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Veblen's Vested Interest and Power

Bryan Gordon

*With this inquiry I shall seek to establish that Thorstein Veblen advanced theories which related the vested interests with power. To accomplish this I shall first dissect the meanings behind Veblen's definitions of "the vested interest", "intangible assets" and "free income." I then, using the previous analysis relate the state to vested interests and solidify their collective unity. After this connection I proceed onto analyzing the implications of the vested interest and how it relates to the common man. Power, normally analyzed within the context of political science is rarely spoken of within economics, this analysis strives to bring the idea of power into the realm of economics through Thorstein Veblen's work, *The Vested Interest and the Common Man* [1919].*

This inquiry seeks to establish that Thorstein Veblen advances ideas regarding the vested interests as these relate to power. Veblen (2013, 161) defines a vested interest as "a legitimate right to get something for nothing." However, what does it mean to get something for nothing? Veblen (2013, 99) helps answer this question by purporting that "Vested interests are immaterial wealth, intangible assets." Intangible assets, Veblen (2013, 169) teaches us, are the "chief and ordinary indication of free income, that is to say, of getting something for nothing." Veblen (2013, 169) goes on to purport a vested interest as having the "assured customary claim to get something more in the way of income than a full equivalent for tangible performance in the way of productive work." Which, in my view is the idea of getting something for nothing.

To better explain this viewpoint, I need to expand on the definitions for intangible assets and free income. To start, what separates a tangible asset and an intangible one? Veblen (2013, 68) proposes that tangible assets “represent the earning-capacity of any mechanically productive property” and intangible assets “represent assured income which cannot be assigned to any specific material factor as its productive source.” Veblen (2013, 68) goes on to teach us that the fundamental difference between tangible and intangible assets, is that intangible assets arise from business relations as opposed to industry. These business relations can be thought of, as Veblen (2013, 68) it, “derived from advantages of salesmanship . . .” This means that any assets or profits derived from salesmanship, such as advertising, investment, market control, etc. are in fact intangible assets.

This brings the inquiry to the analysis of free income and its relation to intangible assets. To start, Veblen (2013, 71) teaches us that free income is “supernumerary and preferential”, meaning that the income gained is both in excess of what is needed and benefits one party or group over another. This “preferential excess” is an important concept when relating to intangible assets, and by extension the vested interest, serving as a bridging point between the vested interest and free income. As one would recall in the paper, a vested interest has a legitimate claim to get more in the way of income than would be equivalent for tangible performance in productive work. An easier way to state this would be that a vested interest has a legitimate claim to profit. However profit can be considered as preferential excess as it is more gain than is necessary and it benefits one party over another. Thus we can redefine the vested interests a final time: *a vested interest has a legitimate claim to preferential excess.*

This redefining of the vested interests creates a powerful image, one that promises to evoke thoughts on the motives of Big Business. This implication borders intentional, as when Veblen wrote *The Vested Interests and the Common Man*, the big business of his day

was getting into full swing, Rockefeller's Standard Oil and the U.S. Steel Corporation being full blown monopolies in the day. Indeed, Veblen (2013, 73-74) teaches us about the privileges monopolies hold, specifically the ability to restrain trade by way of controlling the output of goods or services. In my view, it would also be a very safe assumption that any business that is sufficiently large shares a similar level of privilege. Thus we have a good indicator that what Veblen wrote on in the early 1900's would still be an accurate representation of the current situation.

However, the vested interests do not merely exist within the confines of business, big or otherwise. Veblen (2013, 123) teaches us that the vested interest was once known as the Divine Right of Kings and that "It was of a proprietary nature, a vested interest, something in the nature of intangible assets which embodied the usufruct of the realm, including its population and resources, and which could be turned to account in the pursuit of princely or dynastic advantages at home and abroad." This proprietary nature meant that the sovereign state¹ effectively had monopoly ownership over the land they ruled, as long as it was within the rights of usufruct². The nature of this monopoly was one of preferential excess and indeed the claim to sovereignty is considered a legitimate one when claimed by the state.

This allows for a relation of sovereignty, equating the power of the state, to the vested interests of business. For this we must look at intangible assets and free income again, to redefine them in context to the state. When looking at intangible assets we can clearly see, from my point of view, that rather than being derived from the advantages of salesmanship, we observe a derivation from the advantages of

¹ Sovereignty is derived from the Divine Right of Kings and, because of this derivation, the sovereign state in this paper is equated to having the same vested interest as the Divine Right of Kings because of this derivation.

² Usufruct is the ancient Roman law that states one has the right to enjoy the use and advantages of another's property short of the destruction or waste of its substance.

sovereignty. Sovereignty, having the advantage of being considered legitimate by the majority, has by definition, the power and legitimate claim to vie for its preferential excess.

This brings us back to the idea of free income; getting something for nothing. However, what more can a state gain within its borders? The answer is, if it is sovereign it has nothing to gain, as within its borders it is a monopoly. So how does a sovereign state gain preferential excess? It accomplishes this by one of two ways, first, it can conquer nations with less military prowess and second, it can protect and further domestic vested interests. The first method of preferential excess, conquering nations, is universally frowned upon today and only done indirectly (annexation), if at all. However, this method was once quite popular, as could be seen with colonialism during Veblen's time. Which Veblen (2013, 129) wrote about, stating "There still are conferences, stipulations and guarantees between the Powers, touching the "Open Door" in China, or the equitable partition of Africa, which read like a chapter on Honor among Thieves."

The second is similar, however the playing field is altered. Nations now move about the globe as they can, quote on quote "protecting their interests" as it is often said, and when attacking a foreign state, it is not a violation of sovereignty, rather the invading state is protecting interests, helping out the locals or seeking justice upon an attacker. They are all buzzwords, a nation protecting their interests in a foreign country either means the nation has some strategic value (as with the Crimea) or economic value (as with Saudi Arabia). A nation helping out locals is priming an economy or state to become an allied interest, and a nation seeking justice upon an attacker is looking for an excuse to remove an enemy (as with Saddam Hussein). To put this into the terms of business, Veblen (2013, 130) forwards the notion that traders and investors to foreign nations are able to net a larger profit in their ventures if their national government is powerful, aggressive, unscrupulous and overbearing, which can be expected if the government is administered by those of

the vested interests. However in the case of businesses and nations, the invading government eventually leaves, the old state's sovereignty intact, albeit in name only.

But if a government cannot resort to justified force and will not resort to unjustified force, how does it aid the vested interests to increase its preferential excess? Veblen (2013, 132) only addressed the usage of tariff barriers to keep the price up and the supply down, however, this is only one of several available levers of power. Economic sanctions have become a powerful tool in the arsenal of the vested interests who sway the state for their benefit. These economic sanctions can be tariffs, but they also include embargos, asset freezes, and other methods which serve to isolate an economy. These economic sanctions are often considered ineffective in the realm of changing a foreign state's policy, but are brutally effective at removing an economy not operating by the rules laid forth by the vested interests from the world at large. However, there is another tool in the arsenal of the state swayed by vested interests, preferential treatment. This preferential treatment is the opposite of economic sanction, indeed, trade is opened up to an even greater degree, tariffs are lowered or even removed and life is good for the allies of the nation swayed by the vested interests.

A final line of questioning remains- how do the vested interests affect the common man? Veblen (2013, 160) posits that "the population of these civilized countries now falls into two main classes...a division, not between those who have something and those who have nothing...but between those who own wealth enough to make it count and those who do not." Veblen (2013, 161) goes on to detail the class of wealth as being the "kept classes", which include not merely the vested interests of business, but the clergy, the nation³

³ Veblen in the text writes about "the Crown" instead of the nation/state. I use nation or state instead of the Crown specifically for the reason nation or state is a

and the agents of the nation, military and civil. These kept classes are the class that has enough wealth or rather, preferential excess, to count. The other class, the one which does not have the wealth or preferential excess to count, is the realm of the common man. But what does it mean to “count”? Since preferential excess comes from intangible assets and is tied directly to vested interests, we can determine that being a vested interest is what truly counts.

Why is this so? It is a function of power, the common man can usually only get what he can get. Veblen (2013, 111) teaches us that “A more powerful corporation is in a position to make its own terms with greater freedom, which it then is for the workmen to take or leave, but ordinarily to take.” Since it has already been established that the state operates along similar lines as a corporation, it may not, in my view, be a stretch to affirm that the kept classes in general operate along similar lines of power. This means that the mass of common men, who the workmen are a part of, do not have the ability to make their own terms. Rather, they react to the terms of the kept classes. Veblen (2013, 165) shows us that this affects farmers, “caught between the vested interests who buy cheap and the vested interests who sell dear” and that to not take what is offered results in what Veblen (2013, 165) calls “getting left”⁴. Even the common businessman cannot claim to be of the kept classes, only a middleman for them, as Veblen (2013, 166) muses, “He still manages to sell dear, but he does not commonly buy cheap, except what he buys of the farmer, for the massive vested interests in the background now decide for him...how much his traffic will bear.”

more relevant term for today and the nation or state is not much different from the Crown described by Veblen.

⁴ I believe the concept of “getting left” refers to the idea that if you don’t accept what is given to you, you get nothing instead.

However, the common man is not without his own variant of the vested interests. Veblen (2013, 164) describes the AF of L⁵ as not being made up of members who could be counted among the kept classes. Rather, the organization and its leadership collects income from its underlying members, which is a form of free income. Furthermore, it pursues the interests of the organization and seeks a form of preferential excess over the common lot of men. In my view, the preferential excess sought, is not one of dominance over others as is with the kept classes, but rather a balancing of power with the kept classes. However, Veblen (2013, 165) brings up the valid point—that the vested interest which animates the A. F. of L.—may be “nothing more to the point than an aimless survival.” Yet while this may be true, it would be a shame not to include it in this analysis as it provides a clear case that vested interests do always share the same goals.

This inquiry has sought to establish that Thorstein Veblen advanced ideas regarding the vested interest as they relate to power. These vested interests are considered to have a legitimate claim to something for nothing, or what has been referred to in the paper as preferential excess. This redefinition is more accurate when applied to the workings of power than when applied to the mechanics of economics. It is ultimately the same definition in meaning, but uses different language. This difference in language allows for the vested interests of the divine right of kings or state, to more easily be analyzed side by side with the vested interests of business. The analysis between the two interests, causes a realization that they share similar interests and conduct similar things for the benefit of one another, these similarities are where the vested interest and its claim to preferential excess relates to power. Yet it is within the analysis of the common man that two classes emerge: the kept classes consisting purely of the vested interests, and the common class.

⁵ The AF of L is the American Federation of Labor.

The common man often has no choice to conform because he has his own form of vested interest. This vested interest is different as shown by the A.F. of L. It operates in such a way that those who make up the vested interest are not themselves of the kept classes, but rather still of the common lot. Yet the organization acts in the same ways as a vested interest, by gaining the ability to counter the terms which the kept classes impose upon them. This vested interest is by far the most interesting, it is a vested interest with the common lot as opposed to the kept classes, threatening to break the dichotomy between the kept classes and the common lot. It is a terrible shame Veblen did not have more examples of similar vested interests in his book *The Vested Interest and the Common Man*, as it implies that there is a counter power. Something which denies the power garnered by vested interests and their claim to preferential excess. It is the hope that future research by myself and others will fill the gap in understanding, turning a hunch into elucidation.

Bibliography

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