Thorstein Veblen: An American Economic Perspective

Introduction

Given his insight and his style, Thorstein Veblen has become more relevant than ever, given current conditions. Neoliberalism in both economics and politics is enjoying a stranglehold on society. Its arrogant supporters blithely dismiss any information that might contradict their rigid dogma and treat all who would challenge them with contempt. To make matters worse, the neoliberals also dominate the media and academia, making respectful or even intelligent debate virtually impossible.

As is the case today, information about corporate behavior was readily available. Progressive journalists, often called muckrakers, were already revealing the unconscionable practices of the great corporations, which wielded state power to take advantage of against workers, bilked investors, and bled government resources with the aid of an army of corrupt politicians. Even without the muckrakers, public opinion was hostile to the obvious widespread corporate and political malfeasance.

Nonetheless, challenges to corporate behavior had little effect. Even after the election of 1892 when the anticorporate Populist Party won a great victory in Congress, their political influence then quickly evaporated, in part because of their rural roots their leaders lacked polish and sophistication, which opened them up to ridicule. In short, the titans of business enjoyed such immense power and influence that they were able to avoid any unpleasant consequences of their behavior.

Given these conditions, what then would be the most effective way for Veblen to convey his perspective to the public? Adopting a conventional style of academic writing would have been an exercise in futility. To do so would entail working within the norms of a system, which he had already rejected. How could Veblen carry on a successful dialogue when he rejected out of hand the core beliefs of those whom he labeled, The Vested Interests, especially when he perceived a gap between rationality and reality, so wide that suggesting reasonable policy changes would be pointless.

Instead, Veblen perfected a unique style of criticism: blending ridicule, irony, and satire, made more distinctive by a humorous application of an archaic vocabulary. This approach allowed him to bring attention to his critique at the same time his humor had the potential to make corporate power seem more vulnerable to public dissatisfaction.

Veblen's critique, however, went much deeper than the work of the muckrakers who merely intended to show how government officials and the captains of industry were violating the norms of society. For Veblen, those were also defective.

Despite the obvious technical progress that was occurring around him, Veblen dismissed the popular notion that society was undergoing a thorough-going modernization. Instead, he insisted that omnipresent vestiges of primitive culture still exercised powerful influence within the culture of a supposedly modern society.

A flourishing society required transcending the dysfunctional consequences of the institutional arrangements that atavistic culture produced, including a grossly inefficient application of modern technology.

In the end, Veblen, like Marx before him, practiced "ruthless criticism of all that exists," but Veblen directed his merciless criticism at the material and cultural defects of capitalism rather than the existing social relations underlying capitalism. Veblen's cultural critique is unparalleled in the English speaking world, with the possible exception of John Kenneth Galbraith, who managed to translate much of Veblenesque analysis into a more popular style. Consequently, Veblen's approach may well have been the most effective means of calling attention to the shortcomings of capitalism.

Cultural Criticism

Typically, the terrain of criticism tends to be cultural. Critics often present themselves as arbiters of good taste in the worlds of literature, art, fashion, or even food. Perhaps to fend off criticism of their right to adopt such a lofty position, critics pay close attention to the style of their work. One favorite technique for critics to ridicule their targets in an unexpected way, often by means of, as Veblen would say, "invidious comparisons."

More often than not, the ambition of the critic is to become accepted by the world, which is the object of criticism. Iconoclastic critics, such as Veblen's, are different. They proudly stand apart from the subjects of their criticism because they have no need to adopt a pretense of superiority or to crave acceptance by the community that they criticize.

Veblen, however, was not above making unflattering comparisons, often showing similarities between primitive behavior and his modern targets. In making such portrayals, Veblen benefited from an enormous inventory of source material because of his wide interest in other cultures.

For example, to learn about Icelandic culture, he spent many summers on an island inhabited by immigrants from

Iceland. He began boarding with one of these families, with the proviso that they would converse with him only in their native language. He soon became proficient enough that he translated The Laxdaela, a tenth century Icelandic saga. The translation must have been very well done:

> Astonished at the sensitivity with which Veblen had rendered The Laxdaela Saga into English, an incredulous University of Wisconsin philologist inquired of the book's publisher, B. W. Huebsch, whether Veblen was "by any chance himself an Icelander -- else, as an economist, how comes it he can read this speech of the twilight of the Gods?" [Bartley and Yoneda. 1994, p. 603]

Veblen included an introduction with the observation that the earlier Viking practice of seeking material gain "by force and fraud at the cost of the party of the second part" was actually much the same "as the national politics pursued by the statesmen of the present time." [Bartley and Yoneda, 1994, p. 596; Veblen 1925, pp. vi, ix]

Veblen's most famous comparison was between the behavior of contemporary robber barons and the cultural practices of primitive societies, especially with regard to conspicuous consumption. He juxtaposed the great robber barons of his day flaunting their wealth with the potlatches of the Native Americans of the Northwestern, who demonstrated their importance by destroying great amounts of wealth in public bonfires. Although later anthropologists found fault with Veblen's portrayal of the potlatch, the comparison served to make the robber barons look ridiculous.

Ironically, in their conspicuous consumption, these economic aristocrats often also acted as cultural critics. They did so through their pecuniary rather than their literary powers. They advertised themselves as arbiters of civilized culture by building cultural cathedrals for musical performances or the display of art. In this way, they could hope to win respect by imposing their taste on society at large. For example, they chose to finance symphony halls to promote an alternative to the opera, which they disdained as a crude form of popular culture. Instead, they favored the production of large symphonic works, featuring famous conductors. The role of the conductor, imposing discipline on a large number of musicians with distinctive responsibilities, bore an unmistakable resemblance to the important responsibilities of the captain of industry (Perelman 2011, pp. 291-94).

Veblen's satiric treatment of the titans of the Gilded Age resembles Jonathan Swift more than Karl Marx, except that Swift relied on fictional anthropology rather than Veblen's modern research. Gulliver's Travels parodied the culture of the British Royal Society by portraying it as the Grand Academy of Lagado where the scientists worked on ridiculous and even vulgar projects. Veblen must have been drawn to Swift at an early wage.

As a student, Veblen, obviously influenced by Swift, delivered "A Plea for Cannibalism" (Dorfman 1940, p. 31), suggesting a close parallel with Swift's Modest Proposal for selling the flesh of babies for food. In that work, Swift was railing against the inhumanity of the British exploitation of Ireland, by ridiculing the application of political arithmetic. To make that point more emphatic, Swift supported the supposed economic rationality of his project by using Irish data from the early economist William Petty.

Thorstein Veblen in the Context of the Real Industrial Revolution

Veblen's style and subject matter reflected the prevailing economic conditions of the time. He began writing in the aftermath of what might be seen as the Real Industrial Revolution. The rapid technical progress that occurred in this period stands in stark contrast to much more modest developments that took place during the earlier period, popularly known as the Industrial Revolution. Suddenly, huge factories appeared that could take advantage of both a newfound capacity to far more effectively harness the power of fossil fuels to meet a burst of demand created by the military needs of the Civil War.

This new technology, which should have been of great advantage, created no end of problems for the captains of industry. Each new development called for larger economies of scale, swamping the market with ever more commodities, which drove down prices below the cost of production. Business faced a choice of either folding up or responding with even more modern technology. This new technology would compound the problem of falling prices with a still greater capacity to produce.

What was happening stood in sharp contrast to economic theory, as well as the presumption that capitalism was the natural bearer of progressive modernization. This contrast should have been obvious even to students in elementary economics; however most academic economists, steeped in the theology of market efficiency, failed to grasp a basic problem. Competition, that wondrous fuel of market efficiency, tends to drive prices down toward the cost of producing one more unit. But with huge fixed capital costs, the expense of producing another unit was trivial. In other words, the organic composition of capital was experiencing explosive growth and capitalism was self-destructing, so much so that the period after 1873 became known as the Great Depression, until after 1929, a later burst of destruction claimed that title.

Key to earlier depression was a wave of dramatic railroad bankruptcies that took down much of the rest of the economy. Railroads were the key economic sector at the time. Despite repeated bankruptcies, railroad investment exceeded aggregate investment in manufacturing in every decade from 1850 to 1890. Between 1850 and 1880, it was more than twice as large as aggregate investment in manufacturing (Sweezy 1954, p. 532). Until 1904, the book value of capital in the railroad industry still exceeded the aggregate capital invested in the entire industrial sector (United States Department of Commerce. Bureau of the Census. 1975, pp. 684 and 735)

The Morgan family represented the interests of hapless British bondholders. After having been previously burned by their investments in Latin America, they sought security in American railroad bonds, only to suffer another round of losses. In Charles Dickens' Christmas Carol, the miserly Scrooge suffered a series of nightmares, the first being the discovery that he had invested in U.S. railroad bonds.

J. P. Morgan tried without success to get the railroads to voluntarily cooperate rather than fall victim to what business at the time called destructive competition. He would get an agreement not to compete by cutting prices, but, sooner or later, one of the railroads would go off on its own by lowering prices to get an advantage over its competitors. Competition would break out again, resulting in another wave of bankruptcies.

Exasperated, Morgan took matters into his own hands, buying us railroads and consolidating them in order to reduce competition. Soon consolidations swept across industry after industry, often led by Morgan himself. People commonly referred to this process as Morganization. The most dramatic example came when Andrew Carnegie was building a railroad to take his coal from Tennessee to Pennsylvania. Fearing that Carnegie, who had a long history working for the Pennsylvania Railroad, might expand more dramatically into the railroad industry, Morgan bought up the gigantic Carnegie Steel operation, along with several other steelmakers, to form United States Steel. Once protected from the ravages of competition, these great cartels were freed from the compulsion to modernize. Instead, they could be operated like banks, which only had to look at their balance sheets -- with one exception. Additional profit without additional investment was possible if the workers could be driven harder while keeping wages in check.

Over and above the attraction of diminishing competitive pressures, the corporate consolidations offered an opportunity to bilk those who were foolish enough to buy stock based on the misleading information supplied by the financiers who promoted the consolidations.

The transcontinental railroads took center stage in terms of corruption, fraud, and inefficiency. Richard White just published a magnificent twelve-year study of the development of the transcontinental railroads in the United States. He devoted years to archival study of the railroads, including the personal letters of the railroad magnates. His conclusion is absolutely Veblenesque:

> The best way to understand the transcontinentals' simultaneous failure as businesses and success as sources of individual fortunes for insiders is to regard them not as new businesses devoted to the efficient sale of transportation but rather as corporate containers for financial manipulation and political networking. They employed rational managers, but they were led by financiers. The financiers made money through subsidies, the sale of securities, insider companies for the construction of the railroads themselves, and land speculation. Each funneled corporate resources into private pockets. To do this, they needed considerable political aid and protection. [White 2011, p. xxvii]

Morganizing Economics

An new conception of economic theory was taking root during the late nineteenth century. Anyone seeking high-quality postgraduate education at the time would be likely to go to Germany. Soon a wave of talented American economists returned from Germany steeped in German economic theory. Germany, unlike the United States, was a country without a rich resource base, yet the German economy grew very rapidly, while resisting the lure of laissez faire. German development relied on a powerful system of higher education, which created new scientific knowledge in close collaborations with the giant cartels.

These economists returning from Germany were not radical but their understanding of economics was closer to J. P. Morgan than Adam Smith. They formed the American Economic Association to act as a counterweight to the prevailing academic economics, but over time, both they and their organization made their peace with the mainstream. However, they had imbibed in training not dissimilar to that of Marx. While rejecting Marx's politics, they could be respectful of his economics.

For example, Arthur Twining Hadley, an early president of the American Economic Association as well as Yale University, wrote to a friend that, "while far from agreeing with him [Karl Marx]," he accepted that his work had a "higher scientific aim than almost any work on political economy in the last half century" (Hadley 1879). Elsewhere he observed:

> The socialists are justified in asserting that there is an inconsistency between our political doctrine of equal rights to pursuit of happiness for everybody, and the facts of the industrial world, as we see them about us. [Hadley 1896, p. 94]

Writing during the first Great Depression, Hadley's German training allowed him to recognize that the shibboleth of laissez faire ideology prevented economists to recognize the self-destructive nature of modern capitalism. Nowhere was this tendency toward self-destruction more obvious than with the railroads, which were repeatedly going bankrupt. He addressed this problem in his most important work, <u>Railroad Transportation</u>:

> To so great an extent were the economists able to point out the evil results of mistaken legislation, that in the popular mind the teaching of economics has become synonymous with the effort to reduce the activity of government to a minimum. The phrase laissez faire ..., which was the motto of the physiocrats, has taken an exaggerated hold on the public imagination, and has been regarded as a fundamental axiom of economic science, when it is in fact only a practical maxim of political wisdom, subject to all the limitations which experience may afford. [Hadley 1896, p. 12]

Nonetheless, he observed:

> All our education and habit of mind make us believe in competition. We have been taught to regard it as a natural if not necessary condition of a healthful business life. We look with satisfaction on whatever favors it, and with distrust on whatever hinders it. We accept almost without reserve the theory of Ricardo, that, under open competition in a free market, the value of different goods will tend to be proportional to the cost of production. [Hadley 1903, p. 69]

Hadley's study of railroads brought him into contact with a capital intensive world (in other words a high organic composition of capital), which bore no resemblance to the simplicity of Ricardo's model of perfect competition:

> ... the size units of capital is so large that free competition often becomes an impossibility, and theories of economics which are based upon the existence of such competition prove blind guides in dealing with modern price movements. [Hadley 1896, p. iii]
>
> Ricardo's theory ... fails, because, far below the point where it pays to do your own business, it pays to steal business from another man. The influx of new capital will cease; but the fight will go on, either until the old investment and machinery are worn out, or until a pool of some sort is arranged. [ibid., p. 72]

The consequences can be dramatic because:

> It is not true that when the price falls below cost of production people always find it for their interest to refuse to produce at a disadvantage. It very often involves worse loss to stop producing than to produce below cost. [Ibid, p. 70]

Hadley's lesson from the railroads was striking:

> Railroad competition may exist everywhere, somewhere or nowhere. If it exists everywhere, rates are reduced to the level of movement charges [variable costs], and there is nothing to pay fixed charges .... If there is competition somewhere, the competitive point will have rates based on movement expenses, and the others will have to pay fixed charges. This constitutes discrimination. If we have competition nowhere, this either involves a pool, or amounts to the same thing. [Hadley 1903, pp. 142-43]

More generally, "The railroad may serve as a type of modern business. Wherever there are large permanent investments of capital we see the same causes at work in the same way" (ibid., p. 72).

Although Hadley was deeply conservative, he saw untrammeled laissez faire as being even more impractical than socialism. He even suggested that unbridled competition would lead to the survival of "the unfittest rather than the fittest" (Hadley 1886, p. 224). For that reason, he concluded that, "To enjoy industrial liberty, it will be necessary to resign the claim to industrial lawlessness; the alternative is socialism" (Hadley 1886, pp. 224-25).

In other words, competition can drive business to continuing production at a loss. Hadley could have added that such losses might also tempt business to modernize, leading to greater production, thereby intensifying the already destructive force of competition. The result was the Great Depression he was witnessing. Like Keynes, Hadley was writing to save capitalism from itself.

Hadley was no outsider. Son-in-law of a governor of Connecticut, he served as both labor commissioner and head of the Public Utilities Commission in Connecticut. President Taft appointed him chairman of the Railroad Securities Commission in 1911. He was equally successful in the academic world, serving as an early president of American Economic Association (1898-1899). As a professor at Yale University from 1879 to 1899, he taught economics as well as Greek, logic, and German and Roman law. From 1899 to 1921, he was president of Yale university. After resigning that position, he became a director of the Atchison, Topeka and Santa Fe Railway.

Veblen's world overlapped with Hadley's. Veblen studied at Yale while Hadley was a professor. Like Hadley, Veblen was offered the presidency of the American Economic Association, although he declined the (dubious) honor. His book on Germany showed an abiding interest in that country's development. Like Hadley, Veblen was connected with both academia and, tangentially, the railroads, in part because he married a woman who had one uncle, James Strong, who was the college president at the school Veblen attended and another uncle, William Strong, had been the president of the Atchison, Topeka and Santa Fe Railway before Hadley joined the company. His wife's father helped himself by getting William Strong to throw a lot of railroad business his way. He was also planning to use his influence with Strong, to get Veblen a position with the railroad shortly before Strong lost his position, forced out by bankers in the wake of disastrous financial performance. According to White's account:

> Even though many of its enemies were vulnerable, the Atchison by the late 1880s had too many fights on too many fronts .... quite suddenly, ... the Atchison keeled over and crawled from the field. It had collapsed under the weight of paper. Building railroads without much regard for how to pay for them or for the traffic they might carry, neglecting to provide or maintain the equipment necessary to run trains on vastly extended systems, and accumulating large and often disguised debts .... The vast quantities of new stock the Atchison had sold declined in value even as the bonds it sold increased its fixed costs. In 1884, as a much smaller road, it had a reported profit of over $5 million, whereas in 1888, having more than

doubled in size, it had a deficit of nearly $3 million. [White 2011, p. 373]

The discovery of widespread, fraudulent accounting only came later.

Despite Veblen's parallels with Hadley, his writing style bore little resemblance to Hadley's. Rather than providing a more theoretical analysis of the defect that Hadley objectively identified, Veblen brilliantly described the consequences.

Retrospectively, the marginalized Veblen seems to have chosen an appropriate method of presentation. The academic critique of Hadley and the other German-trained economists is largely forgotten. While Veblen's approach has always remained somewhat marginal among academic economics, his work still attracts a lively interest.

Veblen's Economic Critique

Veblen saw academic economics, which prided itself for its modern perspective, as a perfect example of cultural backwardness. Conventional economics offered nothing more than a static theory of efficient equilibrium outcomes. For Veblen, Darwinian evolutionary theory suggested a more scientific perspective.

For Veblen, Darwinian-like progress was both slow and irregular (see Tilman 1996, chapter 2). He accepted that conventional microeconomics may have been more or less adequate for analyzing a village economy that relied on handicrafts, but made no sense whatsoever for a modern economy with advanced technology.

Nonetheless, economists presented their work as thoroughly objective analysis, although its unstated underlying purpose was to justify policies that favored laissez-faire, or, in the case of those daring to move slightly outside of the fold, such as Keynes some decades later, to propose modest measures that would make capitalism function more effectively.

Economists shielded themselves from criticism by pretending that their analysis adhered to the highest standards of scientific rigor by adopting a formalistic approach. They suggested that their method was comparable to that of physics. Toward this end they built their theory upon a foundation of unquestioned axioms, which they discovered through introspection rather than through scientific research.

Most conventional economists had good reason to avoid taking notice of the progression of the railroads from modernization, business failure, consolidation, and then stagnation. After all, the leading universities were dependent upon business donations. Business donors understood that laissez faire economics justified policies that promoted their best interests. They did not look kindly upon those who questioned that kind of economic theory.

The public remained critical of economists who gave their support to a system that had proven defective. In addition to the bad standing in public opinion, the transcontinentals were the justifiable target of the most militant labor conflicts that the country had experienced. Of course, the railroads, backed up by the state's military powers, had a decided advantage in the conflict.

In response to the antagonism to the railroads, economists had a ready answer. John Bates Clark, once Veblen's teacher, won acclaim for producing the most sophisticated version of conventional economics at the time -- one which supposedly proved that workers' share of wealth and income was both moral and just.

Just as Veblen both exposed and ridiculed the obvious irrationality, avarice, and dysfunction of the time, he published a detailed critique of Clark's economics, mercilessly ridiculing the sacred axioms of economic theory. Most famously, Veblen rejected economists' key assumption that capitalism created a progressive civilization in which isolated individuals behaved rationally, immune to any social influence. In a hilarious passage chock-full of pseudoscientific jargon, Veblen mocked economists' notion, describing their:

> ... hedonistic conception of man [as] a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another. Self-imposed in elemental space, he spins symmetrically about his own spiritual axis until the parallelogram of forces bears down upon him, whereupon he follows the line of the resultant. When the force of the impact is spent, he comes to rest, a self-contained globule of desire as before. Spiritually, the hedonistic man is not a prime mover. He is not the seat of a process of living, except in the sense that he is subject to a series of permutations enforced upon him by circumstances external and alien to him. [Veblen 1898, pp. 389-90]

In effect, Veblen was accusing economists of basing their justification of a market economy on arbitrary assumptions of how the people behaved, whereas he preferred the opposite direction of causality in which economists would study the complexity of human behavior in order to learn about the economy.

Obviously, Veblen's understanding of capitalism sharply differed from economists' fantasy about the invisible hand, in which the market benignly serves as a network of information, which alerts rational businesspeople about opportunities to profit in a manner that promotes the social good. Little thought need be given to those who might be inclined to cheat because the market will punish those who deviate from social norms. Presumably, informed consumers will quickly learn of malfeasance, depriving businesspeople of the opportunity to take advantage of others.

Instead of the individualistic rationalism presumed by the economists, Veblen saw a capitalistic world that had not yet managed to shed primitive cultural norms. These residual norms promoted social behavior that was both pervasive and dysfunctional. Even the supposedly super-rational economists had not shaken off the irrational remains of primitive culture. For example, Veblen began his discussion of Adam Smith by addressing Smith's "animistic bent" (Veblen 1899, p. 396).

The gap between real technical evolution and imagined social and cultural evolution led to an interesting contradiction. As a result of its delayed evolution, economic theory developed a theory appropriate for a primitive village, while foolishly presuming that the society it intends to analyze has evolved to a point of extreme rationality. In reality, the management of modern industry still bore many elements of barbarian culture. Given the prevalence of these stubborn barbaric residues in capitalist society, future evolutionary progress was unlikely to occur either smoothly or rapidly.

Veblen was not alone in comparing great magnates with barbarians. Charles Francis Adams, Jr. and Henry Adams, Grandsons and great-grandson's of the two presidents Adams, published a searing critique of the railroad business, <u>Chapters of Erie</u>. Already in the first paragraph, we read:

> Pirates are not extinct; they have only transferred their operations to the land, and conducted them in more or less accordance with the law; until, at last so great a proficiency have they attained, that the commerce of the world is more equally but far more heavily taxed in their behalf; than would ever have entered into their wildest hopes while, outside the law, they simply made all comers stand and deliver.

Charles Francis Adams, the railroad reformer, later became the president of the Union Pacific. In that role, he insisted that he was above the industry's norm. Although he was not above resorting to bribery, to his credit, he may not have engaged in the other illegal practices common to the industry. However, in looking at the business culture at the time, one might be justified in assuming that all are guilty until proven innocent.

Veblen was particularly disgusted that capitalism was unable to efficiently exploit modern technology. Veblen clearly understood the defect in competition that Hadley had identified. Hadley interpreted the disorder in the railroads as the result of rational responses to an irrational system.

In contrast, Veblen seemed to be as disinterested in abstract or structural analysis as he was in the method of conventional economics. Instead, he chose a different tact. He represented capitalism first and foremost as a culture based on primitive instincts, such as predation and emulation; a culture that stood in the way of technical and human progress.

While boldly distancing himself from conventional economics, Veblen charged that economists' "work was as devoid of scientific merit as it was of social equity" (Tilman 1996, p. 27).

Obviously, Veblen's idiosyncratic style of criticism made him even more unwelcome in many academic circles. No one should be surprised that, despite his unquestioned abilities, prior to his appointment at the New School late in life, none of his academic employers ever granted him tenure or even promoted him above associate professor (Tilman 1996, p. 30). Nonetheless, two of the most influential mainstream economists, Lawrence Laughlin and John Bates Clark, held him in high esteem.

Veblen and Efficiency

Because the railroads were the leading edge of modernization in the United States, they throw light on Veblen's economic critique. Here, Hadley's notion of competition, which may exist "everywhere, somewhere or nowhere," becomes relevant. In the West, the transcontinental railroads market competition was nowhere up through the Civil War.

The railroads reached Hadley's "somewhere" stage as they began to penetrate the West, but general competition was not yet a problem. Without competition, railroads could still charge high rates. Even with generous federal subsidies, rates were not high enough to compensate for the excessive waste, fraud, abuse, and incompetence, which accompanied railroad construction. As the network of railways became more crowded, railroads experienced excessive competition. Exit via bankruptcy and takeovers became common. Some of the largest railroads managed to survive by taking advantage of naive investors who supplied them with vital cash infusions. However, investors were not alone in their naivite. The railroads had no idea of their own cost structure. Consolidations helped move competition back toward the somewhere state. At times, they still found it necessary to pay competitors not to compete.

Despite the economic fragility of the railroads, they dominated the stock exchange. The railroads helped to maintain a brisk traffic in the stock market by cooking their books. In addition, they bought and sold stocks to manipulate the market. Stock market manipulation had the potential to facilitate both takeovers and to create a greater illusion of prosperity to make credit easier to obtain.

Although the railroads might not have been profitable, their owners profited mightily. They set up their own shell companies, then contracted with them for construction. By paying double the actual cost of construction, they could funnel money to themselves at the expense of the railroads. Investors were left holding the bag. At this stage, railroads could withhold productive capacity one way or another, while forcing shippers to pay excessive costs.

The railroad operators cheated consumers; they railroads also cheated each other through stock manipulations and other means to disrupt their competitors. Wholesale purchases of politicians allowed the railroads to win huge subsidies, which deprived the government of funds that might have potentially met peoples' needs. Finally, because railroads emphasized subterfuge rather than productive efficiency, their modern technology failed to come anywhere near its potential. Rather than build their lines to meet social and economic needs, other considerations took precedence, such as the opportunity to improve the value of the owners' private land holdings. Efficiency was also dissipated in wastefully building new lines needed only to forestall the plans of competitors?

While conventional economics instructed the world about market efficiencies, Veblen saw a system that was not merely suboptimal, but absurd. At the same time, business leaders went about proclaiming themselves as the pinnacle of Darwinian selection, which is why Hadley referred to the selection of the unfittest. One of the leading proponents of this Social Darwinism was Veblen's teacher, William Graham Sumner.

Ironically, the economists, who implicitly supported policies that were in line with the interests of these supposedly fittest specimens of capitalism, satisfied themselves with a static theory, which was decidedly un-Darwinian. In contrast, Veblen believed that economics should model itself on evolutionary theory, but that social, institutional, and economic evolution was painfully slow, especially in light of rapid technological evolution.

Rather than acknowledging the evolutionary superiority of the captains of industry, Veblen portrayed them as barbaric, not only in their conspicuous consumption. Their predatory behavior was far more barbaric. Their predation was twofold. First, they preyed on society and, whenever possible, each other. Even more important, their economic sabotage -- meaning the withholding of efficiency -- stood in the way of further social, economic, and technical evolution.

Veblen may have been unusually sensitive to the technical deficiencies of modern business. Besides his training as an economist, Veblen was a skilled craftsman and the author of The Instinct of Workmanship. Upon seeing a student was wasting motion in chopping wood, he showed him how to wield an axe more efficiently and was pleased that his lesson succeeded (Dorfman 1940, p. 498). For him, the price system led to business behavior that was indifferent to matters of either efficiency or larger human needs. Business's attention was wholly directed to increasing profits, which were largely unrelated efficiently organizing productive activity in a way best suited to meet human needs.

To make his point Veblen distinguished between business and industry, which industry was the part of human activity directed toward effecient production.

Conventional economists were unable to understand this disconnect because they had gone out of their way to eliminate any consideration of work, workers, and working conditions. Instead, they emphasized transactions. Insofar as workers were concerned, they were no different from ordinary merchants who sold their wares. Workers' wares were their capacity to work. What employers did with those wares were of no more concern for economists than what consumers ultimately did with the goods that they bought in a store. In this way, economists, assuming that everything operated efficiently, were unable to come to grips with the deficiencies of business.

In response to the dismal capacity of capitalist business to take full advantage of the capacity of modern technology, Veblen published an article, "A Memorandum on a Practicable Soviet of Technicians." This piece first appeared in The Dial and then as the concluding chapter in The Engineers and The Price System (Veblen 1921).

Veblen's article was not programmatic. He had no particular love for big government. In fact, although he worked in the New Deal and even has been given occasional credit for having inspired the New Deal, he had serious reservations about Roosevelt's program. Instead, Veblen's sympathies lay more with the anarcho-syndicalist Industrial Workers of the World. While working for the government, he even recommended that the administration appeal to the Wobblies to help with the wheat harvest. Given Veblen's sympathies, including his reverence for workmanship, Veblen was much less enthusiastic about large-scale engineering projects than the idea that responsibility for production be broadly shared; that all workers become engineers of a sort rather than have a small Soviet of Engineers organize work for large numbers of people.

Yet, Veblen himself could envision massive economic transformations. As a good customer of the Sears, Roebuck mail order business, he once suggested that the retail trade, in general, be carried out by the Post Office rather than by innumerable shops and stores -- in effect, anticipating a system that would be more all-inclusive than Amazon today. The reputation of the Post Office was favorable at the time, in contrast to the distaste for the rol of most government agencies. Besides, his intention was technical improvement through the elimination of waste. Shopping would be less time-consuming. Retail space could be repositioned, while the personnel in the retail trade could use their time for more productive activities.

In so far as the conflict between engineers and the price system was concerned, a hopeful sign seemed to be on Veblen's horizon: engineers were beginning to professionalize themselves. At their best, engineers represented a culture of rational optimization uncontaminated by the sort of barbaric behavior common among business leaders. The emergence of their new professional engineering societies suggested a possibility of the development of a larger society based on rational principles than might benefit society as a whole, rather than individualistic profit maximization of the predators (Knoedler and Mayhew 1999). Three years after Veblen's death, Technocracy, a movement of engineers who advocated technocratic control briefly came to the public attention. Some credited Veblen's work for the movement, but neither Veblen nor Technocracy were able to influence the capitalist order.

As was usually the case, Veblen's pessimism was more prescient than his optimism. In fact, economists' belief in market rationality has become so extreme in the United States that in many quarters regulations in the financial system are not only unnecessary, but destructive of market efficiency. Somehow, this delusion is taking hold elsewhere in the world.

Sabotage and Goodwill

Veblen emphasizes two characteristics of business enterprise in an uncharacteristically way. First, Veblen inverts concept of sabotage, usually associated with the anarcho-socialists, with whom he sympathized. For them and for Veblen, the term is described as "the conscientious withdrawal of efficiency" (Veblen 1921, p. 1); however Veblen took the position that the most significant saboteurs are not radical workers, but respectable business people:

> it is only lately that this ordinary line of business strategy has come to be recognized as being substantially of the same nature as the ordinary tactics of the syndicalists. So that it has not been usual until the last few years to speak of maneuvres of this kind as sabotage when they are employed by employers and their business concerns. But all this strategy of delay, restriction, hindrance, and defeat is manifestly of the same character, and should conveniently be called by the same name, whether it is carried on by business men or by workmen; so that it is no longer unusual now to find workmen speaking of "capitalistic sabotage" as freely as the employers and the newspapers speak of syndicalist sabotage. As the word is now used, and as it is properly used, it describes a certain system of industrial strategy or management, whether it is employed by one or another. What it describes is a resort to peaceable or surreptitious restriction, delay, withdrawal, or obstruction. Sabotage commonly. Sabotage commonly works within the law, although it may often be within the letter rather than the spirit of the law. It is used to secure some special advantage or preference, usually of a businesslike sort. [Veblen 1921, pp. 5-6.]

Veblen went on:

> Without some salutary restraint in the way of sabotage on the productive use of the available industrial plant and workmen, it is altogether unlikely that prices could be maintained at a reasonably profitable figure for any appreciable time. A businesslike control of the rate and volume of output is indispensable for keeping up a profitable market, and a profitable market is the first and unremitting condition of

> prosperity in any community whose industry is owned and managed by business men. And the ways and means of this necessary control of the output of industry are always and necessarily something in the nature of sabotage -- something in the way of retardation, restriction, withdrawal, unemployment of plant and workmen -- whereby production is kept short of productive capacity. [Veblen 1921, pp. 7-8]

The legal concept of goodwill dates back to a case from 1580 in which a clothier brought suit on the grounds that a rival had injured him by selling inferior goods with the plaintiff's trademark. In the course of a few centuries, this simple case evolved into a momentous shift in "the meaning of property rights from things to the capitalization of things" (Commons 1924, pp. 264 and 164-65).

This shift becomes most dramatic during the late 19th century, a time when capital goods were replacing labor with breakneck speed. In this regard, Veblen noted:

> "Good-will" is a somewhat extensible term, and latterly it has a more comprehensive meaning than it once had. Its meaning has, in fact, been gradually extended to meet the requirements of modern business methods. Various items, of very diverse character, are to be included under the head of "good-will"; but the items included have this much in common that they are "immaterial wealth," "intangible assets"; which, it may parenthetically be remarked, signifies among other things that these assets are not serviceable to the community, but only to their owners. Good-will taken in its wider meaning comprises such things as established customary business relations, reputation for upright dealing, franchises and privileges, trade-marks, brands, patent rights, copyrights, exclusive use of special processes guarded by law or by secrecy, exclusive control of particular sources of materials. [Veblen 1904, p. 139]

Veblen noted the destructive nature of this extended notion of goodwill. In the case of the ancient clothier, one can argue that his goodwill as a public benefit. Because his product was presumably superior to that of his imitator, his goodwill might be seen as representing a social good by protecting consumers from purchasing inferior goods.

Although the prior argument may be questionable, Veblen insisted that the expansive notion of goodwill had no justification whatsoever:

> All these items give a differential advantage to their owners, but they are of no aggregate advantage to the

> community. They are wealth to the individuals concerned differential wealth; but they make no part of the wealth of nations. [Veblen 1904, p. 139]

One might have thought that the more dramatic role of physical capital in railroads and factories might diminish the relative importance of goodwill. Instead, the opposite occurred. The immaterial property of goodwill grew alongside the rapid accumulation of physical property, in part because the notion of goodwill was expanding.

What could explain this paradox? In a world of simple commodity production, the reward for work would come reasonably quickly. In a world dominated by expensive fixed capital, rewards would spread out over a long period of time. At the time, competitive pressure was destroying the commercial value of investments in long-lived fixed capital well before investors could recoup their initial outlays.

Why would investors want to sink their money in failing ventures? The answer is that dishonest bookkeeping -- especially with appeals to goodwill -- could create illusions of profit potential, where little, or even none, existed. By hiding losses behind a smokescreen of goodwill, business could pump up the corporation's balance sheet with goodwill in the hopes that such calculations could appeal to investors' willingness to part with their funds.

This illusion often was necessary, because, in many cases, such as the railroads, business ended up relying less on the actual production of useful goods and services than on continual infusions of finance. Veblen's uncle-in-law, William Strong, was a case in point.

More recently, as business turned away from physical production to the creation and sale of information technologies, the relative importance of goodwill becomes more understandable, but equally destructive. By 2005, intangible assets, including goodwill, accounted for almost half of the value of the total book value of the companies making up the S&P 500 (Serfati 2008, p. 13). The proportion has, in all likelihood has risen substantially since then.

Goodwill began to play an even more important role in the late 19th century, when business was fending off the strong anticorporate mood of the public, business-friendly courts began to give claims to goodwill stronger legal standing. In the process, corporations' claims that government efforts to regulate amounted to a confiscation of goodwill, gained more legal traction.

Allgeyer v. Louisiana was a key decision in opening the door for the antiregulatory power of goodwill. In 1894, the Louisiana Legislature passed a statute entitled "An act to prevent persons, corporations or firms from dealing with marine insurance companies that have not complied with law." The purpose of the statute ostensibly was to prevent fraud by requiring state citizens and corporations to abstain from business with out-of-state marine insurance companies.

E. Allgeyer & Co. of New Orleans had an open policy with the Atlantic Mutual Insurance Company in New York. The state alleged that Allgeyer violated the law. The Supreme Court unanimously upheld the rights of the business appealing to the 14th amendment, which ironically was intended to protect the rights of the freed slaves.

As Veblen clearly recognized, goodwill represented the power to win more profits than would be the case if market forces would determine the level of profits. In effect, goodwill was a measure of the capacity to diminish competitive pressures. What business called goodwill was, for Veblen, a measure of predatory power, whether the prey would be naïve investors or powerless consumers.

Conventional economics had few tools to address the question of goodwill because the law of supply and demand would virtually eliminate profits. Economists got around this unrealistic assumption by assuming that business would earn normal profits, without ever explaining what would determine a normal profit.

The Contemporary Relevance of Thorstein Veblen

For a contemporary economist, Veblen should be more relevant than ever. In Veblen's time, economists were less seduced by abstract theory. Given that environment, Veblen was able to inspire many in the emerging, heterodox, institutionalist school of economics, which had substantial influence in the discipline until the end of the Second World War.

Since then, economic training has emphasized mathematical and statistical tools, mostly with the intention of strengthening the defense of laissez-faire. In the process, considerations of work, workers, or working conditions fell by the wayside. Even concern about efficiency of production became marginalized because economists assumed that market forces would ensure efficiency, even in financial markets. Amazingly, the ongoing crisis has done little to budge economic thinking.

Veblen's approach puts matters up front, which are obvious to ordinary people. For example, the absurd blunders and malfeasance of the great financial institutions, which set off the recent crisis, are no secret; however, blunders on such a scale would seem to be virtually impossible according to wisdom dispensed in economics textbooks. Anyone familiar with the dismal job prospects for contemporary college students would be comfortable with Veblen's discussion about the inability of capitalism to effectively utilize people's skills. Finally, Veblen had the good sense to see how capitalism produces a culture that reinforces the ideological power of capitalism at the same time that it undermines the economy's capacity to meet people's needs through rational methods of production.

Nonetheless, recent outpouring of calls for austerity shows that few economists have a clue about the underlying economic problem. Perhaps, we could take a cue from Veblen, who was able to take such shortcomings of his contemporary world in order to ridicule the supposedly scientific axioms of academic economics and to call for a more rational society. Probably none of us will be able to do so with as much with the humor and erudition as Veblen. Hopefully, this conference could be a start.

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