

Thorstein Veblen (1857-1929)



Veblen's life

- ✓ Thorstein Bunde Veblen was born in **Wisconsin** of **Norwegian ancestry**.
- ✓ The **age of 8** moved to a large farm in Minnesota.
- ✓ In 1874, he entered Charleton Acedemy between 1874-1880 (earns **BA from Charleton Acedemy**), a **religious training school**, where he quickly demonstrated his brilliance along with a **calculating critical attitude toward everything (including religion)**
- ✓ Teaches **matmematics** at Monoma Acedemy for one year in 1880
- ✓ Between 1881 and 1884, doctoral study of **Philisophy** in Yale University. He receives **Ph.D.** degree but unable to find a job in acedemic field.
- ✓ **He return to father's farm**. He spent nearly **6 years** just reading, thinking and studying. (1884-1890)

- In 1891, in Cornell University as a student and receives second Ph.D. in **economics**
- **Started to work** for *The Theory Of The Leisure Class* began in 1891
- Lecturer in Economics in University of Chicago between 1892-1906. ***The Theory Of The Leisure Class***
- In **1899** was published.
- In 1906 he started to teach in **Stanford University** but again **dismissed for personal affairs.**
- Veblen's prestige as a **thinker** and **academician** (he was, by all accounts, **an awful teacher**) was not sufficient to overcome his flagrant and frequent **violations of social mores** and his **biting attacks on businessmen supporting the university**. He was asked to leave.

- **Rejected by Harvard University** for a faculty post.
- Between 1911-1918, teaches at the **University of Missouri** and **New School for Social Research** but never rising above the rank of professor.
- In 1918 works for the **Food Administration Bureau**
- In 1926 moves back to California to live as a recluse in a **mountain cabin**
- Dies on August 3 1929, **a few months before the great stock market crash.**

His favorite subjects

- General dissatisfaction about **actual situation of the economic theory**
- Veblen was curious about the mode and method of how societies – as the totality of **cultural** and **technological institutions** change!
- **Darwinian view** of capitalist process
- The laws of historical development (under the influence of **German historical school** and **British historical school**)
- The use of **inductive empirical generalizations** rather than deductive logic (remember the legacy of Ricardo and his deductive method. On the opposite side we have William Whewell, Richard Jones, T. T. Cliffe Leslie, Walter Bagehot, Thorold Rogers, Arnold Tonybee, William Cunningham, William Ashley)
- The critique of **consumption society**
- The critical view to the **business world**

Institutional Economics

- One of the most important twentieth-century installments of the ongoing critique of received economic orthodoxy (classical and neoclasical theoretical economics)
- A critical 'Darwinian' view of the capitalist process
- Going far beyond of **British historicists** in terms of methodology and cohesiveness
- Follower as John Kenneth Galbraith

British historicists (I)

- Late 1840's, the charisma surrounding Ricardian abstraction had grown to formidable proportion. J. S. Mill, J. R. McCulloch, H. Martineau were defenders of Ricardian theory.
- A cohesive historicist revolt originated on British soil:
 - Richard Jones
 - Walter Bagehot
 - Herbert Spencer
 - John Kells Ingram
 - J. E. Cairnes
 - J. N. Keynes (the father of J. M. Keynes)
- Darwin's *Origins of Species* (1859) has been published. They relate with it the “inevitable” forces of laissez-faire.
- British historicists have started to express themselves in *Fortnightly Review*.
- They were also influenced by the ideas of Auguste Comte who wrote on history, on the other terms, the science of history.

British historicists (II)

- Richard Jones

(Sometimes regarded as the first institutionalist)

Economic assumptions should be **historically determined** and **empirically justifiable**. The Ricardians “confined the observations on which they founded their reasoning to the small portion of the earth’s surface by which they were immediately surrounded”

British historicists (III)

- Walter Bagehot

He defend the idea of “interrelating **institutional structures** with economic theory”. He found economic theory guilty of the pretensions and fallacious claim of general applicability. He thinks that the **Ricardian Theory** is useless in discussion economic development in countries outside Great Britain, since **the institutional backdrop** was seldom the same. He says that the major assumptions of economic science were unverified and that the resultant theories were too abstract to be of practical value.

British historicists (IV)

- Herbert Spencer

Subeditor of *The Economist* and he was also responsible for this agitation. Spencer's first love was biology, but his writings clearly spelled out the relation between biological and social evolution, even before Darwin.

British historicists (V)

They are looking for a method of economic study that featured the search for broad **laws of historical development**, **use of inductive empirical generalizations** rather than deductive logic.

British historicist have already started to be very much influenced by the **theories of Spencer and Darwin** putting biological evolution in the service of their theories of institutional and social development. And that became the most important foundations of Veblen's institutional economics – his theory of change – Especially the notion of “process” and “**evolutionary and quasi-random change**”.

So in the historicist paradigm, economics was conceived as a science, but its abstractions were not to be a priori, and deduction was assigned a minor role. They would be derived not only by induction but also by **historical processes**. Economists would find the material for their studies by **institutions** a comparison of successive states of society in order to discover the laws of social affiliation – a process similar in principle to **the comparison of organisms** at different degrees of development. Society and social facts could not be studied apart from their history. **History** was therefore seen as the mainspring form which the science of economics would emerge.

The theory of change

Veblen was curious about the mode and method of how societies – as the totality of cultural and technological institutions – **change!**

Through

- Instincts
- Institutions

Why?

Because

HUMAN **INSTINTS** HAVE ALWAYS BEEN A ROOT OF HUMAN
INSTITUTIONS

Instincts and habits (I)

- Veblen's view of human nature were shaped by **behaviorism** and, specifically by **theories of instincts and habits**. This was with strong contrast to the **rationalistic** and **utilitarian** conceptions of the classical and neoclassical writers. For Veblen, people are not “**lightning fast calculators**” of pleasures and pains but rather are curious beings who, by nature, hit upon new ways of doing things. In sum, **people are creatively curious and are creatures of propensities and habits**.

Instincts and habits (III)

- Instinct of workmanship
- Humans' innate idle curiosity
- Emulatory instincts
- Absentee workmanship (ownership)

Institutions

Definition: The ways of doing things, thinking about things, and disturbing the rewards for work etc. arise to support to set of material circumstances

The social change...

Veblen explain the change thorough the interactions between technological institutions, on the one hand, and ceremonial institutions, on the other hand.

- ✓ Dynamic technological institutions: the 'machine process', inventions, production methods, technology .

That gives rise to a characteristic set of property rights, social and economic structures, certain habit of thought and so on.

- ✓ Ceremonial institutions: a set of property rights, social and economic structures, financial institutions etc.

And that gives rise to inventions, production methods, technology .

Stated differently, ceremonial institutions could constrain the machine process, but only temporarily.

Technological institutions, in the long run, would shape economic relations.

For Veblen, **material circumstances** surrounding humans composed the most significant factor in determining their **propensities** and **preconceptions** about the world.

DIFFERENCES

Veblen

- Post Darwinian
- Indeterministic (vicious circle) (ends are not exactly predictable)
- Not teleological (archeology)
- No socialist state

Marx

- Pre-Darwinian
- Deterministic
- Teleological (purposive)
- Socialist state

Instincts and habits (II)

- Veblen thinks that the utilitarianism of Bentham and Mill simply substituted **hedonism (utility)** for achievement of purpose as a ground for legitimacy. The result was that **utilitarian philosophy** made economics a **science of wealth** in which individual is inert, because human nature and institutions are given and values are therefore eliminated.

Consumption

The economic system based upon an incessant quest for monetary gain.

That's why Veblen's persistent themes was that the instincts and habits emerging from "pecuniary hedonism" characterized American Society both on *the supply and on the demand sides*.

"Absentee ownership" and "conspicuous consumption" and "leisure" were the expected responses to a pervasive utilitarian preconception that created a "consumption economy"

Book : *The Theory of Leisure Class* (1899)

Key notions : "**Conspicuous consumption**" done under the "emulation instinct" creates "Veblen good (term invented by Liebenstein not Veblen)"

A **pecuniary culture** is the **product of a technology** that permits and and even fosters the divorce

- between **ownership** and **management**
- between **proprietary accumulation** and **the actual productive process**
- between “**business**” and “**entreprise**”
- between “**making money**” and “**making goods**”

Other subjects

- Separation between « business » and « enterprise »
- Separation between « making money » and « making goods »

Veblen Good

“Bandwagon, Snob, and Veblen Effects in the Theory of Consumers’ Demand”

by Harvey Liebenstein

Definition: Its utility derived not only from the **direct use of the** good but also from **the price paid for it**. Thus a **conspicuous price** is **the price that a consumer thinks that other people think he or she paid for a commodity**. It is the price that determines a good’s “**conspicuous consumption utility**”.

More on Veblen...

“Kurmaca Dünyayı Gerçek, Gerçek Dünyayı
Kurmaca Kişilerle Anlatmak: John Dos Passos’un
Büyük Para’sında Thorstein Veblen”

by me

Engineers

- *Theory of Business Enterprise* (1904)
- *The Engineers and the Price System* (1921)

Followers (old institutionalism)

J. R. Commons (1862-1945)

Wesley C. Mitchell (1874-1948)

Clarence E. Ayres (1891-1972)