

1951

Veblenian Economics: Its Significant Contributions to Economic Theory

Herbert F. Klingman

University of Arkansas, Fayetteville

Follow this and additional works at: <http://scholarworks.uark.edu/jaas>

 Part of the [Economic History Commons](#), and the [Economic Theory Commons](#)

Recommended Citation

Klingman, Herbert F. (1951) "Veblenian Economics: Its Significant Contributions to Economic Theory," *Journal of the Arkansas Academy of Science*: Vol. 4, Article 24.

Available at: <http://scholarworks.uark.edu/jaas/vol4/iss1/24>

This article is available for use under the Creative Commons license: Attribution-NoDerivatives 4.0 International (CC BY-ND 4.0). Users are able to read, download, copy, print, distribute, search, link to the full texts of these articles, or use them for any other lawful purpose, without asking prior permission from the publisher or the author.

This Article is brought to you for free and open access by ScholarWorks@UARK. It has been accepted for inclusion in Journal of the Arkansas Academy of Science by an authorized editor of ScholarWorks@UARK. For more information, please contact scholar@uark.edu, ccmiddle@uark.edu.

VEBLENIAN ECONOMICS: ITS SIGNIFICANT CONTRIBUTIONS TO ECONOMIC THEORY*

HERBERT F. KLINGMAN

University of Arkansas, Fayetteville

For many, Thorstein Veblen represents a "radical" social reformer of the past, a rebel against orthodoxy in general and against the social and economic institutions which seemed unduly to burden him and the class from which he came, the pioneer farmers of Wisconsin and Minnesota in the eighteen-sixties and seventies. None will deny the high quality of Veblen's intelligence; like many highly intelligent individuals, Veblen was exceedingly sensitive. The severity of farm life under which he lived as a youth plus the very restrictive customs of his community, developed in Veblen an instinctive rebellion against orthodoxy—an independence of outlook which grew into a high class skepticism and iconoclasm. This tendency was strengthened by Veblen's unhappy experiences as the awkward, socially ill-at-ease, yet brilliant "Norskie" during his student career at Carleton College, Johns Hopkins and Yale.¹ This skepticism and the stark reality of his own economic life were the driving forces of Veblen's criticism of orthodox economic thought of his day.²

In addition, the development of Veblen's economic theory was greatly influenced by his extensive reading in, and knowledge of the fields of archeology, anthropology, sociology, psychology, and the Darwinian approach to the biological sciences.

Thus, Veblen's economic philosophy has a certain objectiveness by virtue of the impact of both economic and social institutions on his own life, especially when dealing with American developments; at the same time, from his personal background comes the explanation of Veblen's biting satire and, at times, vitriolic criticism of the smugly self-satisfied orthodox theory³ and its teleological implications. From his studies in

¹Howard W. Odum (ed.), *American Masters of Social Science*, (New York, 1927), 234-238. Wesley C. Mitchell, *What Veblen Taught* (New York, 1936), x-xiii. For an exhaustive (and sometimes exhausting) account of Veblen's life and times see: Joseph Dorfman, *Thorstein Veblen and His America* (New York, 1934), especially 3-20, 56-60, 79-89.

²Though Veblen may have rebelled against many aspects of economic society of his day, he was not a revolutionary in the Marxian sense. Rather, he had confidence in the developmental progress which must result from economic determinism. It is a commentary on the development of our economic and social institutions and thinking that much of Veblen's philosophy that was classed as radical in his day has gained fairly common acceptance today. An indication of this is the fact that some two years ago, one issue of *Fortune* was devoted to a rather sympathetic account of Veblen's life and ideas.

³Almost clerical and pontifical in nature—Veblen's sensitivity to any such orthodoxy is clearly revealed in his satirical comments about institutionalized religion. One does not have to agree with his views to appreciate the technical excellence, in a literary sense, of his satire; see, for example, Thorstein Veblen, *Absentee Ownership* (New York, 1923), note to Chapter XI, pp. 319-325.

*Research Paper No. 1012 Journal Series. University of Arkansas.

related social sciences and biology, with their connotations of growth and change over time, came his shrewd judgement that the time had come for transforming economic theory by recasting it in terms of the newer developments in anthropology, psychology and biology.

Veblen vigorously attacked the theoretical systems of economics set up by Alfred Marshall, "the Austrians," and J. B. Clark. Unfortunately, in his own writings he failed to present a cohesive positive statement of his own theory. In fact, much of his economic philosophy is to be found in Veblen's criticism of the basic concepts of the orthodox economic theories of his time. Thus, he provided a considerable exposition of his own concepts but in a sort of inverse or obverse manner.⁴ For those, therefore, who are willing to steep themselves in the conglomerate of Veblen's writings, it is quite possible to distill from them the essence, expressed in broad terms, of Veblen's economic theory.

To sift out an appreciation of Veblen's influence on the development of economic thought it is necessary to study both his criticism of the orthodox systems as well as the loosely organized positive expressions of his thought. Within the limits set for this paper (which is a condensation of a more extensive treatment of the topic), consideration can be given only to the broad, most fundamental issues. Of necessity, it will be possible to give only a brief summarization of the theory implied in Veblen's criticism of the accepted theories of his day.

All too briefly, the easiest way to reconstruct orthodox theories of the 1890's would be to imagine the equilibrium concept based on a postulate of free or perfect competition.⁵ Monopoly, as the opposite extreme, and the varying degrees of imperfect competition were merely temporary aberrations of the short run which impeded, for a time, the long run normative trend toward Pangloss' "best of all possible worlds."⁶ The validity of assumptions of other than freely competitive conditions and serious study of economics based on a recognition of the far more common and relatively

⁴Max Lerner commented: "Since Veblen does not have a 'system' the body of his thought defies any easy analysis." Max Lerner, *Ideas Are Weapons* (New York, 1939), 139.

⁵Professor Holman gives a very neat description of the situation in the 1890's: "Economists for the most part trailed in the wake of the Austrian psychological school and J. B. Clark on the one hand or of Alfred Marshall on the other, in so far as their interest lay in theory.... By the time that Veblen came to take an active hand in the game, economic theory... was almost exclusively concerned with the search for the laws of value and distribution which would obtain under a hypothetical competitive condition.

"This abstract character made it a thing apart in contemporary thought. Business men were frankly contemptuous except in so far as theory... lent a degree of moral approval to the existing order. Social reformers went their way devising schemes for the renovation of society undeterred and unaided by schemes of thought which seemed to them entirely divorced from the really important and pressing problems of economic life." *American Masters of Social Science*, 232-234.

⁶See Voltaire's *Candide*, tr. by R. Aldington (New York, 1936), p. 9 "Pangloss taught metaphysico-theologo-cosmologinology. He proved admirably that... in this best of all possible worlds, ... everything is necessarily for the best end."

permanent existence of conditions of imperfect competition and even monopoly did not occur until the 1920's—just about long enough for Veblen's biting attacks on these concepts (along with those of the "economic man," perfect mobility of factors, etc.) to have seeped into the ivory-towered abstractions of the orthodox theorists so that they stimulated study along new lines in the orthodox field. The result, of course, has been to produce a better balanced, healthier structure of economic theory.

The following is an exceedingly summary account of the fundamental elements of orthodox theories which Veblen criticized most effectively.⁷ It should be remembered, however, that his critical comments often contained, by implication, a sort of inverted statement of Veblen's own theories.

Veblen objected most emphatically to the concept of a meliorative trend in economics and the prevailing idea that this trend was toward a normal condition of equilibrium: orthodox theory was "a body of logically consistent propositions concerning the normal relations of things. . . . Features of the process that do not lend themselves to interpretation in terms of the formula are abnormal cases. . . ."⁸

The teleological bent (or meliorative) in orthodox theories, Veblen held to be the survival of superstitions of more primitive stages of society which were passed down to the theorists of his time through the Physiocratic idea of the beneficent deity. However, for that beneficent deity of the Physiocrats, the Classical, neo-classical and Austrian schools had substituted, with no more genuine logic or real regard for reality, a matter-of-fact tendency toward normal, which resulted from interplay, and counterplay of forces operating under the usual conditions of free competition, etcetera and inevitably produced the maximum benefits for economic society as a whole.⁹

Veblen pointed out, at some length, that these theories simply did not jibe with the observed economic facts of life in his time.

A second major point of orthodoxy which Veblen criticized repeatedly and with most skillful satire was the concept of the "economic man." Veblen repeatedly expressed the opinion that the hedonistic psychology, which permeated all the manifestations of orthodox economics at that time, relegated human nature to a passive role in economic affairs and eliminated it as an active and purposive force in the economic system. Veblen held

⁷The main body of Veblen's criticism is found in a series of essays published in the 1890's and the first year of this century. They have been republished as essays III to XV, inclusive, in Veblen, *The Place of Science in Modern Civilization and Other Essays*, (New York, 1919).

⁸Veblen, *The Place of Science*, 67, see also 53, 61, 145, 187, 190-191.

⁹Veblen, *The Place of Science*, 61-63, also essays I-III, pp. 32-179. At p. 139: "In hedonistic theory the substantial end of economic life is individual gain. . . . Moreover, society, in the utilitarian philosophy, is the algebraic sum of the individuals; and the interest of society is the sum of the interests of the individuals. It follows by easy consequence, whether strictly true or not, that the sum of individual gains is the gain of society, and that, in serving his own interests in the way of acquisition, the individual serves the collective interest of the community."

this to be out of line with the more recent developments in psychology and also with observable reality. His comment on this point is a superb example of satire:

"In all the received formulations of economic theory...the human material with which the inquiry is concerned is conceived in hedonistic terms; that is to say, in terms of a passive and substantially inert and immutably given human nature.... The hedonistic conception of man is that of a lightning calculator of pleasures and pains, who oscillates under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force is spent, he comes to rest, a self-contained globule of desire as before. Spiritually, the hedonistic man is not a prime mover. He is not the seat of a process of living, except in the sense that he is subject to a series of permutations forced upon him by circumstances external and alien to him."¹⁰

Again, Veblen expressed his opinion of the unreality of the economic man, perfect competition and the idea of immutable laws of economics as follows: "Of course, this perfect competitive system, with its untainted 'economic man' is a feat of the scientific imagination, and is not intended as a competent expression of fact. It is an expedient of abstract reasoning; and its avowed competency extends only to the abstract principles, the fundamental laws of the science, which hold only so far as the abstraction holds."¹¹

It is clear from even the preceding abbreviated account that Veblen, by implication, introduced the purposive man into economic thought and with him a comprehensive and full exposition of the reality of economic determinism. At the same time, in his criticism, Veblen pointed out the virtually complete unreality of the assumption of free competition. Thereby he pointed out the far more common fact of imperfect competition and monopoly, the result of purposive human action and the development of social and economic institutions. Logically growing out of those developments follows the invalidation of the idea of immutable laws of economics, for they are predicated on the assumption of free competition as the normal, plus the concept of the "economic man."

These aspects of Veblen's contribution to economic thought plus his unqualified insistence on the dynamic nature of economic society are given further exposition in his more positive statement of his economic theory.

It is apparent from what has been presented above, that Veblen was thoroughly dissatisfied with orthodox economic theory because, in the broad sense, it was seriously lagging behind scientific progress in other fields.

¹⁰Veblen, *The Place of Science*, 73-74.

¹¹*Ibid.*, 142-143.

One of Veblen's fundamental tenets was that for his day, at least, economic theory should try "to trace the cumulative working-out of the economic interest in the cultural sequence. It must be a theory of the economic life process of the race or the community."¹²

In other words, Veblen's fundamental point of view in this regard was that economic theory should be evolutionary in its method and scope of analysis, and must recognize the dynamic nature of economic society.

"In so far as modern science inquires into the phenomena of life, whether inanimate, brute, or human, it is occupied about questions of genesis and cumulative change, and it converges upon a theoretical formulation in the shape of a life-history drawn in causal terms. In so far as it is a science in the current sense of the term, any science, such as economics, which has to do with human conduct, becomes a genetic inquiry into the human scheme of life...."¹³

"From what has been said, it appears that an evolutionary economics must be the theory of a process of cultural growth as determined by the economic interest, a theory of a cumulative sequence of economic institutions stated in terms of the process itself."¹⁴

Thus, it is clear that, for Veblen, economic science, using the evolutionary approach, required a realistic recognition of the forces actually at work in the economic system; economics, as an evolutionary science, could not be an abstraction from reality.

In *The Instinct of Workmanship*, Veblen gave a detailed statement of his evolutionary economic theory, stated in terms of the state of scientific development of the time. This book is so freely interlarded with discursive "supporting evidence" taken from archeology, anthropology and psychology, that many consider it primarily, along with the *Theory of the Leisure Class*, a sociological treatise. It is the opinion of this writer that the essence of Veblen's theoretical structure is to be found (1) in his critical essays and (2) in *The Instinct of Workmanship*; the latter presents, in positive and exceedingly detailed form, the basic points which have either been mentioned or implied in the earlier essays. His other works represent largely an elaboration (with almost Teutonic thoroughness) and application of these concepts. For example, in *The Theory of the Leisure Class*, generally considered to be only a biting criticism of the social organization of Veblen's day, Veblen very effectively, from his standpoint, demonstrated the non-existence of the "economic man" as conceived by orthodox economics, the assumptions of rational profit motives as the sole significant ones in economics and the idea of perfect mobility of factors. His line of argument, of course, is that the cumulative heritage of habit, custom and conventions as evidenced by "conspicuous waste" simply preclude the realization of these

¹² *Ibid.*, 78.

¹³ *Ibid.*, 240-241; actually, the entire contents of Veblen's *The Instinct of Workmanship* represent his working out the broad principles of evolutionary economic theory.

¹⁴ *Ibid.*, 77.

assumptions in actual life.¹⁵ Similarly, his *Theory of Business Enterprise* represented his test of the adequacy of his basic theoretical ideas in terms of the reality of the modern business corporation—he applied his system of the dichotomy of instincts and institutions to the pattern of industrial and business organization of the day (the late 1890's and early 1900's) and found them a reasonable fit. In *The Engineers and the Price System*¹⁶ Veblen covered the same ground, essentially, though he gave a more cohesive application of his theory in terms of the modern economic system and, thereby, produced a neater fit.

Finally, in *Absentee Ownership* and *Business Enterprise in Recent Times*, he tested his theory against the newer developments of American business and finance and found it to be substantially in line with the existing facts of American economic organization and practices.¹⁷

Fortunately, for those who would not lose the forest for the trees, Veblen has provided an excellent summary of the fundamentals of his evolutionary economic theory in his essay "Why is Economics not an Evolutionary Science?"¹⁸

"The later psychology, reinforced by modern anthropological research, gives a different conception of human nature. According to this conception, it is the characteristic of man to do something, not simply to suffer pleasure and pains through the impact of suitable forces. He is not simply a bundle of desires that are to be saturated by being placed in the path of the forces of the environment, but rather a coherent structure of propensities and habits which seeks realization and expression in an unfolding activity. According to this view, human activity, and economic activity among the rest, is not apprehended as something incidental to the process of saturating given desires. The activity is itself the substantial fact of the process, and the desires, under whose guidance the action takes place, are circumstances of temperament which determine the specific direction in which the activity will unfold itself. . . . These circumstances of temperament are ultimate and definitive for the individual who acts under them, so far as regards his attitude as agent in the particular action in which he is engaged. But, in view of the science, they are elements of the existing frame of mind of the agent, and are the outcome of his antecedents and his life up to the point at which he stands. They are products of his hereditary traits and his past experience, cumulatively wrought out under a given body of traditions, conventionalities and material circumstances; and they afford the point of departure for the next step in the process. The economic life history of the individual is a cumulative process of adaptation of means to ends that cumulatively change as the process goes on, both the agent and

¹⁵Veblen, *The Theory of the Leisure Class* (New York, Viking Press, 1899), see especially pp. 24-65 and 370-400.

¹⁶Veblen, *The Engineers and the Price System* (New York, Viking Press, 1921), pp. 1-16, 52-67, 69-71.

¹⁷Veblen, *Absentee Ownership*, Chapters VIII and IX, Chap. XI.

¹⁸Reprinted in Veblen, *The Place of Science*, pp. 56-81.

his environment being at any point the outcome of the last process. His methods of life today are enforced upon him by his habits of life carried over from yesterday and by the circumstances left as the mechanical residue of the life of yesterday.

"What is true of the individual in this respect is true of the group in which he lives. All economic change is a change in the economic community. This change...becomes a point of departure for further development.... In all this flux there is no definitively adequate method of life and no definitive or absolutely worthy end of action, so far as concerns the science which sets out to formulate a theory of the process of economic life. What remains as a hard and fast residue is the fact of activity directed to an objective end. Economic action is teleological in the sense that men always and everywhere seek to do something. ...so long as we have to do with their life as members of their economic community, there remains the generic fact that their life is an unfolding activity of a teleological kind.

"It may or may not be a teleological process in the sense that it tends... to any end that is conceived to be worthy or adequate by the inquirer or consensus of inquirers. Whether it is or not, is a question...of which an evolutionary economics need take no account."¹⁹

It is apparent from the above quotation that, to Veblen, the fundamental forces at work in economics were:²⁰

- a. The human being as a purposive, active agent.
- b. Instincts. This purposiveness is the result of the fact that the human being is, essentially, a bundle of instincts.
- c. Institutions. The conduct of human beings is greatly influenced by habits, customs and conventions which develop cumulatively over a considerable period of time.

The significance of the human being as a purposive agent has been given adequate treatment. It might be well, however, to give a bit more consideration to Veblen's treatment of instincts and institutions, their juxtaposition in the economic scheme of things which led eventually to the dichotomy of modern economic society in which, as Veblen saw it, the productive force of modern industry is conducive to an expansion of human well-being but is hampered and sabotaged by institutions of society, used by the "vested interests" to promote their pecuniary gain.

In terms of the present, logical application of Veblen's ideas would have to class the large labor unions with the capitalists, among others, as significant vested interests. For with power co-equal with that of large corporations, labor unions in some cases today, patently are employing the strike as a device to "protect" the market—that is, to maintain a certain relationship between supply and demand for the product of their industry so as to result in a desired level of employment for the membership at desired rates of pay. Thus, one might say that the selfish interests

¹⁹ *Ibid.*, 74-75.

²⁰ Veblen, *The Instinct of Workmanship*, 3-20.

of both groups are congruent, up to certain limits, in contrast with the interests of the customer. What strange bed-fellows these troubled times produce!

For Veblen's purpose in economic analysis, instinct meant certain "innate and persistent propensities of human nature." It involved, too, "consciousness and adaptation to an end." Furthermore, as he used the term, instinctive action was intelligent action—all instinctive action is intelligent and purposeful. It aims to achieve some end and involves some degree of intelligent faculty to attain it.

The instincts which Veblen considered to be important for purposes of economic theory and analysis are the:

- a. Instinct of workmanship
- b. Parental bent
- c. Bent of idle curiosity.

In general, the instincts of workmanship and parental bent make directly for the material welfare of the community. They are both in their objectives and in their operation very closely related. The instinct of workmanship is the propensity for devising practical expedients, ways and means, devices of efficiency and economy, for creative work and proficiency in productive effort plus the propensity for mastery of technology. It is of service in the achievement of whatever ends the other instincts might set up.

Parental bent Veblen defined broadly as all sentiments of an unselfish sort relating not just to the family but to the entire social group. It is a sort of instinct of social sympathy and community welfare in the material sense.

Veblen described "idle curiosity" as the desire for knowledge. This bent has no utilitarian aims in itself but does contribute to them indirectly through the knowledge accumulated at its instigation.

Veblen traced the evolution of these instincts through the four stages of human history as he defined them: "The Savage Era," "The Barbarian Era," "The Handicraft Era" and "The Era of Machine Industry." It is in connection with this detailed discussion that Veblen drew heavily (sometimes even rather arbitrarily) on archeology, anthropology and the other social sciences in support of his theory.

Very briefly, Veblen held that the Savage Era was the era in which the instinct of workmanship and parental bent operated within a most favorable environment. It was the "golden age of the savage state of man." Peace predominated, the people were settled in small communities and sustained themselves largely by agriculture. Both land and instruments of production were held in common. The institution of private property did not exist.

The most significant single development of the Barbarian Era, the second stage of human development, was the founding of the institution of private property.²¹ The establishment of the institution of ownership brought with

²¹ Institutions are habits, customs, conventions which develop cumulatively over considerable periods of time. Some may be formalized as laws—for example the institutional concept, also a legal one, of private property.

it economic control. Secondly, there were aroused motives of self-interest which manifested themselves almost exclusively in acquisitive pursuits. Third, the emphasis on status, which came to be practically identified with wealth, led to standards of consumption of an extremely wasteful nature. Fourth, the disrepute which was attached to those who, because poor, had to do productive labor, served to make labor irksome. Finally, all of these factors together with other less important ones, caused a decline in productive efforts and technology. Thus there developed an antithesis between the instinct of workmanship (i.e. productiveness, industry) and parental bent on the one hand and the institutions on the other.

During the third or Handicraft period, the basic conditions were favorable to technical advance: labor was in a central position since it shaped goods. Labor was the agent whose efficiency in the use of tools and limited machinery, made for the success of investment.

The different points of view of the two basic classes of society (which originated in the preceding period and continued their development in the handicraft period) produced no serious conflict between them primarily because they both benefited from rapidly widening markets. The principal limiting factor on profits was the material output of industry; it was therefore to the advantage of capitalists to stimulate productive efficiency.

Consequently, as a result of the widening of markets, the gains of entrepreneurs, as well as the welfare of the community at large, depended upon technological efficiency. Hence, the instinct of workmanship could operate virtually without restriction. It was to be noted, nevertheless, that a duality of interests and classes was being nurtured.²²

The Machine Age, with its requirements for large amounts of capital investment in productive machinery and equipment put the capitalist in a key position. The vast increase in productivity resulting from mechanization and improved technology of the earlier period of this era finally brought about a direct conflict in the business interests of the entrepreneur and capitalist as contrasted with the productive interests of labor and technicians who, using machines and technology, gave positive expression to the instinct of workmanship in modern times.

Thus, Veblen carried forward the opposing forces of instinct and institutions, operating through the purposive agency of man, while, at the same time, exerting their influence upon the form and direction of human agency, in a sort of cumulative dynamic evolution from the savage to the modern or machine age. The operation of these forces and their application to modern times in which they produce an economic dichotomy was described by Veblen in *The Theory of Business Enterprise*, *The Engineers and the Price System*, and *Absentee Ownership*.

It is apparent from the foregoing brief summary of the fundamentals of Veblen's positive statement of his economic theory, that this structure hangs together rather loosely and tenuously. It is supported by some rather

²²Veblen, *The Instinct of Workmanship*, Chapter VI, 138-230, 231-298.