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## **Veblen's Economic Theory and his critics**

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## INTRODUCTION

Nowadays the writings and the philosophical, economical and sociological thoughts and theories of Thorstein Veblen enjoyed a renewed interest. Even if his style and his recurring polemical attitude makes his writings not so easy to understand, the aim of this thesis is to analyze and explain the elements which led Veblen to develop his most known theories, as “The Theory of the Leisure Class” and “The Theory of Business Enterprise”. We will stress the fact that Veblen in order to develop his theories focused on the importance of the historical backgrounds that led to the present social and economic situation, starting from the barbarian age passing through the feudalism. We will analyze his theory of constant clash between the “technicians” and the “undertakers”. Two focal points of this thesis are the unemployment theory developed by him after a deep analysis of the factors that drive the economy and the importance of the feminine figure in the develop of his leisure class theory. For what regards the unemployment theory we will take in analysis that firms are the theatre of the conflict between technicians and undertakers; the latter willingly to maintain high prices in order to get higher profits through the reduction of production collude with technicians who want to maintain an higher production in order to demonstrate their skills and knowledge. The role of women is relevant for the explanation of the “conspicuous leisure and consumption” in his theory of the leisure class; since women were considered as spoils of war in the barbarian age, in contemporary society, the unemployed housewife is seen as an “economic trophy” for a men’s socio-economic prowess. Having a non-independent wife from the economic point of view displays her unemployed status as a form of conspicuous leisure for the husband.

This work is divided into five chapters:

- 1) Critics by Veblen to orthodox theory and government: the decision of creating a chapter over the critics to the orthodox theory and government comes from the thought that in order to understand a complex theory as the one of the leisure class and of the business enterprise, we should first of all do out of the reasons why Veblen decided to create such theories so discordant from what was the contemporary economic thought.
- 2) The Theory of Leisure Class: in this chapter we will analyze all the elements of the maybe most known Veblen’s theory, focusing the concept of “conspicuous consumption and leisure” and their effects on the society, and the role of the women in this theory.
- 3) The Theory of Business Enterprise: we will understand the clash between the business motivation (enhance the level of profit) and the industry (enhance the making of goods).

4) Critics to Veblen theories: this chapter is focused on the critics that Veblen received in order to better understand the validity of the latter's theories.

5) Reflections of Veblen's works on the present socio-economic society: this chapter is focused on the effects of Veblen's assumptions in nowadays world.

As stated at the beginning of the introduction, is important to define the historical background in which Veblen wrote his theories and is also relevant to do a brief biography of this economist:

Between 1880 and 1900, in the United States the cities grew at a dramatic rate by about 15 million people in the two decades before 1900. Many of those were helped in the account of the population growth by immigrants arriving from around the world together with people arriving from rural America, between 1880 and 1890, almost 40 percent of the townships in the United States lost population because of migration.

Even if the United States of America at the end of the 800' was still more rural than urban it was already a world leader in industry. The United States was the leader in the production of iron and steel, produced half the world's cotton, corn and oil and a third of its coal and gold. The self-sufficient diversified farm was giving way to specialized commercial agriculture, this was possible benefiting from a great abundance of natural resources and the organization of the economy in large corporation.

In rural areas, many people were poor but in the inner cities there were over-worked factory workers lived in congested and unsanitary apartments. With the rise of industry had come an increase in the variety and abundance of goods, for this reason at the beginning of the century people in the US were able to buy more than they had in previous decades. In order to simplify the growth of the markets were created many department stores and mail-order catalogs leading the possibility to shopping by telephone.

The most important factors for the growth were the increasing facilities in achieving the technological advances such as the electricity was reaching more people in the cities, having the advantage of being without soot or the need to ventilate and there were electric trolley cars on which to ride to work or to stores or on Sunday outings. The railroads powered the industrial economy consuming the majority of iron and steel produced in the United States before the 1890, in the 1882, steel rails accounted for 90 percent of the steel production in the United States becoming the nation's largest consumer of lumber and of coal distributing also these commodities across the country. Even if the railroads increased the facility of moving of the naturale resources through the

United States decreasing the price of wheat, silver, timber and other commodities bringing many producers into bankruptcy, many historians considered this signals as the premonitions of the big crisis of the nineteenth century.

The americans middle and upper class were feeling good and optimistic since they were enjoying more leisure having annual vacations or they went to orchestral concerts in a park or city center, at amusement parks or to a local baseball game.

The industrial expansion and population growth, was not only a positive situation but radically changed the face of the nation's cities, increasing the noise, traffic jams, slums, air pollution, and sanitation and health problems became commonplace. Mass transit, in the form of trolleys, cable cars, and subways, was built, and skyscrapers began to dominate city skylines. Tighter with the increase of the population new communities, known as suburbs, began to be built just beyond the city, increasing the need of a way to move from those areas to the cities for work, increasing the difficulties of the working class in the United States. The life of a 19th-century American industrial worker was far from easy even in good times wages were low, hours long and working conditions hazardous, receiving a very little part of the wealth created by the workers. The situation was even worse for women and children, who made up a high percentage of the work force in some industries and often received but a fraction of the wages a man could earn.

At the same time, the technological improvements, which added so much to the nation's productivity, continually reduced the demand for skilled labor increasing the number of unskilled workers, as unprecedented numbers of immigrants 18 million between 1880 and 1910 entered the country, eager for work. For millions, living and working conditions were extremely hard, and the hope of escaping from a lifetime of poverty slight was a common thinking, the United States had the highest job-related fatality rate of any industrialized nation in the world. Most industrial workers still worked a 10-hour day, reaching 12 hours in the steel industry, earning from 20 to 40 percent less than the minimum salary necessary for a decent life, the situation was only worse for children, whose numbers in the work force doubled between 1870 and 1900. Before 1874, when Massachusetts passed the nation's first legislation limiting the number of hours women and child factory workers could perform to 10 hours a day, virtually no labor legislation existed in the country but it was not until the 1930s that the federal government would become actively involved, until then, the field was left to the state and local authorities, few of whom were as responsive to the workers as they were to wealthy industrialists.

All this terrible situations and conditions of living resulted in the most violent labor conflicts in the

nation's history. The first of these occurred with the Great Rail Strike of 1877, when rail workers across the nation went out on strike in response to a 10-percent pay cut attempting to break the strike led to rioting and wide-scale destruction in several cities: Baltimore, Maryland, Chicago, Illinois, Pittsburgh, Pennsylvania, Buffalo, New York, San Francisco, and California, the Federal troops had to be sent in at several locations before the strike was ended. Another example of the violence that exploded in that period was in the Haymarket Square incident that took place nine years later, when someone threw a bomb into a meeting called to discuss an ongoing strike at the McCormick Harvester Company in Chicago, killing nine people and injuring other 60.

We will now do a brief biography of Veblen in order to better understand his economic thought.

The views of Thorstein Bunde Veblen (Cato, 30 luglio 1857 – Menlo Park, 3 agosto 1929) are in part explained by his background, he was the son of Norwegian immigrants grown in the rural Wisconsin and Minnesota. His command of English was as deficient as his knowledge of American society, leading strong difficulties to fully integrate him into it, resulting like a man coming from Mars observing the absurdities of the economical and social environments.

He graduated at the Carleton college and the P.h.D. in philosophy at Yale but thanks to his atheistic visions he never reached the job in teaching. He described the Church as “an accredited vent for the erudition of effete matter from the cultural organism”. This vision leads him to change very often colleges having many difficulties given by his strong criticism of the American capitalism together with his inability to receive broad support from the university administrators.

In the mid 1920s after several years of political infighting the American Economic Association offered Veblen its presidency on the condition that he join the association and deliver an address, he refused the offer asserting that it had not come at the time when he needed it. His style of writing and his particular choice of words give his works a quality that some writers have found highly entertaining and others contested him, since he wrote with the feeling to let the reader uncomfortable and confused.

Veblen can be considered the father of the branch of the American heterodoxy, that is called institutionalism, based on the scientific and ethical critic to the orthodox theory.

## CHAPTER 1

### Veblen and the importance of the antecedents

Veblen insisted that the subject matter of economist should be something different from that of the prevailing economic theory dominated by the orthodox theory, that at time was largely interested in how the society allocates its scarce resources among alternative uses. In the conception of economy of Veblen is stressed the importance of the role of the economics that should be a study of the evolving institutional structure defining as habits of thought that are widely accepted at any particular time. Veblen tried to explain what orthodox economic theory considered as given and correct such as the particular institutions of a culture, starting from the idea that to better understand the evolution of a culture is fundamental to understand the antecedents: [The growth of culture is a cumulative sequence of habituation, and the way and means of it are the habitual response of human nature to exigencies that vary incontinently, cumulatively, but with something of a consistent sequence in the cumulative variations that so go forward— incontinently, because each new move creates a new situation which induces a further new variation in the habitual manner of response; cumulatively, because each new situation is a variation of what has gone before it and embodies as causal factors all that has been expected by what went before; consistently, because the underlying traits of human nature (propensities, aptitudes, and what not) by force of which the response takes place... remain substantially unchanged.](pp 241-242 “the Limitation of Marginal Utility”).

The fundamental element that leads the possibility to understand the development and how works the industrial society is the complex set of interrelationships that exist between the human nature and the culture. [Not only is the individual’s conduct hedged about and directed by his habitual relations to his fellows in the group, but these relations, being of an institutional character, vary as the institutional scheme varies. The wants and desires, the end and aim, the ways and means, the amplitude and drift of the individual’s conduct are functions of an institutional variable that is of a highly complex and wholly unstable character]

As the individuals grow and develop, new cultures find their behavior and their way to think in a strict accordance with the patterns of behavior that are a legacy of past interaction between individuals and culture, and that are taken on an institutional character and force, giving an extremely important role of natural behavior acted without logic that Veblen calls "instincts".

At the beginning of the 1900s it was a very strong development of the psychology that influenced Veblen in the explanation of the instinct guiding the human behavior and consequently the human economic activities. As Edgell (2001, p.79) writes "instincts for Veblen [are] biological" and differ from animal instincts for the high degree of intelligence with which the human species manage and control them. On the other hand O'Hara (1999, p.162) states that "instincts, for Veblen, are not purely physiological, biological, and psychological, but are heavily conditioned by institutions".

The origin of instincts was a problem not deeply explained by Veblen in particular on the origin and predominance of a given instinct, leading to the possibility to take into account two different lectures. The first was that instinct has a biological origin, the second was that instinct has an institutional origin itself. Veblen defines instincts as teleological native proclivities that is to say "native proclivities [or stimulus which] set up a characteristic purpose, aim or object to be attained" (Veblen, 1922 [1914], p.3; see also. The 'teleological' character of instinct allows Veblen to view the same instinct as a conscious and adaptive propensity – "activity" – towards "an end aimed at". One could argue that Veblen rejects the idea that instinct always expresses itself in mechanical and biological terms as "movements of orientations" (Veblen, 1922 [1914], p.4) since the instinctual activity is not independent of will, reasoning and emotion. Interpreting Veblen the author adds that instincts were not actually seen as direct and simple reactions to impulses but mainly as "intelligent adaptations towards selected ends". Hence instincts required natural and spontaneous observation, analysis, calculus and decision about the goal to be reached. In other words the origin of instinct must necessarily be biological but – in an evolutionary process – it necessarily combines with the pressure of institutions; as a result, habits of life – affecting habits of thought – also affect human intelligence which then affects the instinctual traits of the human species. In these terms Veblen in fact considers institutions as outcomes of instincts, probably at the outset of the evolutionary process, but then the causal relationship changes from instincts-institutions to institutions-instincts.

Veblen felt that the most important instincts that modify and create the human economic activities are the parental instinct, workmanship, idle curiosity, and acquisitiveness. The parental instinct is originally a concern for family, tribe, class, nation, and humankind. The instinct of workmanship



makes us desire to produce goods of high quality, to be proud of and to admire workmanship, and to be concerned with efficiency and economy in our work. Idle curiosity leads us to ask questions and seek explanations for the world around us. It is an important element in accounting for the development of scientific knowledge. The acquisitive instinct is the opposite of the parental in that it leads the individual to regard his or her own welfare rather than that of others.

### Veblen critics towards Government failure

The institutional process of democratic political decision making received little attention in Veblen's analyses of the business enterprise system and its attendant leisure class culture. As Rick Tilman has explained: Veblen's concern was not with the structural forms and procedural basis of representative government but with a political economy which would maximize the economic welfare of the common man. He placed far more emphasis on maximizing the production and distribution of goods than on the traditional institutional and procedural mechanisms of representative government. But Veblen certainly did not ignore government altogether. The basic theme in Veblen's discussions of the public sector in modern industrial democracies was that representative governments tend to implement policies that adversely affect the material welfare of the 90 percent of the population without owning enough wealth to make it possible. His analyses of governmental failure can be analyzed for several reasons, trying to redefine the relations within the society. In other words, he diagnosed and presented the structure of the capitalist system from a perspective of social theory rather than an economic one. Like Marx, he was also influenced by the Darwinian evolutionary theory. Veblen emphasized that the consequences of the evolution of institutions were the internalization of capital and the change in structure of the capitalist class. Veblen indicated that most capitalists became part of the rentier class during this social and economic transformation period.

The production was always a social and cultural issue, since it was a social process in which human beings shared knowledge and skills, passed them on from generation to generation, and cooperated socially in a process of transforming nature to suit human needs. Also, he accepted the class struggle among the workers and the capitalists. Veblen's main concern was to analyze and

understand capitalism analyzing it in the development of capitalism in the United States, just like Marx did for England. Interestingly, since he apparently really liked to use and create new terms and show his intellectual ability to his readers, Veblen gave different names to the two social classes and the struggles among them. For instance, in his analysis the terms "absentee owners" and "leisure class" referred to capitalists. Similarly, engineers, workmen, and the common man were all lumped together in the category of "workers" labeling the capitalist society as a "predatory" society. For Veblen, social classes literally divided up society into factions that were dominated by the capitalists. Unfortunately, this sort of domination led to increased idleness among the capitalist class that became the rulers over workmen and women. For Veblen, only until the "instinct of workmanship" reemerged over "predatory instincts" could the subjugation of women and workers finally end in a capitalist society.

Veblen criticized neoclassical economics for several reasons:

First, Veblen's general theory that representative government functions for the benefit of the businessmen contrasts with the modern theories of governmental failure rooted in neoclassical methodology. In the latter, the assumption of rational utility-maximizing individuals is cardinal; the political failures occur because political mechanisms fail to channel rational self-interested decisions by individuals *into* optimal collective decisions. Special interests are able to excessively influence government policy because the democratic processes fail to force an accurate weighting of social costs and benefits in reaching the final decision. Veblen rejecting the neoclassical methodology, and denying the usefulness of the assumption of rational utility-maximizing individuals analyzes the true nature of the modern socioeconomic system. Veblen did utilize methodological individualism in his analyses of how businessmen behave. But his broader analyses demonstrated that such rational business behavior failed to contribute to the social welfare. In Veblen's analyses of government, political failures were predicted because the individuals casting votes in elections were as irrational in their political behavior as in their consumption decisions. Veblen's concept of political failure rested on a different concept of social welfare, that in the modern political economy approach conceptualizes social welfare in terms of individual utility reflected in market demand prices. Social welfare in the Veblenian context meant maximum production and equitable distribution of serviceable goods (as opposed to vendible ones). Pecuniary (market) values, which can be manipulated through "sabotage," reflect human welfare only in some metaphysical sense that is totally incompatible with the modern world of science and technology. Second, despite Veblen's rejection of neoclassical methodology, he came close on several occasions

to anticipating certain elements of the modern economic theories of political behavior. He sketched an economic theory of political parties and hinted that governmental officials may be motivated by their own self-interests. Veblen criticized capitalism because the separation of the social processes of production into factors of land, labor, and capital and their corresponding distributions of wages, rents, and interest was a phenomenon peculiar to capitalism. He also criticized it because, according to his analysis, a money economy emerged only with the institution of property where capitalists monopolized the ownership of the means of production. Regarding the issue of private property, Veblen rejected the "natural rights" approach of neoclassical economists and asserted that production was a cooperative, social process, and not an individual one. To have private and individual laws of property determine distribution and production when production was a social process was highly socially antagonistic. To him, private property originated in and was perpetuated by brute force leading to class division. For Veblen, government was clearly controlled by the pecuniary or business class and existed for the purpose of protecting the status quo or existing order and class structure by enforcing laws of private property and protecting the privileges associated with ownership (Veblen, "Business Enterprise," 1965). In other words, capitalists were viewed by Veblen as being the literal owners of government and representative government simply meant a representation of business interests. The government preserved the existing order, especially the powers and privileges of the capitalist class including their private ownership of means of production. For Veblen, although the American society was free to vote for the party of their choice, capitalists always controlled politics and any of the supposedly corrupt politicians that came along with them

The competitive requirements of capitalism resulted in predatory and exploitative tactics where values of prowess supplanted older instincts of workmanship. In fact, the concept of "emulative consumption" or the struggle to possess and outdo your neighbor became an inseparable and undesirable effect of the institution of private property. According to Veblen, capitalism was merely a regime of absentee ownership where hired labor that included forces of workmanship conflicted with capitalists and their corresponding forces of predatory exploit. As such, business, which was comprised of the pecuniary or leisure capitalist class, dominated industry, which consisted of those of the working, productive, and inferior realm. Furthermore, the pecuniary class continually countered the excessive growth of the ideals of workmanship and subordinated it to business for the purpose of aggrandizing the wealth of the absentee owners.

For Veblen, workmanship was dangerous for absentee ownership because workmanship stressed

cooperation rather than competition and also individual equality and independence rather than pervasive relations of subordination. Because of this threat, absentee ownership sought a means to counteract these so-called adverse influences of workmanship. Imperialism, according to Veblen, was one of the ways relied upon to counteract the workmanship instinct and was necessary to gain traffic in foreign parts in the quest of profit. Cognizant of vast fields of profit just waiting to be reaped in other parts of the world, capitalists relied on the government to help cultivate new markets and capture these profits. According to Veblen, patriotism was merely another tool used by capitalists or absentee owners to counteract the subversive influences of natural workmanship instincts. Patriotism was also used as a national sentiment or a conditioning tactic to get the general populace to believe that everyone's interests were identical to the corporation's interest and to resultantly gain support for the government's aggressive imperialistic policies.

Veblen indicated that free income, privileges, and powers of capitalism derived themselves directly from the laws of property ownership, and the concentration of property ownership became increasingly in the hands of the absentee ownership or wealthy class. Capitalists' power to rule over society depended on their ability to control the emotions, ideas, and ideological dispositions of the majority of workers. Hence, if the majority of workers realized that capitalists contributed nothing to production process and that capitalists were the cause of depressions and other malfunctions of the economy, then they would rise up and free themselves from the system and change it. In other words, if the common man would just become cognizant or aware of this very perverse social relationship (i.e. the fact that the pecuniary class or capitalist class was virtually idle and absent from all production processes), then workers would try to overcome it so that they would no longer be in bondage to the incessant drive for emulative consumption and suffer the illnesses and chronic dissatisfactions and miseries resulting from these unfortunate social divisions. According to Veblen, the ultimate happiness of workers, then, depended on the eventual triumph of the values of workmanship over the predatory values of business. As it were, though, freedom for the common man merely meant being able to buy and sell. Due to Veblen government was an organization useful to the management of a monarch affairs. Anyway he believed that under democracies with parliamentary representation policies should reflect the collective interest of the "common man". He stressed the fact that modern government policies were of mercantilist nature. [The modern mercantilism under constitutional rule. Looks to the prince as a means to the end of commercial gain. "With the transition to constitutional rule and methods, the discretion and autonomy in the case has passed from the hands of the prince into those of the businessmen, and the interests of the

businessmen have superseded those of the crown. Representative government means, chiefly, representation of business interests. The government commonly works in the interest of the business men with a fairly consistent singleness of purpose] (Veblen 1915, p. 286). Veblen stated that since the general population to which he referred to as "common man" was irrational democratic government functioned on behalf of business interest. There is a naive, unquestioning persuasion abroad among the body of the people to the effect that, in some occult way, the material interests of the populace coincide with the pecuniary interests of those business men who live within the scope of the same set of government contrivances. This persuasion is an article of popular metaphysics. Veblen's generale theory that democratic governments function on behalf of business interests at the expense of the vast underlying population was repeated forcibly and expanded upon in his later works. In *The Vested Interests and the Common Man* (1919), Veblen described "democratic sovereignty" as having been converted "into a cloak to cover the nakedness of a government that does business for the kept classes" (1946, p. 125). The common man irrationally thinks that he comes in for a "ratable share" of the "imponderables", *i.e.*, the illusion of property in the form of national prestige and honor. The government procures and safeguards foreign investments and concessions for the business- men and the burden of the cost falls on the unprotesting common man. Subsidies and credits are provided to those businessmen who profit from shipping and the cost is willingly borne by the common man. Colonies are procured and administered at public expense for the private gain of certain traders, conces- sionaires and administrative office-holders, the cost of which is willingly born by the common man. The only difference between the dynastic State and the democratic common- wealth is that in the latter "the common man has to be managed rather than driven".

[ Leathers G.C., *Thorstein Veblen's Theories of Governmental Failure: The Critic of Capitalism and Democracy Neglected Some Useful Insights, Hindsight Shows*, *The American Journal of Economics and Sociology*, Vol. 48, No. 3 (Jul., 1989), pp. 293-306]

Veblen critics to the orthodox theory

In his works, Veblen repeatedly insists on the idea that the object of which the economic theory has to deal with, has to be something other than what the Orthodox were dealing with. Veblen states that economic theory has to deal with the way in which society allocates scarce resources among alternative uses.

Veblen attack to the orthodox theory is based on the complaint of the unscientific nature of classical and neoclassical assumptions of economic equilibrium goodness and on the complaint of the assumption that economic actors behave rationally.

Due to Veblen it should be assessed how the institutional structure in which individuals operate change their behavior and how this influences the economic activity. According to Veblen, orthodox esponents (classical and neoclassical) show their pre-Darwinian behavior in refusing to admit that the economic system is subject to constant change and evolution. He argues that economic science should be a study of the evolution of the institutional structure (hence the definition of institutionalism) defining institutions as beliefs and social customs of a given era. To understand the development and the current functioning of the industrial society, we need to understand the set of interrelationships that exist between the characteristics of human nature and institutions. In addition to these questions of method, aimed at defining the scope of economics, Veblen plays a ferocious analysis of capitalism as institutional structure, criticizing the orthodox view that saw in capitalism an optimum resource allocation mechanism. The attack on orthodox thinking consists even in emphasizing that the orthodox theory is misleading in postulating that an economic system controlled and directed by businessmen would promote the welfare of society ; due to Veblen this figure is rather its saboteur . Veblen specifies its sociological analysis through the concepts of " leisure class and " conspicuous consumption" with which businessmen show , through the exposure of their wealth , their " predatory " ability and their position in the social hierarchy . Veblen defined economics as the science of concrete processes. He state that “An evolutionary economics must be the theory of a process of cultural growth as determine as the sequence of economic institutions stated in terms of the process itself” . Resuming we can see that Veblen critics toward the orthodox theory where that this theory : 1) failed to explain concrete reality, 2)it was teleological or animistic, 3) it was a “taxonomic science”. What he was unwittingly attacking in his charge of animism and teleology was the normative framework of the orthodox economics. Veblen state that orthodox economics was a “ taxonomic science”, concerned with static categories (such as rent, value) related in a “normal equilibrium”. Concrete data were merely classified in those categories. The result, from Veblen’s point of view, was an effort to force a

dynamic concrete reality into the static modes of an obsolete science. Socioeconomic life in the machine age, as he saw it, was an ever changing process ; the function of science should be to explain that concrete process in terms of causal or genetic sequences. The model Veblen took for his economics was post-Darwinian biology. Genuine Darwinian science, he held, sees no normal equilibrium but only ceaseless non-teleological evolutionary process. Economics, too, should become an evolutionary science.

[Gosh S.K., *On the Validity of Veblen's Criticisms of Economic Orthodoxy: An Analysis of His Positions in the Light of Current Conditions and Economic Thought*, The American Journal of Economics and Sociology, Vol. 43, No. 2 (Apr., 1984), pp. 235-246]

## CHAPTER 2

### THEORY OF THE LEISURE CLASS

Redacted in 1899 the “Theory of the Leisure Class” was Veblen’s first book. The peculiarity of this work is the absence of any equation or assumption even if it is an economic book. For this reason it has been for long time criticised by economists being considered as imprecise and gross. Veblen’s work is relevant since the ideas contained in it are strictly related with real world problems. As for his other books, in the “Theory of the Leisure Class” the author makes use of an ironic and sometimes very difficult to understand language as for example in the case in which he refers to a French King who lost his life because "In the absence of the functionary whose office it was to shift his master's seat, the king sat uncomplaining before the fire and suffered his royal person to be toasted beyond recovery. But in so doing he saved his Most Christian Majesty from menial contamination" (Veblen 1967, 43). In this work Veblen asserts that the economic life of a modern society is not based upon merit or economic utility, but is based upon the social stratification of

tribal and feudal societies. He also introduces different concepts as: subjugation of women, conspicuous leisure and consumption.

At first in his book, Veblen states that the institution of the leisure class grew during the transition from primitive savagery to barbarism. The conditions of this class are considered a predatory habit of life. The leisure class lives by owning women, slaves and material goods. Due to the author, the reason of ownership is emulation and starting from this thought he explains all the vices that characterize the leisure class.

[Reynard H., *The Theory of the Leisure Class*. by Thorstein Veblen, *The Economic Journal*, Vol. 35, No. 139 (Sep., 1925), pp. 445-446]

At this point Veblen introduces the concept of conspicuous leisure which involves the abstention from any form of useful activity and the acquisition of useless and expensive habits (as breeding, polite usage, decorum). Veblen has no difficulty in showing that the canons of taste of the leisure class are wholly pecuniary. Elegant dress is the symbol of leisure. Women's dress is obviously designed to ensure the maximum of impediment to their activities. The cap and gown of the University student and the cassock of the priest are expressions of the same pecuniary culture. The characteristic occupations of the leisure class are explained as expressions of predatory emulation. Their addiction to sport is a survival of the predatory stage of culture; the gambling spirit pervades the sporting element, and shades off insensibly into the frame of mind which finds gratification in devout observances. Wealth, as a proof of the owner's dominance, is an invidious distinction. He anyway admits that there are non-invidious motives, as the "instinct of workmanship" which is often opposed to the idea of conspicuous consumption; and even if he admits that conspicuous consumption is in many cases not directly in consumer's mind, but is only indirectly present, in the desire of that individual to conform to the standard of living in his class, still he contends that the dominant canons of conduct are the principles of waste, futility and ferocity. Waste is considered as an useless for human well being expenditure. In order to understand whether an expenditure is a Waste or not Veblen asserts that if an expenditure serves directly to enhance human life then it is not a Waste.

The distinctions between activities that are honorific

in the barbaric stages of cultures and those which are inferior, form the basis of the later distinctions of the more developed societies. The honorific activities are those activities which give evidence of the talent of those more aggressive and resourceful members of the so called predatory community. At an early stage trophies, such as captive women of neighboring tribes, are sources of praise and



envy to their possessors. Naturally other members emulate the more successful warriors. In the contemporary world "pecuniary emulation" becomes a relevant element. The desire for improved living standards is thus seen by Veblen to be based more on psychological needs than on consumptive needs. The need for self respect in the face of unfavorable notice on the part of the prepotent members of the society. The need for goods and services is consequently as insatiable as is the spirit of emulation induced by invidious comparisons.

[Slater H., *The Theory of the Leisure Class by Thorstein Veblen*, Journal of Omicron Chi Epsilon, Vol. 2, No. 1 (May, 1957), p. 27]

The psychological needs form the under current of the feverish stream of social life. The surface reflections are,transitory constantly shifting and assuming new patterns. The leisure class, preserving traditions because of its protected position, lowers efficiency and retards functional adaptation as the defense of "institutions handed down from a barbarian phase of life " and the " reluctant tolerance " in the universities of new views of human relations. The author calls the attention to the relation of leisure class and the economic process considering it as a pecuniary relation , a relation of acquisition, not of production; of exploitation, not of serviceability. The accumulation of wealth by rich men involves a privation of wealth to the poor men and, as an important factor of exploitation, it enhance the conservation of a barbarian temperament substituting fraud for force. Manners, spending habits and social values may be seen as the causes of invidious comparisons. There is thus brought about, not only a hierarchy of wealth, but a perpetual scramble to excel one another. Wealth becomes the basis of esteem. The standard is wholly pecuniary. Not only must wealth be possessed, but there must be a show of its possession. It must be obvious to all that there is an inexhaustible reserve. Hence leisure must be made conspicuous by "conspicuous consumption" and "conspicuous waste".

The author's theory of why fashions change is really peculiar. The ugliness caused by their superfluous cost renders them intolerable to behold for any great length of time, so that a change is demanded by the aesthetic sense even of the leisure class; but the new ones can be no better, because they, too, must have these marks of " reputable futility" and " conspicuous waste," that are necessarily offensive to taste, which is based on the instinct of workmanship. They must therefore also soon give way to others no better than they, and so on indefinitely. It is a perpetual conflict between pecuniary beauty and rational beauty, which are incompatible, but in which the former always prevails, and all the latter can do is to condemn the product and compel the victor to bring on another.

The two great social classes are characterized by an assortment of sharply contrasted words and phrases, and not only their occupations, but their underlying instincts, are clearly marked off by such expressions as the "instinct of sportsmanship" and the "instinct of workmanship;" "exploit and industry," or "exploit and drudgery;" "honorific and humilific" occupations, and "perfunctory and proficuous" activities, all forming the primary contrast between "futility and utility." In each of these pairs the first belongs to the leisure class and represents the superior fitness to survive in human society. The leisure class constitutes the biologically fittest, the socially best, the aristocracy. It is relevant to take into consideration Veblen's views about the role and function of women in society which are largely explained in the "Theory of the Leisure Class". His view makes us understand that the author was way ahead of his time. One of the themes which runs all through the work involves exploitation of women. In barbarian cultures one finds not only a leisure class but also an inferior class. This inferior class includes slaves and dependents, and ordinarily also all the women. If there is a more complex system, then there is still a difference in what men and women do. There is in all barbarian communities a profound sense of disparity between man's and woman's work. Subsequently he characterizes the difference by noting that the distinction between exploit and drudgery coincides with the difference between the sexes. As seen before due to Veblen owning property is considered as critical in the pursuit of pecuniary goals. Pecuniary emulation is pursued by men from the vantage point of a marriage based on coercion. Owning property is the basis for emulation, and owning wives is a major asset in its pursuit. Like in fashion, "conspicuous leisure" can be displayed by husbands who literally do nothing (or nothing constructive) while their wives, in simple societies, do all the work. In more complex societies, men have several wives and while the chief wife may also achieve a life without work the secondary wives do it all. Women play an important role in furthering the need for "vicarious leisure and conspicuous consumption". In modern societies these two factors are considered as "one's chief weapons" and due to Veblen the women remain the sole exponent of the household's pecuniary decency. Wives are for this reason indispensable as a means for demonstrating wealth. Veblen finds many parallels between the treatment of women in his pecuniary world and the treatment of Blacks in the United States. The distinction between field slaves and house slaves, for example, is matched by Veblen's characterization of the diverse ways in which women can display men's wealth and status (as head wives who do nothing or wives who keep house, as mistresses). The world he describes is as crude, relative to the battles of today's feminists, as the treatment of Blacks in the earlier history of this country is crude relative to the current battles over racial justice.

His refusal to accept the traditional view of the role and function of women was an integral part of his refusal to accept either the assumptions or the methodology of the economic orthodoxy of his day; he insisted upon making explicit what was implicit in these theories, and upon asking the difficult and relevant questions. Veblen, who saw women's grievances as legitimate, classified them in two broad categories: those concerned with work, and those involving what he termed emancipation (what his modern counterparts would style liberation). In his detailed discussion of women's grievances he commented upon such topics of current interest as women's status and self-image, the function of cultural conditioning in defining work and social roles, and women as property and as objects of display. Moreover, he noted that discrimination against women is frequently perpetrated with the connivance of women themselves, and that their existence could only be described as vicarious; as being led, not totally against their will, at the second remove. Although he ignored women's roles as sexual objects—a matter of great contemporary interest Veblen clearly saw their importance as property and as objects of display. He traced the institution of ownership to the ownership of persons, primarily women, acquired by conquest.

We can now understand the important contribution of the role of women to the development of Veblen's "Theory of Leisure Class":

1)The origins of property ownership in the capture of women by prehistoric tribes:  
Veblen claimed that seizure, instead, was the origin of the concept of property ownership, and speculated that seizure of persons predated seizure of goods. Perishable articles of consumption could not represent accumulated wealth, and where necessary to the survival of the primitive community would have to be allocated on the basis of need to insure the survival of the group. The capture of slaves represented the most durable addition to the wealth of the community and the individual since they contributed to their own transport and sustenance. Men preferred women captives, wrote Veblen, because other men would have been adept with weapons and represented a threat to the captor. In addition, he believed that women were the chief productive agents of primitive society, specializing in hunting and warfare.

2)The division of labor into "exploit" versus "industry" based on male-female distinctions:  
The original division of labor, according to Veblen, was between women, who performed the drudgery of domestic tasks, including agri- culture and handicraft, and men, who performed the more honorific tasks associated with warfare, religious ritual, sports, law, and governance. Veblen concluded that the modern day distinction between industrial and nonindustrial occupations derives

from the original distinction between the exploit of male occupations and the drudgery of female industry, suggesting that some of our basic attitudes toward the honorableness of work originate in male-female distinction

3)The importance of woman's position as vicarious (rather than producers) in the leisure class of increasingly wealthy societies:

At the beginning due to Veblen the leisure class was composed only by men, who consumed only what women produced. He anyway sustains that in modern societies where wealth has increased, also the economic pressure to display the wealth conspicuous consumption has increased giving rise to the role of wives as vicarious consumers. In the middle-class household this role is particularly important, for circumstances do not permit the head of household to directly emulate the man of leisure. He must be engaged in the ordinary business of making a living, but he can distinguish himself from the lower classes by maintaining a wife who preserves the leisure class standards. Veblen relied on this to explain the economic function of the feminine ideal requiring that the wife demonstrate her incapacity for useful effort, thus enhancing her value as a demonstration of the prowess of the master of the household.

In the next passage taken from the book "Theory of the Leisure Class" we can notice how much Veblen stresses the importance of the women in the development of his theory: *"The early differentiation out of which the distinction between a leisure and a working class arises is a division maintained between men's and **women's** work in the lower stages of barbarism. Likewise the earliest form of ownership is an ownership of the **women** by the able bodied men of the community. The facts may be expressed in more general terms, and truer to the import of the barbarian theory of life, by saying that it is an ownership of the **woman** by the man. There was undoubtedly some appropriation of useful articles before the custom of appropriating **women** arose. The usages of existing archaic communities in which there is no ownership of **women** is warrant for such a view. In all communities the members, both male and **female**, habitually appropriate to their individual use a variety of useful things; but these useful things are not thought of as owned by the person who appropriates and consumes them. The habitual appropriation and consumption of certain slight personal effects goes on without raising the question of ownership; that is to say, the question of a conventional, equitable claim to extraneous things. The ownership of **women** begins in the lower barbarian stages of culture, apparently with the seizure of **female** captives. The original reason for*

*the seizure and appropriation of women seems to have been their usefulness as trophies.”* [Veblen T., *The Theory of the Leisure Class. An Economic Study of Institutions*, New York, Macmillan, 1899]

## CHAPTER 3

### THE THEORY OF BUSINESS ENTERPRISE

“The Theory of Business Enterprise” was published in 1904 and is a book by Thorstein Veblen that looks at the growing corporate domination of culture and the economy. First of all we should consider that the main purpose of this work is the analysis of two “clashing” motivations: the motivation of business and that of industry. Due to the author the motive of business is “pecuniary gain” and its aim is the accumulation of wealth, infact Veblen states that men whose aim is not to increase their possessions do not enter into business and so the owners and managers of businesses have a great deal of power in organizing and coordinating economic activity, and their goal is to maximize individual financial gain. Since one of the worst fears of the “captains of industry”(businessmen) was an uncontrollable increase of production that would have meant a collapse of profits, their main goal is to curtail production in order to keep prices and so profits high. Veblen tried to provide a theoretical analysis of the capitalistic production system (which has at its center the enterprise). From a strictly economic point of view, the Veblenian analysis focused on some basic phenomena: the mechanization of production processes with vertical and horizontal integration between sectors, the manufacturing enterprise studied under the organisational aspect of production, the credit market and the marketability of the shares and the business cycle. Veblen introduce in this work some chapters above the relations between the political power and the private speculators, above the impact that the “industrial machinism” and the “industrial speculation” would have on the social culture.

The “Theory of Business Enterprise” is divided in ten chapters :

1)Introductory: in this chapter he explains that the main features of the “ Capitalistic System” are the machine process and investment for a profit. He states that the machine industries are in a dominant position since they set the pace for the rest of the industrial system. Due to Veblen The business man, especially the business man of wide and authoritative discretion, has become a controlling force in industry, because, through the mechanism of investments and markets, he controls the plants and processes, and these set the pace and determine the direction of movement for the rest.

[Veblen T., *The Theory of Business Enterprise. Chapter 1: Introductory*, New York, The New American Library, 1904]

2)The Machine Process: he maintains that the "machine process" means something more comprehensive and less external than a mere aggregate of mechanical appliances for the mediation of human labor. Machine production leads to a standardization of services as well as of goods. So, for instance, the modern means of communication and the system into which these means are organized are also of the nature of a mechanical process, and in this mechanical process of service and intercourse the life of all civilized men is more or less intimately involved. At last he states that The relations in which any independent industrial concern stands to its employees, as well as to other concerns, are always reducible to pecuniary terms. It is at this point that the business man comes into the industrial process as a decisive factor.

[Veblen T., *The Theory of Business Enterprise. Chapter 2: The Machine Process*, New York, The New American Library, 1904]

3)Business Enterprise: Veblen introduces the concept of business enterprise stating first of all that the motive of business is pecuniary gain and the method is essentially purchase and sale. In proportion as the machine industry gained ground, and as the modern concatenation of industrial processes and of markets developed, the conjunctures of business grew more varied and of larger scope at the same time that they became more amenable to shrewd manipulation. The pecuniary side of the enterprise came to require more unremitting attention, as the chances for gain or loss through business relations simply, aside from mere industrial efficiency, grew greater in number and magnitude. The circumstances which condition the work of consolidation in industry are of a mechanical nature. They are facts of the comprehensive machine process. Introducing the concept of business coalitions he states that such coalitions involve a loss of independent standing, or even a loss of occupation, to many of the business men interested in the deal. If a prospective industrial consolidation is of such scope as to require the concurrence or consent of many business interests, among which no one is very decidedly preponderant in pecuniary strength or in strategic position, a long time will be consumed in the negotiations and strategy necessary to define the terms on which the several business interests will consent to come in and the degree of solidarity and central control to which they will submit. He finally asserts that the pecuniary aims and ideals have a very great effect, for instance, in making men work hard and unremittingly, so that on this ground alone the business system probably compensates for any wastes involved in its working. There seems, therefore, to be no tenable ground for thinking that the working of the modern business system

involves a curtailment of the community's livelihood. It makes up for its wastefulness by the added strain which it throws upon those engaged in the productive work.

[Veblen T., *The Theory of Business Enterprise. Chapter 3: Business Enterprise*, New York, The New American Library, 1904]

4)Business Principles: the author considers that The physical basis of modern business traffic is the machine process. "Business principles" are corollaries under the main proposition of ownership; they are principles of property, pecuniary principles. The discipline of the machine process enforces a standardization of conduct and of knowledge in terms of quantitative precision, and inculcates a habit of apprehending and explaining facts in terms of material cause and effect. It involves a valuation of facts, things, relations, and even personal capacity, in terms of force. the ownership of property belongs to ancient institutional habits as the principles of blood relationship, clan solidarity, paternal descent, divine guidance, allegiance, nationality. The pecuniary norm has invaded the domain of the older institutions, such as blood-relationship, citizenship, or the church, so that obligations belonging under the one or the other of these may now be assessed and fulfilled in terms of a money payment. The business man, Veblen asserts, judges events from the standpoint of ownership, and ownership runs in terms of money.

[Veblen T., *The Theory of Business Enterprise. Chapter 4: Business Principles*, New York, The New American Library, 1904]

5)The Use of Loan Credit: Credit is mainly used in the regular course of a business for two goals; the first in for deferred payments in the purchase and sale of goods (book accounts, bills, checks), the second is used for loans and debts (notes, stock shares, interest-bearing securities and deposits. Those two different types of credit are easy to distinguish among them even if the forms of credit can be used together for the same business transaction. After the credit arrangement is very important to place the management of the industrial equipment in competent hands in order to reduce the length of the return of the investment, since it determines the changes of gain in the business. If the general environments and conditions of trade and market are fixed the only variables that can affect the value of an investment are the length of time and the magnitude of the turnover. The main goal of the businessman is to get the maximum gain from his business shortening the period in which he turns over his capital. If the turnover lasts less than his



expectation he gains, if the turnover lasts more than his expectations he loses. He finally asserts that the business capital of a modern corporation is a magnitude that fluctuates from day to day; and in the quotations of its debentures the magnitude of its credit extension also fluctuates from day to day with the course of the market.

[Veblen T., *The Theory of Business Enterprise. Chapter 5: The Use of Loan Credit*, New York, The New American Library, 1904]

6)Modern Business Capital: in this chapter he states that the late-modern scheme of economic life is a "credit economy," as contrasted with the "money economy" that characterizes early-modern times. The nature of business capital and its relations to the industrial process under the later, more fully developed, credit economy is in some degree different from what it was before the full and free use of credit came to occupy its present central position in business traffic. As a business proposition, "capital" means a fund of money values and since the credit economy and corporation finance have come to be the ruling factors in industrial business the basis of capitalization is given by the earning capacity of a corporation as a going concern. The typical modern industrial corporation is a concern of sufficient magnitude to be of something more than barely local consequence, and extends its trade relations beyond the range of the personal contact of its directive officials he finally states that The sublimation of business capital that has been going forward in recent times has grave consequences for the owners of property as well as for the conduct of industry. In so far as invested property is managed by the methods of modern corporation finance, it is evident that the management is separated from the ownership of the property, more and more widely as the scope of corporation finance widens.

[Veblen T., *The Theory of Business Enterprise. Chapter 6: Modern Business Capital*, New York, The New American Library, 1904]

7)The Theory of Modern Welfare: Veblen starts this chapter explaining that since business has become the central and controlling interest, the question of welfare has become a question of price. Under the new regime low prices commonly mean privation. Crises, depressions, hard times, dull times, brisk times, periods of speculative advance, "eras of prosperity," are primarily phenomena of business; they are, in their origin and primary incidence, phenomena of price disturbance, either of decline or advance. It is only secondarily, through the mediation of business traffic, that these

matters involve the industrial process or the livelihood of the community. They affect industry because industry is managed on a business footing, in terms of price and for the sake of profits. The competitive management of industry becomes incompatible with continued prosperity so soon as the machine process has been developed to its fuller efficiency. In the chapter he stress the fact that since the workmen do not and cannot own or direct the industrial equipment and processes there will always be a competitive friction between the combined business capital and the combined workmen. He concludes stating that further technological advance must act to heighten the impracticability of competitive business.

[Veblen T., *The Theory of Business Enterprise. Chapter 7: The Theory of Modern Welfare*, New York, The New American Library, 1904]

8)Business Principles in Law and Politics: Veblen focuses on the fact that modern (civilized) institutions rest, in great part, on business principles. Since the management of the affairs of the community at large falls by common consent into the hands of business men and is guided by business consideration, the modern politics is business politics. Legislation, police surveillance, the administration of justice, the military and diplomatic service, all are chiefly concerned with business relations and pecuniary interests. Veblen in this chapter tries to give an explanation to the fact that warlike expenditure in many cases are strictly high saying that: national animosity and national pride demand more and more of military standing, at the same time that the growing official class needs increasing emoluments and a larger field of employment and display. The cultural effects of the discipline of warfare and armament are much the same whether it is undertaken for drastic or for business ends; in either case it takes on a dynastic complexion and breeds the temperament, ideals, and institutional habits proper to a drastic system of politics. The farther it goes the more it comes to make use of business interests as a means rather than an end. Infact so long as the individual business man sees a proximate gain for himself in meeting the demands for war funds and materials to maintain the courtly and official establishments that go with military politics, it is not in the nature of the business man to draw back.

[Veblen T., *The Theory of Business Enterprise. Chapter 8:Business Principles in Law and Politics*, New York, The New American Library, 1904]

9)The cultural Incidence of the Machine Process: in this chapter the author explains that the factor in the modern situation that is alien to the ancient regime is the machine technology, with its many and wide ramifications. The stage over which affairs, political, industrial and cultural, run their course is no longer Continental, but cosmopolitan, comprising all civilized communities and all civilized interests. The machine process pervades the modern life and dominates it in a mechanical sense. Its dominance is seen in the enforcement of precise mechanical measurements and adjustment and the reduction of all manner of things, purposes and acts, necessities, conveniences, and amenities of life, to standard units. He concludes stating that the machine discipline touches wider and wider circles of the population, and touches them in an increasingly intimate and coercive manner.

[Veblen T., *The Theory of Business Enterprise. Chapter 9: The cultural Incidence of the Machine Process*, New York, The New American Library, 1904]

10)The Natural Decay of Business Enterprise: the machine discipline acts to disintegrate the institutional heritage, of all degrees of antiquity and authenticity. It comes in question here only in so far as such a deterioration of the general cultural tissues involves a setback to the continued vigor of business enterprise. But the future of business enterprise is bound up with the future of civilization, since the cultural scheme is, after all, a single one, comprising many interlocking elements, no one of which can be greatly disturbed without disturbing the working of all the rest. The growth of business enterprise rests on the machine technology as its material foundation. The machine industry is indispensable to it; it cannot get along without the machine process, But the discipline of the machine process cuts away the spiritual, institutional foundations of business enterprise; the machine industry is incompatible with its continued growth; it cannot, in the long run, get along with the machine process. In their struggle against the cultural effects of the machine process, therefore, business principles cannot win in the long run; since an effectual mutilation or inhibition of the machine system would gradually push business enterprise to the wall; whereas with a free growth of the machine system business principles would presently fall into abeyance. It is difficult to believe that the machine technology and the pursuit of the material sciences will be definitively superseded, for the reason, among others, that any community which loses these elements of its culture thereby loses that brute material force that gives it strength against its rivals. And it is equally difficult to imagine how any one of the communities of Christendom can avoid

entering the funnel of business and dynastic politics, and so running through the process whereby the materialistic animus is eliminated. At last he concludes that the full dominion of business enterprise is necessarily a transitory dominion. It stands to lose in the end whether the one or the other of the two divergent cultural tendencies wins, because it is incompatible with the ascendancy of either.

[Veblen T., *The Theory of Business Enterprise. Chapter 10: The Natural Decay of Business Enterprise*, New York, The New American Library, 1904]

## CHAPTER 4

### Critics to Veblen's theories

As we have seen in this work Veblen's main critique was toward the "Rationality assumption" stated by the esponents of the orthodox theory. He believed that people were driven by habits, emotions and whatever constituted an achievement in the reigning system of status emulation. We will now consider some economists who moved different critics to Veblen's theories. We will consider the critics moved by Kenneth Boulding, Paul Sweezy, Paul Baran, Mark Blaug, John G. Wright. We will also tako into analysis a critic to the "conspicuous consumption" theory by Colin Campbell.

Kenneth Boulding: Born in 1910 in Liverpool Kenneth Ewart Boulding was both an economist and a philosopher. His most important work for what regards the economy is the "Economic Analysis" published in 1941. He strongly criticised Veblen's work since he asserted that Veben's attempt to draw widely on psychology, sociology and anthropology in the search for interpolations of economic life totally failed. Boulding asserted infact that Veblen only drew on an instinct psychology, a racist anthropology and an analogical sociology . He dismissed Thorstein Veblen as a poor social scientist.

[Tilman R., *Thorstein Veblen and His Critics, 1891-196*,p.12, Princeton University Press, 1992]

Paul Sweezy: Paul Marlor Sweezy can be considered as the precursor of the independent Marxian economics in the USA. His major work is the "Monopoly Capital" written with Paul Baran. In this work the authors argue that the business economy does not follow the principles of perfect competition. Large companies are able to impose the selling price of their products because they avoid competing on price and are able to absorb wage increases by raising prices. It follows the ability to implement more substantial profits, but also the increasing difficulty of converting these profits in investment and consumption, since their use is primarily in cost of sales promotion, public spending, militarism and imperialism. Talking about his critic to Veblen we should take into consideration that Sweezy's thought about Veblen evolved over time.

Until 1950 Sweezy was a skeptic who had both praise and criticism of Veblen. Then Sweezy's thought matured and moved toward Veblen, while he carefully reread much of Veblen's work. The result was that in 1957 and 1958 he wrote three articles on Veblen, heavy with praise and very light with criticism (see Sweezy 1957, 1958a, and 1958b). For instance, in 1958 Sweezy spoke of Veblen's "towering genius as an insightful and creative social scientist". Here I report a passage of one of the articles wrote by him in 1958:

"Anyone reading [Veblen's] major works on capitalism today must, I think, be struck by the fact that the vision which they embody remains astonishingly fresh and relevant. No one understood so clearly the growth of monopolistic (or, if you prefer, oligopolistic) big business with its ramifications and implications in such fields as advertising, distribution, and popular culture. No one grasped so thoroughly the unity of economics and politics.... Also, only Veblen has built these elements [of war, militarism, and nationalism] into a reasoned and coherent theory.... Veblen's pessimism may be a good deal more meaningful and relevant than it is now fashionable to admit". Eventhough Sweezy contrasted Veblen's institutionalism with neoclassical economics. He stated that Veblen believed that at nonevolutionary theory should be abandoned in favor of an evolutionary theory of political economy, where evolution potentially includes revolution. Anyway Sweezy followed with a vengeance Veblen's view that economic theory must be evolutionary and applied to evernew phases of society. Sweezy found that in his work, *The Theory of Business Enterprise* (1904), Veblen stressed occupational disciplines. According to Sweezy, Veblen found that business owners tend to respect the status quo and are not in a hurry to change, but those who work with machines take change as a matter of fact. So most workers are sympathetic to new technology, whereas the owners are cautious and do not wish to change. According to Sweezy, the

conflict for Veblen in 1904 is a difference in occupational attitude, whereas the conflict for Marx is a difference of class interest. This occupational theory of class is problematic as numerous observers and Veblen specialists have recognised. Sweezy, in his own work, was careful to consider both bases of class conflict. The class struggle over the rate of exploitation is pervasive and central to *The Theory of Capitalist Development* and many other works. Yet the influence of Veblen showed up early on when he discussed the waste of advertising as well as the enormous waste, caused by capitalist refusal to produce a higher amount of product, . In *Monopoly Capital* there is an entire chapter on how capitalists use their monopoly power to restrict output. Capitalists are a terribly wasteful in terms of advertising expense, planned obsolescence, model changes, and so forth. Thus, much of Sweezy's work emphasizes the Veblenian causes of class conflict, often more so than the Marxian class processes and conflicts. Sweezy largely appreciated Veblen's criticisms towards government and asserted that Veblen showed that nationalism and patriotism allow the government to take aggressive actions that justify profitable military spending and divert attention of the underlying population, disciplining them to business activities in the name of the nation. Sweezy was influenced by Veblen and developed criticisms of dogmatic Marxism similar to those of Veblen. Sweezy saw Veblen as a great American radical and was sympathetic to his radical form of institutionalism. Sweezy recognized the importance of Veblen's work in coming to terms with institutional change through an evolutionary economics. In particular, he incorporated much of Veblen's analysis in his own examination of monopoly capital.

[O'Hara P. A. and Sherman J. H., *Veblen and Sweezy on Monopoly Capital, Crises, Conflict, and the State*, Journal of Economic Issues, Vol. 38, No. 4 (Dec., 2004), pp. 969-987,]

Paul Baran: Paul A. Baran was an American economist Marxist. In 1951, he was appointed full professor at Stanford University, thus being the only role-Marxian economist in the United States until his death in 1964. In 1957, Baran wrote *The Political Economy of Growth*, and in 1966 wrote *The Monopoly Capital* along with Paul Sweezy. Baran dismissed Veblen as a "bourgeois theorist and historian" since his "wisdom of last resort" were always of a biological or psychological nature and had always something to do with "basic" racial characteristics of men or with no less "fundamental" structure of their motivations. Referring to Veblen in a brief essay written in 1957, Baran said: "He was a passionate critic of capitalism, but unilateral in its prodigious effort to discern and expose

interconnect all expressions of venality, cruelty and moral and cultural degradation he observed. He was intact due to Baran unable to understand the deepness of the entire social order. Baran argued that Veblen wrongly employed a faulty biological-psychological theory of instincts. Baran criticised Veblen's incapacity in the use of a dialectical-historical mechanism. Veblen was criticised also on his thoughts over government spending; Baran asserted in fact that there exist some good government spending (as for hospitals and roads for example) differently from Veblen who decried each and every kind of government spending.

[Tilman R., *Thorstein Veblen and His Critics, 1891-1963*, pp.217-218, Princeton University Press, 1992]

John G. Wright: Joseph Vanzler (best known with his pseudonym John G. Wright) is one of the most antagonist of Veblen. In an article of "The New International" (Vol. II, No.1, January 1935) made a deep critic to Veblen. He stated that Veblen cannot be indiscriminately lumped with the common run of American academicians. Due to Wright, Veblen compared to the academic fossils of his time was one of the few outstanding original thinkers in America. Wright admits that Veblen introduced the heresy of liberalism and objectivism into those spheres where dogma had previously ruled unchallenged and thought himself that his own generalizations were in part novel. Veblen's views have been interpreted as an attack upon existing institutions. However, while there is much in Veblen that runs counter to convention, Wright essentially states that his work can serve only as a basis for liberalism because his theoretic approach is founded on pre-conceptions and not laws; his "scientific" approach to society is based on Spencer's assertion that sociology is an evolutionary science in the Darwinian sense. Wright strongly affirms in fact that to assert that sociology is an evolutionary science is a different thing from establishing it as such and Veblen confounded the development of the organic species with the development of society. He criticised the fact that Veblen wrote that "the life of man in society, just like the life of other species, is a struggle for existence, and therefore it is a process of selective adaptation. The evolution of social structure has been a process of natural selection of institutions". In fact Wright thought that in order to provide his Spencerian synthesis of sociology with psychology, with logical consistency, Veblen had to invent not only polar types of human nature but such human wants as the indefinitely

expansible human want of conspicuous consumption; not only unheard-of instincts but also mystic broad principles or laws, such as the Law of Conspicuous Waste. These wants or principles or laws are Veblen's embroideries upon conventional economics; and for Wright they are as fraudulent (in a non-invidious sense) as his **Instinct of Workmanship**. Many critics have conceived of his writings as satiric, and when they do not revile him, they speak of him as a ruthless analyst. John Wright states that this opinion is largely unwarranted saying that Veblen was Spencer's disciple even in the sphere of style; what he strived for was not satire but detachment, in the best scientific manner. He charged Veblen with "idealism" and "sexism". To resume due to Wright Veblen's critique of society and its institutions was unsound.

Colin Campbell: Professor Colin Campbell is an Emeritus professor at the department of Sociology of the University of York; he moved a critic towards Veblen's concept of conspicuous consumption in the article redacted by him in 1995 "Conspicuous Confusion? A Critique of Veblen's Theory of Conspicuous Consumption". In this article at first he asserts that the concept of conspicuous consumption that has "become part of everyday life" for sociologists it is just little discussed. Campbell states that nobody has made a systematic attempt to verify the theory of conspicuous consumption itself. Due to Campbell Veblen's ironic and satirical tone, coupled with his deliberate rejection of a conventional scholar style makes it difficult to determine precisely what he intended with his theories. Deeply analysing the "Theory of Leisure Class" Campbell states that individuals seek individuals seek 1) to excel in their manifestation of pecuniary ability or pecuniary strength in order to 2) impress others and thereby 3) gain their esteem or envy. From this it would appear reasonable to conclude that conspicuous consumption is a category of intentional actions in which the goal is to bring about an improvement in others' opinions of oneself. Campbell finds out that due to Veblen conspicuous consumption is that conduct which arises out of the motive of emulation Veblen seems to have viewed emulation more as an "instinct" than as a motive proper. Therefore, according to this version of the theory, a contrast exists between the conscious intentions of consumers, which are directed at realizing that "ideal of consumption" which lies just beyond their reach, and the "motive" (or "instinct") of emulation, which is actually impelling such conduct. Veblen's original argument was that the conspicuous consumers ought to impress others with his wealth in order to win their esteem and thus, it was hoped, to maintain or improve his social status. Yet it is hard to see, due to Campbell how this argument could apply in instances where one's conduct is scrutinized fleetingly by a number of unknown observers: no matter what impression one



might succeed in forming in their minds, it is difficult to know how it could affect one's social status. Veblen stresses that conspicuous consumption is a conduct directed at others with the specific intention of impressing them and, if possible, arousing their envy. Campbell criticises the fact that Veblen does not consider how conspicuous consumers know they have succeeded in this aim. These problems, Campbell concludes, suggest that Veblen's most famous concept is insufficiently clear in its formulation to permit any general agreement on its definition.

[Campbell C., *Conspicuous Confusion? A Critique of Veblen's Theory of Conspicuous Consumption*, American Sociological Association]

## CONCLUSIONS

The aim of this thesis was to analyse the thought of a such important as criticised economist as Thorstein Veblen. The work focused in fact and on his economic thought and on the critics he made against the contemporary society and on the critics he received. In the first chapter in order to better understand the context in which Veblen's economic thought developed I decided to make a brief analysis of the historical background in which the author wrote his works. In the last pages of the chapter I represented the main critics that Veblen made against Government and the Orthodox Theory. We saw that the basic theme in Veblen's discussions of the public sector in modern industrial democracies was that representative governments tend to implement policies that adversely affect the material welfare of the 90 percent of the population without owning enough

wealth to make it possible. In his critics against the government he also introduces the important concepts of the “Leisure Class” and “Absentee Owners”. His critics against the Orthodox Theory are even more severe than the ones against the government since he asserts that the orthodox theory is based on the complaint of the unscientific nature of classical and neoclassical assumptions of economic equilibrium goodness and on the complaint of the assumption that economic actors behave rationally. In the second chapter we saw “The Theory of the Leisure Class” through which we understood Veblen’s concepts conspicuous consumption and waste and his theories upon the role of women in the society. The third chapter focuses on Veblen’s analysis of the mechanization of production process, the manufacturing enterprise studied under the organisational aspect of production, the credit market and the marketability of the shares and the business cycle. All these concepts were grouped in his “Theory of the Business Enterprise”. In the fourth and last chapter I decided to focus on all the critics that Veblen received for his works. I noticed that a focal point of these critics is the fact that the irony and rhetoric that Veblen used to write his works has not been accepted by most of the economists. Another important critic moved towards Veblen is that in his works he refuses to use mathematics and we can notice that for example in the “Theory of the Leisure Class” Veblen does not use any formula or function. His works have been many times categorized as approximated works.

The aim of the thesis was to analyze in a detailed way Veblen’s economic thought and contribution to the modern economics but also to understand why so many critics were moved against him. I strongly believe that Veblen’s works should be subject of other studies as happened at the beginning of this century since his contribution to the economics (through his concepts of conspicuous consumption and waste for example) from my point of view has been of a relevant importance. He is in fact considered by many as the Pioneer of Institutionalism. I can finally state that Veblen thought should be further analyzed since his works are the result of his knowledge of sociology and economics and merging the economic functions with the human instincts is for sure an important step of the evolution of the economic theory.

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