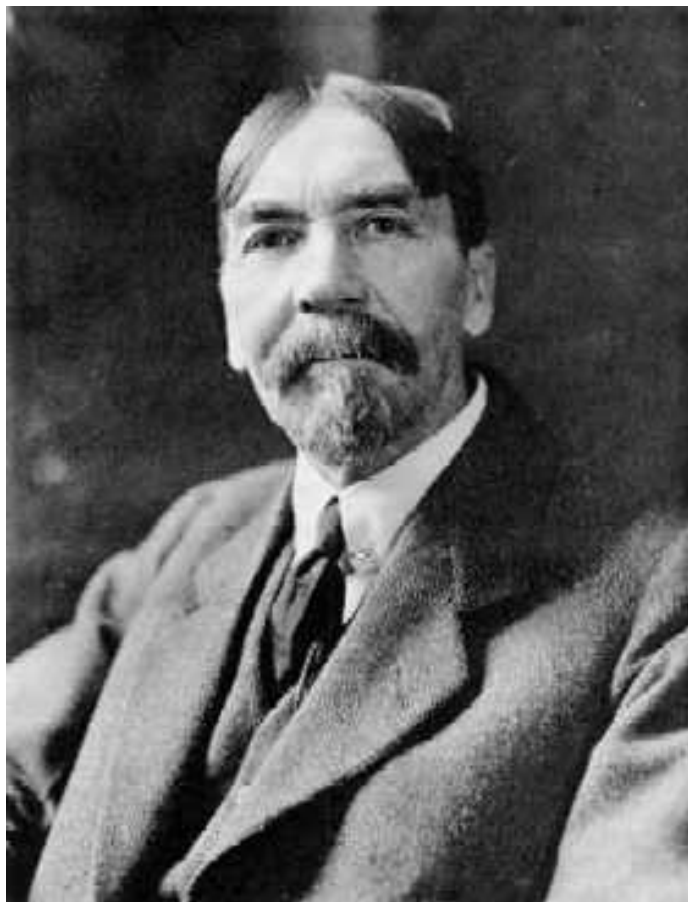


Thorstein Bunde Veblen 1857-1929



Thorstein Bunde Veblen

- The Theory of the Leisure Class
(1899)
- Theory of the Business Enterprise
(1904)
- The Engineers and the Price System (1921)
 - See <http://www.hetwebsite.org/het/profiles/veblen.htm> for a full list of Veblen's publications

Institutionalist

- Veblen was the founder of the [American Institutional School](#)
- He was a major critic of capitalism and of the analysis of capitalism in neoclassical economics

Historical Background

- Veblen's criticism of capitalism may be seen as a response to
 - the rough, violent, predatory, lawless, and monopolistic nature of American capitalism between the end of the Civil War and the beginning of World War I, and also to
 - the inability of neoclassical (or, marginalist) economics to reflect the realities of contemporary capitalism
 - Veblen coined the term 'neoclassical economics' to refer to the economics of Alfred Marshall and likeminded economists

Rationality

- Neoclassical economists saw consumer behavior as *rational* behavior by people with *stable* tastes
- Veblen instead saw *non-rational* or instinctual behavior of people under the sway of instincts that *evolve* according to Darwinian rules

Business Motivations

- Neoclassical economists saw firms engaged in a clear-sighted but honest and by-the-book pursuit of profit maximization
- Veblen instead saw deep conflicts within firms between *businessmen*, who wanted profits by hook or by crook, and *engineers* and other technical people who were mainly interested in making a good product.

Leisure Class

- Veblen's analysis of consumer behavior went along the following lines:
- We instinctively seek high social status.
- We achieve high social status when our peers admire us, when they regard us as winners and not losers.
- To be considered a winner we need to show that we have stronger predatory abilities than others.

Leisure Class

- To show our predatory abilities, we need to amass more wealth than our peers.
- Moreover, that wealth must be acquired by force or by cunning and *not* by hard work
 - because the acquisition of wealth by hard work does not show any evidence of one's predatory abilities
 - hard work is for wimps and losers.

Leisure Class

- Consequently, capitalist societies tend to generate a **leisure class** that rises to the top of the food chain by making money without having worked for the money.

Conspicuous Consumption

- Not only must we acquire wealth without doing any labor, we must make sure everybody knows how wealthy we are.
- This leads to
 - **conspicuous consumption,**
 - **conspicuous waste, and**
 - **conspicuous leisure.**

Conspicuous Consumption

- An act of consumption creates more utility when that consumption is observed by one's peers than when it is done in private: what's the point of drinking an expensive wine if no one sees you doing so?
 - To a neoclassical economist who swears by rational consumer behavior, this way of thinking would be considered perverse.
 - But to Veblen, this way of thinking about consumer behavior is a lot more realistic.

Conspicuous Consumption

- Ostentatious waste—as in arranging a lavish wedding for one’s pet cats—would also help convince people that a lot of unearned wealth lies at the source of all the waste.
- Similarly, a visibly leisurely lifestyle would also serve the same purpose.

Conspicuous Consumption: Fashion

- Women's clothing needs to be highly elaborate and obviously unsuitable for work in order to be regarded as fashionable

Business Enterprise

- *Businessmen* see the bizarre behavior of the leisure class and realize that the way to make money is by taking advantage of the whims of the leisure class and ripping them off.
- Moreover, the general social admiration of predatory behavior leads businessmen to unscrupulous behavior.
 - For example, they sabotage their rival producers so that reduced overall output would create an artificial scarcity that would lead to high prices.

Business Enterprise

- On the other hand, the engineers who do the technical work in the manufacturing industries are interested only in the quality of their products.
 - Their job satisfaction derives from simply doing a good job and producing products that serve some genuine need.

Business Enterprise

- Veblen speculated that
 - these conflicts between the corrupt ideas of the businessmen and the sense of excellence of the engineers may be irreconcilable
 - the only hope for capitalism lay in the engineers taking over.

Unions

- Veblen's view of labor unions wasn't very positive either.
- He argued that unions would be quite happy to procure gains for their members even if those gains come at the expense of non-union workers.
- This idea was later formalized as the so-called *insider-outsider theory* of labor unions.

Darwin and Veblen

- According to Veblen, our instincts—such as the instinct to admire predatory people—may have evolved according to Darwinian laws during a primitive phase of human society when might actually made right.
- The problem, however, is that our instincts, once they are embedded in us, are hard to get rid of even after the conditions that once made them helpful give way to a new set of conditions under which they are a hindrance.

Marx and Veblen

- Veblen's view of the evolution of our instincts is somewhat similar to Karl Marx's conception of the inertial tendencies of the ideological superstructure.
- Veblen's views on the business cycle were also very similar to those of Marx.
- However, Veblen did not believe in any deadly conflict, such as that envisioned by Marx, between the leisure class and the working class.
- In fact, Veblen's working class people *admire* the predatory prowess of the leisure class and hope to one day become members of the leisure class themselves.

A rising demand curve!

- In 1950, **Harvey Leibenstein** introduced Veblen's ideas on conspicuous consumption into formal demand theory and showed the possibility of a *rising* demand curve.
- The leisure class does not want to be seen consuming cheap stuff.
- Therefore, as the price of a product *rises*, it might become *more* popular with such people!

Behavioral Economics

- Veblen is a pioneer of the relatively new discipline of behavioral economics

Sources

- *New Ideas from Dead Economists* by Todd Buchholz, Chapter VIII, pages 175-185
- *The Worldly Philosophers* by Robert Heilbroner, Chapter VIII
- *The Ordinary Business of Life* by Roger Backhouse, Chapter 9, pages 195-198
- <http://www.econlib.org/library/Enc/bios/Veblen.html>
- http://en.wikipedia.org/wiki/Thorstein_Veblen