

THE ECONOMICS OF THORSTEIN VEBLEN

PROFESSOR WESLEY C. MITCHELL performs with remarkable success the difficult task of interpreting the thought and writings of Thorstein Veblen, one of the few original thinkers of his age in the field of sociology and economics.¹ Every writer in this field is bound to put a good deal of his individual experience and outlook into his processes of thinking and his valuation of the human scene. Mr. Mitchell, therefore, wisely begins by emphasis upon the detached position held by a young Norwegian born and bred in a distinctively Norse settlement within the surrounding American environment. Amid the multitude of American personal and social contacts of his varied life Veblen retained and exploited this position of the onlooker who sees most of the game. It helped him to maintain that objective rôle of criticism which kept his mind aloof from the dominion of those traditional thoughts and valuations which are impediments to intellectual independence. He brought certain Viking qualities of fearless adventure and of playfulness into his treatment of the world in which he found himself.

These qualities made him difficult to understand, for they not only forced him into violent repudiation of many accepted views and sentiments, but also led him to develop a humorous terminology that helped hostile criticism to disparage the substance of his argument. Indeed, the very term "idle curiosity", to which quality he attributed all the later achievements of disinterested science and philosophy, was an example of his humorous litotes. The story of how this curiosity came to extricate itself, first from the semi-magic of primitive mentality, and afterwards from the subjection to the utility of craftsmanship is one of the guiding threads in Veblen's deeper thinking. The union of science with humor is best realized in modern psychology with its sudden reversals of surface thinking and its dramatic revelation of subconscious processes. Veblen, as soon as he had passed through an early phase of philosophic study, betook himself to anthropology as the seed-bed of social psychology. It was within this historical evolutionary field of social institutions that he found his

¹ *What Veblen Taught*, edited by Wesley C. Mitchell. New York, The Viking Press, 1936. 1, 503 pp. \$3.00.

economics. Needless to say, it was not the accepted economics of the academic world. Though most of the formative economists, from Adam Smith onwards, have expressed personal sentiments of humanism in their general reflections upon economic life, their science has throughout been dominated by a utilitarian hedonism which sought accurate expression in pecuniary valuations of cost and utility. While some growing recognition of economic life as an evolutionary process, involving changes in the arts of production and consumption, entered into the modern science, it never displaced the hedonist calculus which has seemed essential to a science of increasing exactitude.

Veblen's humanism never leads him into the Ruskinian identification of wealth with life. He clearly recognized that economics should limit itself to man's dealings with the material needs of life. But this requires an examination of the psychical history of material civilization with all the varied instincts, urges and activities involved. To present economic man as a rational being, calculating and regulating all his activities in terms of conscious costs and satisfactions, falsifies the actual situation, for it requires the suppression of facts and activities which intimately interfere with the hedonist calculus. The recent failure of economic forecasts is manifestly due to this policy of intellectual separation.

Veblen's great contribution to economic science lay in his insistence upon the wider basis demanded by his biological and anthropological studies. "Instead of studying pleasures and pains, or satisfactions and sacrifices, on the supposition that these 'real forces' determine what men do, economists should study the processes of human behavior at first hand. For this purpose, the important psychological categories are not the felicific calculus and the association of ideas, but propensities and habits" (p. xxvi). For example, the output of energy in the performance of skilled work, "an instinct of craftsmanship", submerged by machine-tending but partially recovered by machine control and direction, the preference for easy routine work with sufficient leisure, for black-coated respectability in a bank or office at low remuneration, the display of personal power and prestige in productive operations as well as in conspicuous consumption—these and many other features of our social-economic life illustrate the close interaction between the narrow hedonism and the more varied, elusive and immeasurable propensities. So likewise with habits, intellectual, emotional, active. They shift and change in unpredictable ways, and each shift and change affects the whole economic structure of industry and markets.

This recognition of the large part played by non-rational forces did not make Veblen an irrationalist. Quite the contrary. With a clear determinist view of causation he applied his reason to the economic interpretation of history on lines somewhat different from those of Marx. Living a generation after Marx and in a country where the sharp distinction of workers and owners, capital and labor, was less applicable than in early nineteenth-century England, he saw a different array of economic forces and a different procedure of class conflict. His great discovery was the new phase of capitalism by which the supreme powers and profit were passing from the owners of the material forms of capital into the owners, or, more properly the operators, of finance. This seemed a natural and inevitable result of an economic art in which the market was the central feature, and which was supported by an economic science where money alone was "the measuring rod" of value. Capital, in other words, had come to mean not the land, the plant, physical power and raw materials which were operated by human skill and labor for producing material wealth, but the stocks and shares which expressed their value in the money market. But the control of these pecuniary values had taken a new turn in the eighties and nineties when Veblen began "to take notice". The money market was no longer the passive instrument for recording changes in industrial and commercial values, but an active instrument for determining these values.

The rapid technological advance of the last two decades of the century, transforming and enlarging the productive powers of capitalism, had two results. First, it intensified the competition of independent business in the great standard industries and brought destruction to the weaker competitors, leaving to the stronger a bigger inducement and a better facility for combination. In each basic industry some powerful producer, with a superior pull upon supplies of raw material or transport, set himself to organize the industry into a trust, a cartel or other form of combine, with the view to controlling and allotting markets and to regulating output and selling prices on a basis of maximum profits. This process in iron and steel, oil, railroads, etc., was a distinctively financial process, the work of bankers and Wall Street speculators in public credit and private investment. It consisted in the taking over of the values of vast business concerns, inflated by the speculative gains from the future profits of controlled industries and prices, and involved large immediate creations of credit instruments only fashioned by financiers. "The holding-company and the merger, together with the interlocking directorate, and

presently the voting trust, were the ways and means by which the banking community took over the strategic regulation of the key industries, and by way of that avenue also the control of the industrial system at large" (*Absentee Ownership*, p. 338). This financial control was visualized by Veblen as involving a policy of industrial "sabotage", a deliberate restriction of the productivity of capital and labor in order to keep prices and profits higher.

Upon the antagonism between "the engineer" and the capitalist-financiers thus engendered, Veblen finds a "class-war" differing in character from that of the ordinary Socialism. Since profiteering has virtually passed from the capitalist-employer and the shareholder into the hands of the financial controller, the former will find their interests more in common with those of their employees. In fact the real opposition is between the producers of wealth and the manipulators of prices. Money, instead of being the servant of industry, has become its master. An increasing proportion of the people are engaged in selling processes, while increased unemployment takes place among manual and mental producers. The recent depression, with its visible excesses of productive power, appears to support the thesis which becomes more and more prominent in Veblen's later writings. It was manifest that, if the dominion of this money power was to be overthrown, this could only be brought about by united action of the workers and the "engineers" whose joint interest lay in the full employment of the best technological equipment. This line of thought led Veblen to minimize the direct conflict between wage-earners and their employers as seen in the opposition of the latter to trade unions and collective bargaining. For if the employer is not in a position to keep to himself the profits of cheap labor, the conflict of capital with labor loses its significance. In a word, Veblen stands with Socialism in denouncing profit as the motive of business enterprise, but removes it from the place it occupies in socialistic theory and puts it in a distinctively financial quarter. Here he is in accord with large sections of the American public, whose denunciations of "the money power" form the staple of their economics, though they would be unable to follow the intricacies of Veblen's reasoning. Had he lived longer Veblen might have been disconcerted by the dramatic collapse of the banking system after 1929, though he would probably have found in the present recovery the signs of a more powerful rebuilding of the money power.

Interesting as it is, this opposition of "the Engineer and the Price System" will not form Veblen's chief claim to lasting recognition as

a social-economic thinker. For it cannot be admitted that the profits of industry are normally and generally enlarged by this process of "sabotage", involving as it does the continued unemployment of large quantities of plant and labor, and a reduced volume of consuming power among workers and employers. Though there are industrial situations where it may pay to restrict production and earn high profits on a limited sale, this is not a normal case. Low production means not only waste of plant but other high "overhead", while this very process of restriction reduces the purchasing power which would have made it more profitable to sell a larger output. Veblen nowhere directly tackled the real problem of maldistribution of income which periodically upsets the changing balance between spending and saving, between new investment and increased consumption, that lies at the root of the failure of current capitalism to function as well as it used to do.

His high claim to intellectual distinction, his main service to social science, lay in his insistence upon interpreting social institutions and their values in terms of an instinct-habit psychology which gave a main determinant place to economic activities and needs. It is here that his brilliant and patient researches into biology and anthropology bear fruit. His *Theory of the Leisure Class*, though the best known of his writings, has probably lost some of the intellectual weight to which it is entitled because of the pervasive humor of its exposition. But its skilful account of the subtle ways in which the superior prestige of the predatory acquisition of property has through the ages molded habits of valuation in home and wider social circles, in methods of personal display through conspicuous luxury and leisure, sport and culture, entitles it to rank as a leading "book of revelations" in our time. The wide range of his exposition is well illustrated, on the one hand, by the attention he pays to woman's dress and other details of the prestigious life on its material sides, and on the other by his subtle analysis of educational standards and controls which seek to dominate the mental life. A rich personal experience of academic institutions informs and to some extent biases his account of the ways in which American seats of learning are subject to the molding influences of wealth, in the appointment of presidents and professors, in the direction of the teaching, and in the relative prestige of the subjects taught. But, while dwelling upon these interferences with disinterested education, Veblen never loses sight of the "idle curiosity", or scientific urge to knowledge "for its own sake", which helps the higher teaching to evade all formal efforts to throttle its

freedom. The very consciousness of the defensive tactics of "impropriety" in the educational field arouses an equally conscious resentment in the free-minded teacher, who is thereby stimulated to find means of expression which have educated a generation of young "intellectuals" to play a dominant part in the progressive movements of their time. Predatory finance is not able in the long run to contaminate the founts of knowledge so as to rally to its support the alert and informed intelligence of the community.

With all his elaborate rationalism Veblen was in one sense a disorderly thinker and writer, which means that he left his mind free to develop all sorts of aberrations and surface inconsistencies. Mr. Mitchell, therefore, performs a most useful service in the selection and ordering of the salient passages which present his thinking, rooted in scientific and philosophical reflections, and proceeding along a broad highway of evolutionary economic determinism into the many interesting bypaths of political, social and educational commentary that occupied his last years.

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