliance caught the attention of the popular press in early 1930s for research

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<sup>19</sup>It might be noted that Veblen wrote *EPS* before the 1920s. See publishers note from third printing, 1933.

<sup>20</sup>See its website: [www.technocracyinc.org](http://www.technocracyinc.org). The website provides access to a study guide that contains, almost verbatim, some of Veblen's analysis and prescriptions.

done over the preceding ten years. Dorfman [1966, p. 511] notes that Veblen was called “the theoretical founder of Technocracy” in magazine articles and his work, *The Engineers and the Price System*, was reissued. Study groups across the country discussed Technocracy's ideas. Dorfman [1966, p. 513] notes that the January 1933 issue of *Nation* magazine editorialized: “Technocracy has performed a genuine service by focusing public interest on the two central problems of capitalist society – machines and money....It has dramatised the problems involved in the displacement of men by machines and the inadequacy of the present system of currency and credit for balancing production and distribution.”

*Ideology, Technology, and Instrumental Rationality*: Veblen's position provides a historical perspective on one dimension of administrative evil, central to accounting, that is generally unquestionably accepted. That is, technology is amoral, and the application of technology to decisions or actions results in an efficient and objective determination. Technology becomes its own ideology. For Veblen an “...ideology that science had the capacity for solving social problems that capitalist institutions left unresolved had great appeal as a counter to the accepted notions about the sanctity of property and wealth....” [Stabile, 1984, p. 15]

Veblen recognized the possible dangers of capitalist control of the means of production with its sole focus on growth and wealth accumulation. As noted above, Veblen proposes that the conduct of “business” be removed from financial capital and given to the “production engineers.” While such a move shifts control from a group whose legitimacy is based on the instrumental rationality of capitalist markets to one predicated on the instrumental rationality of “material science,” we argue that “production engineering” is a socially constructed technology also predicated and legitimized by its logical grounding in instrumental rationality.

The question arises as to how Veblen's ideas as developed above fit with the applications of instrumental rationality manifest as expertise, technology, and hierarchical control structures discussed in our previous work. Is Veblen's utopian dream just another application without soul, without consideration of the human being, and, thus, another form of administrative evil and its masking? Our understanding of Veblen suggests that all traditional productive activity is so defined such that the contexts of input/output and efficiency constitute the primary criteria of

evaluation, and these criteria are formulated and evaluated in terms of production capacity and its utilization. The societal objective of the business sector is to satisfy the needs of the population without waste and duplication of work. Veblen's analysis is directed toward the "primary" industries within society and assumes that the motivations of the engineers are "physical" in that values are grounded in the physical laws of nature or the "physical" laws of economics or society. The scientific grounding of the subject matter as well as their disposition, training, and professional responsibility guide these technocrats. Their rational training and discipline imbue the "production engineer" and related technicians with scientific and disinterested orientation well suited to steward the productive resources of the society. Such a position implies that one cannot take the "laws of nature" and pervert them so that they advantage one group relative to another. The technicians' power arises from their understanding of the productive technology and their ability to apply effectively and efficiently the nation's productive capabilities in the actual transformation of resources into goods and services. The transformations are carried out in a manner consistent with society's needs with regard to both adequate output and gainful employment.

Veblen viewed organizational management along two dimensions, one administrative and the other technical. The administrative dimension referred to the administrative control hierarchies and the managers who populated them. The technical dimension referred to the technical systems and the technicians who developed and applied the scientific technology. Both, we argue, hold instrumental rationality as a, if not the, central legitimating dimension. Veblen is quite critical of the managers who control and implement the administrative hierarchies. On the other hand, he holds the engineers and their technological systems to be proper caretakers of society's means and modes of production. Because of its grounding in physical laws and formal (mathematical) logic, Veblen believed this segment to exhibit different and less self-serving modes of behavior than the politically and socially motivated actions associated with administrative systems. However, Veblen's valorized engineering solutions are still firmly grounded on the legitimizing criteria of instrumental rationality. In fact, because of the link to physical phenomena and laws, instrumental rationality might be even more dominant in this sector. As such, we argue, administrative evil dominates the sector as it is implemented within hierarchical control structures. However, as dis-

cussed above, some [*inter alia*, Tilman, 1992] have argued that Veblen recognizes the limitations associated with this technical perspective and that his arguments move beyond the narrow implementation of instrumental rationality, implying organizational arrangements based on the democratic participation of engineers and workers.

Given Veblen's discussion in *EPS*, it is not clear how transfers are facilitated. One might argue that Veblen does not hold the pricing system at fault so much as its manipulation by the captains of finance, although he does seem to be inclined towards use values over money values. The pricing system is not bad, per se, but it has been co-opted, and controlled. The markets are no longer free but controlled and manipulated by the vested interests through their uncontested control over the economic resources of the nation and the political system that has been co-opted and corrupted. This state of affairs is perpetuated by apathy and acquiescence on the part of the technicians. Central to Veblen's analysis is that the total control of the means of production by the engineers can be legitimized by the argument that they are grounded in and held accountable by the laws for nature. They are not soiled by desires/emotions of self-interested, pecuniary-motivated human beings and possess the ability, disposition, discipline, and training to move beyond such "irrational" or self-centered motivations.

Efficiency is a key legitimating factor underlying the justification and structure of Veblen's technician-centered program from two perspectives. One relates to the exercise of control over the industry system by vested interests, and the other arises out of the inability of non-technicians to deploy society's economic resources efficiently. Withholding efficiency represents the primary means whereby vested interests exercise control for personal wealth [Veblen 1921, pp. 9-10]. This ability to pervert the market system for gain has arisen with the ascendancy of the corporate financier.

On the other hand, inefficiencies also emanate from businessmen's lack of technical knowledge. Veblen [1921, p. 121] argues that this lack of knowledge creates significant and costly inefficiencies throughout the industrial system:

It is true, if the country's productive industry were competently organized as a systematic whole, and were then managed by competent technicians with an eye single to maximum production of goods and services; instead of, as now, being manhandled by ignorant business men with an eye single to maximum profits; the

resulting output of goods and services would doubtless exceed the current output by several hundred per cent.

Moving away from an industrial structure based on absentee ownership and financial capitalism toward a more technocratically managed industrial sector would alleviate the problems of efficient production of an adequate level of goods and services; provide for economic deployment of the society's productive resources, with full employment of labor being a primary concern; and facilitate the equitable distribution of consumable output.

*No Panacea for Administrative Evil:* Technicians and the associated technology are not panaceas for administrative evil. While Veblen's ideas are not without logic and appeal, we believe his proposal substitutes one manifestation of administrative evil for another. It replaces the application of instrumental rationality to social relationships with the application of instrumental rationality of physical relationships. In fact, such a shift may be even more disempowering for two reasons. First, legitimation appealing to physical laws is more difficult to challenge because of the implied grounding in the "objective laws of nature."<sup>21</sup> Second, singular appeals to the technical and the technician obscure the social relationships that underpin them. Within such a system, technical rationality replaces moral responsibility.

A presumption of efficiency underlies Veblen's technician-oriented industrial sector. Within an environment characterized by limited resources, only the efficient survive. Individual actors providing goods and services gain efficiency in their undertakings through the application of instrumental rationality manifested as technology, expertise, and hierarchical-control mechanisms. The economic system reflects the composite of individual actions adhering to and following from the application of instrumentally rational techniques and technologies by trained technicians.

Tilman [1992, p. 202] states that Veblen "did not adequately differentiate between an ability to understand means-ends congruence and master technical skills, on the one hand, and the capacity to engage in acts of critical rationality on the other hand." Both an example and a consequence of this lack of differentiation can be seen in Veblen's [1919, p. 37] view of the effect of machine-operated processes on workers:

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<sup>21</sup> See Latour [1987, 2004] for a discussion of the power of science in the conduct of modern society.

Under the new order of things the mechanical equipment – the 'industrial plan'—takes the initiative, sets the pace, and turns the workman to account in the carrying-on of those standardized processes of production that embody this mechanistic state of the industrial arts; very much as the individual craftsman in his time held the initiative in industry....

Veblen [1919, p. 39] suggests that the effect of these changes in the institutional structure of work have implications on workers, predicting these interactions with machine technology would lead to greater rational and intellectual development and consciousness on part of workers, motivating a heightened collectivist mentality, and the ability of workers to create radical social change.

Stabile [1984, pp. 205, 210] disagrees with Veblen's view of the effect of technological processes on workers, suggesting that Veblen never considered that the capitalists would find ways to use the technology to control workers through deskilling and technical control. These are evil in that they deprive human beings of their dignity. In addition, Stabile argues that "Veblen posited a version of socialism that demanded worker acquiescence to the dictates of technical experts...Veblen made it plain that the economy be governed by a national council, and industrial town meeting." Thus, implicit in Veblen's proposal is the presence of bureaucratic structures. The mechanical metaphor of the production engineers includes hierarchical-control structures. Thus, there is a reinforcing interaction within Veblen's proposed "solution" to capitalist control.

We present these as analogous to the cornucopia of technocratic suggestions for overcoming the shortcomings and inequities of capitalism and believe that such "remedies" will only shift the genesis of the forces depriving innocent human beings of their humanity. Veblen appears to give technology a non-ideological or a neutral character while implicating the ideological nature of administrative-control structures and administrative expertise associated with the vested interests of financial capitalism. We argue that neither of these provides legitimate grounds for privileged control because they are both legitimated by instrumental rationality.

A number of Veblen's contemporaries (e.g., John Commons and Wesley Mitchell) as well as a number of later critics, some of whom are mentioned above, view Veblen as a technocratic elitist for his unbridled faith in the role of technological experts to define and lead the vanguard to a "good society." Some more

recent scholars, notably Stabile [1984], Edgell [2001], and Tilman [2004] consider Veblen better described as a “scientific collectivist” although for slightly different reasons. Tilman [1996] reasons that *The Engineers and the Price System* represents a departure from the main body of Veblen’s work and the emphasis on a technical elite is not consistent with his prior or later emancipatory focus. He also suggests that we might view his choice of engineers as an “expository device,” a contrast to the critique of other organized business groups.

Edgell [2001, p. 155] emphasizes Veblen’s role as a social utopian who emphasized cooperation and collectivism. Throughout Veblen’s writing, there is an emphasis on workmanship as an inherent, even spiritual, trait in human culture. Edgell argues that “Veblen’s utopian vision also privileged work, or as he put it, the machine process, not in a narrow technocratic way, but in a ‘broader and more humanistic’ manner in which people liberate themselves from the restrictions of pecuniary control of industry and create a new society.”

Stabile [1984] compares Veblen’s technological collective to that of Lenin. He suggests that Veblen’s engineer-worker alliance draws from the latter’s peasant-worker alliance. In part, this alliance also comes from Veblen ruling out other interests within society. Veblen argued that neither capitalism and its vested interests nor organized labor was able to adjudicate the best interests of the broader community. Veblen also recognized that the industrial worker was captured by the values of the leisure class, and he became discouraged about the prospects for social change emanating from this group. Stabile notes that Veblen would have been influenced by reformist engineers, such as Herbert Spencer, who were active at the time and may have looked to this group as the only remaining group able to overturn the existing social order.

*A Critical Reassessment:* Technology is the physical manifestation of instrumental rationality. By engaging Marcuse’s [1941] ideas on technology, we consider the developmental relatedness between instrumental rationality and its various manifestations, with technology and technicians being of particular interest. In doing so, we illustrate how Veblen’s technocracy is also grounded in instrumental rationality and, thus, embodies the potentiality of administrative evil.

While Marcuse [1941, p. 414] does not address administrative evil explicitly, he certainly grasps its essence and origin. Marcuse provides an analysis of technically based programs

such as the one proposed by Veblen and shows that the conception of rationality proves useful in anticipating the negative potential of the pervasive drive toward efficiency. His description of Germany's National Socialist regime is a pre-eminent example of how technology can be appropriated by vested interests (e.g., fascist regimes, financial capitalists):

National Socialism is a striking example of the ways in which a highly rationalized and mechanized economy with the utmost efficiency in production can operate in the interest of totalitarian oppression and continued scarcity. The Third Reich is indeed a form of 'technocracy': the technical considerations of imperialistic efficiency and rationality supersede the traditional standards of profitability and general welfare...The reign of terror is sustained [in part]...by the ingenious manipulation of the power inherent in technology...follow the lines of greatest technological efficiency.

Marcuse conceives of technology as embodying both technical and social dimensions, implications, and consequences. He describes the process of how the drive for individual rationality can evolve from the promotion of critical thought to become "an instrument of control and domination":

Individualistic rationality was born as a critical and oppositional attitude that derived freedom of action from the unrestricted liberty of thought and conscience and measured all social standards and relations by the individual's rational self-interest. It grew into the rationality of competition in which the rational interest was superseded by the interest of the market, and individual achievement absorbed by efficiency. It ended with standardized submission to the all-embracing apparatus which it had itself created. ...Such was the logical outcome of a social process which measured individual performance in terms of competitive efficiency.

It is interesting that the process set out by Marcuse also has implicit strands of the process set forth earlier in this paper as that enabling administrative evil and suggests, contrary to Veblen's belief, that technical efficiency, in particular, can have disempowering effects on those who are caught within its influence. While Veblen thought that the increased use of scientific processes and technology might increase the critical faculties of workers, Marcuse [1941, p. 422] suggests that such rationality controls and limits the ability of workers to critically evaluate their situation:



Rationality is being transformed from a critical force into one of adjustment and compliance. Autonomy of reason loses its meaning in the same measure as the thoughts, feelings and actions of men are shaped by the technical requirements of the apparatus which they have themselves created. Reason has found its resting place in the system of standardized control, production and consumption. There it reigns through the laws and mechanisms which insure the efficiency, expediency and coherence of this system.

Following Marcuse, we conclude that a program, and attitude, such as advocated by Veblen's "cult of efficiency" created and sustained by technicians and supported by accounting technologies, is itself the result, and perpetrator, of a technical rationality that provides the legitimating grounds, sustenance, and structure for administrative evil.

#### DISCUSSION AND CONCLUSIONS

We set out to explore an historical perspective on the roles of ideology and technology in understanding administrative evil within large business enterprises. Thorstein Veblen's work is relevant because he represents one of the first to undertake a critical analysis of large business organizations as they formulate and promote technology in an industrial society. A critic of corporate society's vested interests, he views absentee ownership and financial management of corporations as the source of what we have termed administrative evil. At the same time, Veblen is a strong advocate of technology as the force for positive change within the economy and within the larger human society. Veblen proposed that the rationality of material science as practiced by production engineers is fundamentally different from the rationality of market capitalism. While at one level we agree, at a more fundamental level we find the validity of this claim to be wanting and, thus, are not inclined to modify our previous contentions regarding the propensity of accounting as a facilitating technology for administrative evil.

An analysis of Veblen's ideas provides an historical perspective on a generally accepted perspective that accounting and accounting information systems are amoral applications of instrumentally rational technologies. We argue that Veblen's perspective on technology as set out in *The Engineers and the Price System* is an example of an implementation of instrumental rationality, and that his ideas are seen as part and parcel of a

technocratic view of society in which science and technological experts occupy a privileged role that limits the development and expression of alternative value structures and work processes.

Veblen's position is based on the primacy of efficiency in production and distribution. The logic of efficiency is instrumental rationality and is seen by some contemporary business and accounting historians as central in the evolution of business and, thus, society. For example, Chandler [1977] concludes that the form of the modern business enterprise emerged as the result of management-control hierarchies being more efficient than market mechanisms in the manufacture and distribution of goods and services. Veblen would presumably be supportive of at least some of Johnson's [2000] ideas surrounding management by means. While we see definite advantages to Johnson's proposals that claim efficiencies and science as the grounds and template for proposed improvements, our analysis of Veblen's ideas leads us to caution that the specter of administrative evil cannot be ignored and may, in fact, be more insidious as it is masked by the purposed amoral legitimacy of technology and those who apply it.

Our historical analysis of Veblen's work draws attention to the differences between financial technologies (and technicians) and production technologies (and technicians). Specifically, the distinctions illustrate how physically grounded technology is predicated on instrumental rationality and is, therefore, just as imbued with destructive potential as the pecuniary perspective condemned by Veblen. We propose that Veblen's "physical" efficiency morphs from a means to an end. Efficiency becomes a fetish replacing profit as the objectified, legitimating criteria for action. As Roy [1997] argues, efficiency acts in concert with or as a means of power.<sup>22</sup> Veblen's program replaces profit with efficiency as the primary legitimating factor. As such, one inhumane legitimating criterion is substituted for another, with the proposed alternative potentially being more insidious than the one being replaced because of its perceived objectivity and scientific validity, both of which silence debate [Latour, 1987, 2004]. Veblen perpetuates the devotion to technology and technicians spurred by the enlightenment predicated on a mythical faith in technology and its ability to supersede the vagaries of social construction. But ultimately, the potential for administra-

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<sup>22</sup>A complete evaluation of Veblen's program requires a more in-depth treatment of the power relationships implied than is possible within the context of the current discussion.

tive evil realized as instrumental rationality, in whatever form, replaces moral responsibility.

While initially optimistic, we find Veblen's work rather narrowly based on enlightenment thinking taken to an extreme conclusion reflecting the program of a disillusioned utopian grasping at technical rationality in order to overcome the despicable situation wherein a few with power (the vested interests) exploited the many. Unfortunately, his panacea turns out to be a placebo, a placebo that may actually advance the disease for which it is a purposed cure. The legitimizing ground for both market capitalism and technocracy is an instrumentally rational conception of efficiency. The presumed socio-political system for both is democracy. Efficiency so defined does not conceptualize human beings as ends in themselves but as means for producing and consuming goods and services. Capitalism is based on a social science (economics), and technocracy is based on physical science (engineering). Within the context of modernity, scientific trumps social. More credibility (truth value) is attributed to physical science. From this perspective, Veblen's recommendations would be deemed preferable to the prevailing alternatives. However, for the reasons presented above, we are not compelled to ameliorate your previous understandings of administrative evil.

We do not wish to engage in debating a preference for the exclusive domination of either market capitalism or technocracy. Our purpose has been to illustrate the inherent potential for administrative evil in both by recognizing its potential within technology such as accounting, expertise such as accountancy, and the administrative hierarchies supported by both, although the manifestations may take significantly different forms. We find Veblen's position and arguments to be, in some ways, a precursor to cure-alls being offered for improving accounting and business practices that are grounded in and legitimated by appeals to their conformity with or emanation from scientific laws and logic. For example, activity-based costing and its management derivative, activity-based management, are presented as a means for providing a more accurate representation of product costs by more faithfully structuring measurement regimes with respect to the underlying physical activities that consume resources. The legitimating grounds are the instrumentally rational scientific processes whereby the technology is derived as well as the decision processes that they support. Human beings, if explicitly considered, are means to an instrumental end. The accounting procedure does not explicitly consider human be-

ings, much less view them as ends in themselves. This, we argue, is the root of administrative evil. Processes and artifacts thus created can be constructively employed, but vigilance is necessary to overcome the dehumanizing potential.

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