

Veblen's Analysis of Business, Industry and the Limits of Capital: An Interpretation and Sympathetic Critique

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1. Introduction

This paper studies the productionist aspect of Thorstein Bunde Veblen's (1857-1929) insight into social wealth. Special reference is given to his analysis of industry and business in which there are barriers or limits to capital which predicate endogenous crises in the evolution of capitalism. In order to explain the essence of my interpretation of Veblen's evolutionary theory of the limits to capital, it is useful to develop a simple model. I develop this model and then explain the historical and institutional conditions underlying the changing limits to capital from the stages of free competition (1780s-1850s), to corporate capitalism phase 1 (1850s-1890s), and corporate capitalism phase 2 (monopoly capitalism) (1890s-1930s). Then a sympathetic criticism is developed of Veblen's theory of industry and business, in providing the basis for a more general theory of social or collective wealth. An important conclusion is that Veblen's theory of collective wealth and crises, developed in such works as *The Theory of Business Enterprise* [Veblen 1904] and *Absentee Ownership and Business Enterprise in Recent Times* [Veblen 1923], is really a special case of the broader perspective enunciated especially in *The Theory of the Leisure Class* [Veblen 1899]. While there may be problems with the latter work, it does at least provide the skeletal foundations for a more general theory of social or collective wealth than Veblen's narrow works on business enterprise.

2. The Model of Industry and Business

This section concentrates on Veblen's analysis of business and industry, especially as formulated in *The Theory of Business Enterprise and Absentee Ownership* and *Business Enterprise in Recent Times*. His analysis of the limits, barriers or contradictions of capital is scrutinised. *My interpretation of the Veblenian analysis of industry and business (in order to formalise the theory) is based on five conditions or assumptions:*

1. Corn is the basic commodity: everything is made out of corn. The purpose of this is to reflect Veblen's emphasis on material production. Veblen himself did not have an explicit corn model, but such a model is useful for illustrating his analysis of industry and business. In some of his works he examined briefly the question of placing a valuation on activities in terms of the time spent undertaking productive and unproductive activities [Veblen 1899:75]. In most of his works, however, he evaluated the economy from the point of view of the number of physical items produced [e.g. Veblen 1914:354]. It is possible to compare the value of different items of material use-values according to *time* if there is a homogeneous degree of productivity between sectors; time being the variable. It is possible to compare the value of physical use-values per se only if there is only one physical commodity, or if the physical values can be decomposed into labour units, knowledge units, price units, or some such standard of value. In this model the 'one physical commodity' alternative is utilised.

2. There are two interrelated activities: industry (productive of corn and corn-using manufactures) and business (unproductive of corn: banking, accounting, sales, pricing, financial activities). Industry promotes workmanship and business promotes 'the capitalised value of ... presumptive earnings' [Veblen 1923:219].

3. The production of corn is a function of the level of workmanship [WW], which includes the conditions of technology [T], the level and nature of workers' skills [Sw], and the stock and rate of utilisation of the available capital stock [Ku]: $WW = f(T, Sw, Ku)$. This is based on Veblen's belief in the collective wealth of workmanship.

4. If corn is distributed from industry to business this tends to result in a reduction in the output of corn and an increase in prices. When this occurs the additional corn distributed to business is smaller than the net reduction of corn available to industry. A redistribution of corn to business interests (shareholders, managers, sales personnel, accountants, banks, money markets) from industry (investment in capital stock, wages of industrial workers) reflects an increase in wealth 'de jure' and a decline in wealth 'de facto', or 'use-values', or 'livelihood' [Veblen 1923:220].

5. This model attempts to examine the limits to capitalist production. There are three dimensions to these limits, which are explained later in this section: (1) the actual degree of workmanship, (2) the possibility of overproduction, and (3) the ratio of productive/unproductive activities. There is a large amount of indeterminacy about these three dimensions because they relate to variables which are principally

qualitative, and/or relate to degrees of certainty and uncertainty, and/or because there is a considerable lack of knowledge about their dynamic properties.

In this model² the material economy includes but one basic commodity,³ corn, which is an input into every production or reproduction process. Corn is the material substance of the economy: it is used as food, means of production in the form of seed, plus it forms the building blocks of the motor vehicle industry (cars are made out of highly compressed corn), fuel, capital goods, and construction industries. Productive workers plant and water the seeds, tend to their growth and development as plants, harvest the corn, transport the corn to the market, compress the corn, and use it to produce fixed and circulating capital, plus consumer durables and nondurables. Imagine that there are also unproductive workers such as accountants, advertisers, public servants, members of parliament, owners of land and capital, banks, and sales workers, all of whom receive corn as payment, and deal with numerical data in units of corn. Workers from industry may also save corn during certain phases of evolution.

Corn is also used as money: exchange, saving, and credit are undertaken with units of corn as the standard of value. Workers are paid on average not much more than subsistence wages in the form of corn; their saving of corn is slightly higher than zero on average.⁴ Owners of land and means of production and some of the other unproductive agents save corn in banks which enables those who need extra corn to borrow with the payment of interest in the form of corn.

The concern of this model is the production and distribution of corn as a vendible, durable, and edible commodity. To simplify matters two main values or activities of the corporation are introduced: industry and business. The productive values of industry form the basis of the production of corn, and workers in this sector receive corn as wages (or credits of corn from the bank); corn is also necessary for replacing the used up seeds as means of production. Once these wages (W_p) and replacement costs (R_p) have been paid, what is left over is the physical surplus of corn (S) from the productive sector (p). Thus the physical production of corn (PP_c) equals:

$$PP_c = [W + R + S]p$$

The question then arises as to what usage the surplus can be put from the point of view of what happens after the corn is produced in the sphere of production. There are at least five alternative uses of the surplus corn after it has emerged from the production process:

1. Increase the hoarded (ΔH) stock of corn in the silos for industrial use in the near future (hence closed to circulation, for the time being, because it is stored).
2. Increase the stock of saving in the banking system (ΔB) by industry (for use; most of it is in circulation; although some portion may be out of circulation through the operation of reserve requirements and excess reserves);
3. Planting for increasing the capital stock of seeds (ΔC).
4. Utilised to feed technologists, technicians, and 'fundamental thinkers' with the hope of expanding the stock of knowledge (K) through experimentation and research (ΔK).

5. Feeding workers in the unproductive sector (W_u), distributing corn to individuals or classes who benefit from the private ownership of the fields or the means of production (O_u), including shareholders, bankers, accountants, financiers, and managers; and paying taxes (T_u) in the form of corn to government (which offers subsidies, welfare, and warfare).

Hence the distribution of the surplus between industry and business (after it is produced) is shown below:

$$S_c = [\Delta H + \Delta B + \Delta C + \Delta K]_p + [W + O + T]_u$$

This, then, raises questions about the distribution of the product between sectors, and the influence of this distribution on the degree of stability, regeneration, and expansion of capitalism. It is necessary to examine the influence of unproductive activities on the economy in more detail. Veblen hypothesised that (1) 'the gains of these unproductive occupations ... come out of the aggregate product of the other occupations' [1904:64]; (2) in the redistributive process 'the net loss to industry always exceeds the net gain to ... business' [1923:270]; and (3) 'In the long run nothing can accrue as income to the pecuniary magnates more than the surplus product of industry above the subsistence of the industrial community at large' [1914:354].⁵ He is implying that an increase in the surplus product going to business is at the expense of the distribution of product to industry; that the former is smaller in magnitude than the latter; and that business income (corn) cannot exceed the surplus (corn) of industry.

Illustration 1a, shows the schedule of workmanship (WW): The line WW operates with a constant level of workmanship. If transfers to business from industry do not reduce total output then a loss to one is a simple gain to the other along the WW curve. For instance, the movement from point 'a' to 'b' means that industry loses 5 units of corn to business. Veblen, however, argued that this is not what usually happens: a given gain to business is usually smaller than the loss to industry. Monopoly or oligopoly pricing reduces output more than the gains of the monopolists; increases in unproductive activities, such as sales personnel, bankers, and accountants result in gains to these agents which are smaller than the losses to material output as a whole because of the reduction in workmanship. The more unproductive workers gain in income relative to productive workers, the less inclined productive workers are to produce, and the less that can be invested in capital. Hence the PP schedule shows that, as corn is redistributed from productive to unproductive agents, the level of workmanship - be it the utilisation of productive capacity, and/or the efficient workings of technology, and/or worker productivity - drops off somewhat.⁶ The extent of the reduction in workmanship depends on circumstances, but it increases with the amount of corn redistributed to business from industry. Hence, workmanship declines as the economy moves from point 'x' to 'y' to 'z' along PP₀.

The PP (and WW) schedule does not touch the vertical axis because there is a limit to the amount of product which can accrue to business, equal to the surplus produced by industry. Also, the PP curve is a bar because of the indeterminate nature of the extent to which workmanship falls off as surplus transfers to business from industry. Since the WW line is not utilised here, the PP bar is, instead, defined

as the 'second-best workmanship schedule' (or alternatively the physical production distribution schedule [PP]). As shown in illustration 1b, an 'exogenous' change in the level of workmanship shifts the PP₀ schedule: to the right for an general increase (PP1), and to the left for a general decrease (PP2).

It is necessary to introduce at this point the concept and measurement of the rate of business exploitation of industry. This is related to the amount of the surplus product utilised for unproductive activities (S_u), including wages and salaries paid to unproductive workers (W_u), ownership rewards given to absentee owners (O_u), and taxes paid to government by business (T_u), divided by the total product distributed to the productive sector (P_p), including W_p, R_p, and ΔH_p, ΔB_p, ΔC_p, and ΔK_p. This ratio is called *the ratio of business exploitation of industry*, E:

$$E = \frac{S_u}{[W + R + \Delta H + \Delta B + \Delta C + \Delta K]_p} = \frac{S_u}{P_p}$$

The numerator (S_u) is the unproductive use of surplus corn by business, and the denominator (P_p) includes the surplus and non-surplus corn distributed to industry. The production distribution schedule can be linked to an 'ex post ratio of exploitation' schedule, EE, which is a line representing the current ratio of exploitation commencing at the origin and intersecting the point on the PP curve currently operating. This is shown in illustration 2: 'EE₀' is the actual ratio of exploitation schedule, corresponding to the ratio in which corn is distributed between industry and business. The greater the proportion going to business the greater is business exploitation of industry; the smaller the proportion going to business the smaller the ratio of exploitation. 'EE₀' is a straight line from the origin because it shows the path of the economy with a constant ratio of exploitation. A change in the actual ratio of exploitation swivels the curve, for an increase it swivels upwards, and for a decrease it swivels downwards; an exogenous change in workmanship is shown as a movement along the EE₀ curve. The intersection of the two schedules, EE₀ and PP₀ at 'd', is the current level of 'disunity' between exploitation and workmanship.⁷

It is now time to relate Veblen's insights about the limits to capital to this model. Central to Veblen's model of industry and business is a theory of capitalist transformation. He believed that capitalism evolved through three main phases. The first phase was competitive capitalism (1780s-1850s), which, Veblen believed, had no major contradictions which manifested regularly in depression. During the competitive stage, industry was controlled by the captains of industry, who were simultaneously workers, technologists, and financiers, and had primarily industrial concerns. During this phase the system was not in danger of producing too much in relation to the market: overproduction was unlikely as a general rule. As he said:

Therefore that period - say, loosely, down to the middle of the nineteenth century - was, by and large, a period of free competitive production and increasing output, in England and in the English-speaking countries. ... Yet during all that period which can properly be called the era of free competition the industrial system never reached such a pitch of efficiency that it could

properly be called inordinately productive; that is to say, production was not at that time continually in danger of outrunning the capacity of the market. [Veblen 1923:72]

Veblen thought that crises occurred under free competition, but that they were generated from natural disasters, exogenous factors, and some of the instabilities of speculation and the market. They were not systematically patterned within the institutions of capitalism; although they did occur and were contributed to in some measure by business principles.

The second phase of capitalist evolution, corporate capitalism 1 (1850s-1890s), marked the simultaneous inception of *corporate (business) control* and the *mechanical industries* dominating the key sectors of manufacturing. There are limits to capital which condition the way in which the system operates. A major tendency of capital is for the development of large scale enterprise, and, if the competitive process works *relatively effectively* (but not to the extent of the first phase of free competition), then the monopoly rents periodically decline to low levels, firm profits are low, leading to cyclically low investment, instability, and business recession over time (Veblen 1904: ch VII called it depression). The limits of capital started to grow during the beginning of corporate capitalism stage 1 from the mid-1800s, according to the Veblen. But the machine process did not reach the level of sophistication at the economy-wide level for generalised overproduction and chronic depression until the mid 1870s. As he said:

Chronic depression ... does not seem to belong, as a consistent feature of the course of things, ... prior to the eighties or the middle of the seventies. The usual course [prior to the mid-1870s] ... was rather: inflation, crisis, transient depression, gradual advance to inflation, and so on over again. ... Since the seventies, as an approximate date as applying particularly to America and to a lesser degree to Great Britain, ... chronic depression has been the rule rather than the exception in business. ... Hence *depression is normal to the industrial situation under the consummate regime of the machine, so long as competition is unchecked* ... [Veblen 1904:248,250-51,255; emphasis added]

Since the mid-1800s the system of large scale production has been, according to Veblen, progressing under the impersonal control of corporate business; absentee ownership exists through shareholdings being controlled by those who do not work the industrial system. In a cyclical fashion, overproduction led to the recurrence of 'depression' as machine technology expanded output but without sufficient expansion of markets. Depressions, according to Veblen, were 'transient' between 1850-1875 in the U.S., since the machine process, while large scale, was not yet completely dominant (and hence not completely dominated by business) in the key sectors. This dominance occurred around 1875, and, therefore, in the period of the 1870s through to the 1890s, 'chronic depression' became the norm.

As firms innovate, gaining high technological or monopoly rents, other firms may move into the industry to reap the advantages of surplus profit/large scale production, and the profit rate for the industry as a whole declines over time. This poses major limits to capital, which manifested in the slow economic activity in Britain and America during the 1870s, 1880s, and 1890s. In other words, the ratio of

exploitation of industry by business is very low and the system is subject to a marked degree of uncertainty, instability, and lack of confidence in the future. This is shown in illustration 3.

Imagine an economy is operating at point 'a' in 1877, with a ratio of exploitation of industry by business (S_u/PP) equal to w/x . A cumulative succession of technological advances raises workmanship from PP_0 to PP_1 during cyclical upswing, but this is undertaken in such a way that unproductive activities do not increase in the long-run, and thus the ratio of exploitation schedule swivels from EE_0 to EE_{min} . The productive use of the surplus rises from x to y units of corn, and the economy operates for a time around area b. What this implies is that the increase in workmanship is accompanied by a change in emphasis from business to industry as competitive pressures lead to more firms entering the industry to produce the corn and compete for reward in the form of industrial profit. Large scale industry expands output simultaneously with greater competitive pressure, as more firms incorporate the new technology and share in the distribution of the surplus. But the entry of more firms leads to a diminishing profit per unit production, and the economy moves to area 'c' along line EE_{min} at z units of corn. *EE_{min} is the critical minimum bar of underexploitation*, which implies that business is receiving insufficient surplus while industry is flourishing. There is overproduction of corn relative to the market demand, leading to a low rate of exploitation and hence the inability of firms to extract surplus to provide sufficient profit and interest for normal production.

A period of instability arises, with gloomy business expectations, low returns to shareholders, low rates of investment, and a much higher rate of unemployment, with a drop in capacity utilisation and thus a shift of the PP schedule from PP_1 to PP_0 around the area c. The sharemarket is likely to falter, perhaps leading to a 'crash', as a bear market develops and shares are being sold at a fast rate. The previous prosperity collapses as businesses reduce output, inventories increase, and chains of bankruptcy ensue as numerous firms are unable to repay debt. This is typical of the period from 1875 to 1895 in the U.S. A major limit to capital is thus the inability of business to exploit industry sufficiently, leading to the movement to EE_{min} and subsequent cumulative crash and default. There is no determinate end point, since evolutionary theory posits continual change and flux in open systems, plus varying degrees of uncertainty.⁸

The cumulative motion of innovation and workmanship during the long boom of the 1850s, 1860s, and early 1870s, when recessions were not extreme, was followed by the decumulative motion of the 1870s, 1880s and 1890s, when deep recessions (or depression) were the norm. Veblen thus believed that 'chronic depression [is] the normal course of things in modern business [due to] the higher development of the machine process - given, of course, the traits of human nature as it manifests itself in business traffic' [Veblen 1904:264]. Depression is initiated under business by two industrial processes. The first process is '(1) a relatively rapid rate of increasing efficiency' [Veblen 1904:264], which creates overproduction in relation to the depth of the market (given private profit maximisation in the short-run), as the competitive process results in a greater supply of commodities on the market with the gradual extension of the technology throughout industry. Lower prices reduce the rate of

profit which initiates instability and crisis. The second process initiating depression under business is '(2) the close interdependence of the several lines of industrial activity in a comprehensive system ... [in which cumulative causation ensures that] [d]isturbances are progressively transmitted with greater facility and effect throughout the system' [1904:264]. Depression is thus a tendency within a highly integrated industrial system controlled by business, where 'workmen do not and cannot own or direct the industrial equipment and processes, so long as ownership prevails and industry is to be managed on business principles' [Veblen 1904:265]. In a cyclical fashion, expectations may improve and innovation, capacity utilisation and productivity may be given a boost, along with business profits, as new firms start to expand and governments spend on armaments and the like. This may lead to an upward movement away from EE_{min} towards recovery.

Veblen then raised the question of what forces, historically speaking, counter this tendency to overproduction in order to create greater profits for business. He stated that:

Hence depression is normal to the industrial situation under the consummate regime of the machine, so long as competition is unchecked and no *deus ex machina* interposes.

The persistent defection of reasonable profits calls for a remedy. The remedy may be sought in one or the other of two directions: (1) in an *increased unproductive consumption* of goods; or (2) in an *elimination of that "cutthroat" competition* that keeps profits below the "reasonable" level. [Veblen 1904:255; emphasis added]

Veblen could see a new phase of capitalism emerging around the turn of the twentieth century. As he said: 'All of this holds true in a particular degree for that earlier date which here is in question, before the present, twentieth century, phase of corporation finance' [Veblen 1923:93-94].⁹ The third phase of capitalism utilised these two counteracting influences, higher unproductive activities and collusive management, as a means of promoting business interests and accelerating share prices. The third phase is differentiated primarily by the inception of highly concentrated control within the key sectors, and a greater use of the sales effort and financial experts, the purpose of which is to moderate overproduction by restricting output and raising oligopoly prices, and redistributing profits between firms. The second (1850s-1890s) and third (1900-1930s) phases have corporate control and large scale tendencies within the key sectors. In both phases of corporate capitalism, business interests dominate industry; and industry is characterised by the mechanics of physics and chemistry in the key sectors of power generation, transportation, fuel, and structural materials [Veblen 1923:77]. Also, in both phases production is in danger of outpacing the market, relative to required prices, leading to cyclical depression. But in this earlier phase of corporate capitalism (1850s-1890s) there is a lower level of concentration of ownership and control of industry: a greater level of competition in the major sectors, although not as much competition as in the first phase of capitalist evolution.

In this third, early-mid twentieth century, phase of capitalism (corporate capitalism phase 2: 1900-1930s), the instabilities of the second phase of capitalism

(associated with overproduction in relation to the scale of the market) are to some extent overcome by a greater degree of concentration of industry and the creation of the One Big Union of Interests dominated by the major oligopoly firms in the key sectors. Particularly prominent are the banks, 'investment houses', and credit institutions (in association with the Federal Reserve System) in reinforcing business vested interests. Collusion between producers, the integration of unions into the scheme of vested interests,¹⁰ the business-orientated nature of the state, and the general expansion of sabotage (a decline in production for the benefit of some of the vested interests) result in lower output and higher prices. Overproduction does occur periodically in the New Order, but it is moderated somewhat due to the increasing dominance of oligopoly pricing, the sales effort, and financial activities, which, however, create a new limit to capital: the potential for a massive increase in unproductive activities which itself could bring on a crisis of confidence in the system. Of this new order Veblen said:

But the *de facto* rise of the new order may be conveniently dated from about the turn of the century. Loosely speaking, that large-scale control of the industrial forces which has made the outcome, dates back to the ten or twelve years overlapping the end of the century. The "era of trust making," sometimes so called, which ran for some years from, say, 1897 onward, was concerned in this transition to a new footing in American business.

This appears to make the New Order a new order of business. ... Its distinctive characteristic on this head being that it is an order of things in which Big Business is paramount. But Big Business still is business of the old familiar kind, with the old familiar aims to be worked out in the old familiar spirit ... Business has to do with the intangibles of ownership, and only indirectly with the tangible facts of workmanship. [Veblen 1923:211]¹¹

Veblen [1923:213] then went on to say that the period of the New Order of business arrived 'so soon as a working majority of the country's industrial resources had been brought under absentee ownership on a sufficiently large scale for collusive management' in the key sectors. Hence the shares are owned by those who do not work the industrial system (as with phase two), but this time by the collusive conglomerate arrangements of finance capital (the banks, insurance companies, and 'investment houses').

Central to this 20th century phase of capitalism is what shall be called the *bar of critical maximum exploitation* of industry by business, EE_{max} . Veblen believed that '[t]here are ... limits to the growth of the industrially parasitic lines of business [such that a...] *persistent excess of parasitic and wasteful efforts over productive industry must bring on a decline*' [Veblen 1904:64-5; emphasis added]. The bar of critical maximum rate of exploitation, EE_{max} , is that relatively indeterminate area in which unproductive use of the surplus is so relatively intense as to bring on substantial instability and uncertainty about the future; and it does not take much to push the economy into depression when EE_{max} has been reached. This crisis or depression-initiating bar of the rate of exploitation, which in a cumulative fashion promotes instability and uncertainty throughout the system, is shown ¹² in illustration 4.

EE_{max} is the maximum ratio of exploitation bar. During the third phase of capitalist development (1900-1930s),¹³ corporate-finance capitalism, there is a change in strategy within capitalist firms. The take-over spree of the 1890s led to greater concentration of industry through greater oligopolisation in the leading sectors of manufacturing, transportation, and mining. Interlocking directorships and collusion reduced competition. Sales expenditure expanded through advertising, promotions, and salespeople. And the agreements between capital and unions represent another business activity expanded during this period.

Veblen thought that the great union of vested interests may solve some of capitalism's problems for a while. Short-run cycles of overproduction occur, but no major depression engulfs capitalism while the new trend of waste and collusion provides the required degree of stability necessary for 'business as usual' in the large corporations. However, if the trend continues unabated, or to an extreme level, so that business overexploits industry, a sustained and persistent decline is highly probable. It is a matter of competing motivation: productive pursuits vs free income; workmanship vs sales expenses; monopoly rents vs free-flowing knowledge. In *Absentee Ownership* [Veblen 1923], Veblen seemed to imply that the bar of overexploitation was being reached in the U.S. in the 1920s as oligopoly and finance capital dominated industrial concerns to a point of potential crisis. These tendencies led the economy away from the minimum rate of exploitation bar, to varying degrees in different years, in the direction of the other limit to capital: waste and restricted practices, shown in illustration 4, with the shift from area 'd' to area 'e'. Waste becomes so great as to promote much instability, uncertainty, and the threat of a major crash. If and when it comes, the decumulative crisis moves the economy from area 'e' to area 'f', as workmanship declines and the collective wealth is overexploited by business.

Veblen defined certain activities as unproductive because they negate the long-term promotion of workmanship. For instance, the culture of business promotes the instinct of pecuniary gain which competes with the instinct of workmanship; the aim of maximum short-term gain promotes much of the uncertainty and instability underlying the business cycle, plus longer-term evolution and transformation; monopolies decrease output and increase prices thus reducing the supply of corn to consumers; and those who gain a share of the surplus sufficient to enable them to join the leisure class engage in wasteful spending on commodities for the sake of prestige and status.

Hence, not only is there a EE_{min} bar of minimum exploitation, but also a EE_{max} bar of maximum exploitation. Together the bars of under-exploitation, over-exploitation, and the product distribution schedule (PP) indicate the limits or barriers to capital. This is shown in illustration 5.

The system manages to work fairly 'normally' within the white area of the triangle CAPC, which is the feasible region of workable reproduction of capitalism. This feasible region is that combination of productive and unproductive activities which ensures a workable level of reproduction in the long-period. Outside of this region capitalism cannot be reproduced in a workable fashion. EE_{min} , EE_{max} , and PP are variable through historical time, qualitative rather than specific in magnitude;

areas rather than a set of points in a line. When the black areas of either of the two bars, EE_{min} and EE_{max} , is reached, capitalism undergoes considerable uncertainty and instability because of over- or underexploitation, and a depression is highly likely. Inside the region of these bars the limits of capital are reached and the feasible region of workable reproduction declines (by a collapse of PP), bringing on, in all likelihood, a depression. In the outer region beyond the feasible region and the bars, capitalism could not operate and would thus cease to be reproduced. However, while the depression or recession associated with minimum exploitation links to overproduction and the common problems of the business cycle, the instability of maximum exploitation is of greater concern for the reproducibility of capitalism, long-term maintenance of institutions, and a reasonable level of certainty and stability.

Thus, in the second phase of capitalism (1850s-1990s), characterised by corporate control and the machine process, there is a tendency towards depression due to innovations becoming universalised, which wipe out reasonable profits in the key sectors due to the under-exploitation of industry by business. Veblen argues that a combination of unproductive activities and monopoly elements can retard this tendency towards depression. But if they go too far and over-exploit the productive institutions, such as during the 1920s, leading up to the Great Depression, then a crisis is highly likely because of a high level of waste and exploitation of industry. The limits to capital are considerable, and the area in which it can be workably reproduced is bounded. Hence depression is highly likely in the long-run if either tendency, over- or underexploitation, becomes dominant.¹⁴

Veblen's thesis of over-exploitation is modified according to certain counter-movements to the tendency to depression as unproductive activities increase relative to productive activities. The *first qualification* relates to indeterminacy as to what level of maximum ratio of exploitation is 'critical' (EE_{max}): "The requirements of the aggregate livelihood are so far short of the possible output of goods by modern methods as to leave a very wide margin for waste and parasitic income. [However, there is] no well-defined lesson as to what a modern industrial community may allow itself in this respect." [Veblen 1904:64-65] Veblen is saying two things here. First, he is implying that the ratio of business exploitation of industry can reach a maximum at EE_{max} , the 'crisis point', such that the system moves into a marked downturn of production and business. However, the exact point at which the EE_{max} bar is reached is indeterminate, because there are many qualitative factors and complex processes at work. This, of course, is the reason why EE_{max} is a 'bar' or wide margin rather than a mathematical line through a set of single points.¹⁵

According to *qualification 2*, promoting unproductive use of the surplus can expand the total surplus. As Veblen said:

Indirectly [waste has] a beneficial aggregate effect upon industry by inducing an employment of the full productive efficiency of the industrial apparatus; so that in a very short time, it is at least conceivable [that] the aggregate net output of the industrial process may be as large and serviceable as before the wasteful expenditures were entered upon, even with the destruction of that portion of the product which goes to maintain the wasteful expenditures ...

The wasteful expenditures enhance demand[,] ... increase profits and raise capitalisation. [Veblen 1904:252]

This is shown in illustration 6. Here, the starting point is area 'a'. Imagine that there is a transfer of surplus from productive activities, say, growing corn, to welfare and warfare, which moves the economy from 'a' to 'b'. The greater expansion of warfare and welfare may increase the realisation of the corn produced by increasing the size of the class who do not produce material or vendible use-values; which shifts the economy from 'b' to a higher level of industry at 'c'. Veblen thought that unproductive activities may be 'indirectly productive' but not directly productive because they do not produce material use-values in the production process.

Veblen went on to make another qualification, *qualification three*, to his major hypothesis concerning the crisis which will probably occur as the economy reaches its contradictory limits. As he said:

These 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 [sic] 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 1904:65]

The effect of this process is the same as qualification two, although the process is probably more long-term. In illustration 6, a gradual increase in the exploitation of industry by business can be represented as a movement along the schedule from a to b. Simultaneously, though, as the competitive system stimulates labour productivity or innovation, the PP schedule shifts from PP_0 to PP_1 , thereby increasing S_u and at least increasing the productive use of the product to the earlier level: the move to 'c'.

Veblen makes another qualification, *qualification four*, which states that, because the system is so dependent on wasteful expenditures, if the rate of increase (or an increase in the level) of such expenditures declines considerably and very rapidly, then a major depression will probably result. As he says:

The absorption of goods and services by extra-industrial expenditures ... would have to go on in an increasing volume. If the wasteful expenditure slackens, the logical outcome should be a considerable perturbation of business and industry, followed by depression; if the waste on war, colonialism, provincial investment, and the like, comes to an abrupt stop, the logical consequence, in the absence of other counteracting factors, should be a crisis of some severity [Veblen 1904:252].

What this implies is that, if the system is habitually dependent on unproductive expenditures to a large degree, and if these expenditures suddenly diminish, then business is not exploiting industry to the required degree. The actual ratio of exploitation line (EE_0) swivels downwards sharply so that it hits the bar of underexploitation, EE_{min} , leading to the high probability of crisis and depression. This results in a cumulative decrease in capacity utilisation and technological

advance that is similar to the case of overproduction in the sense that industry is underexploited, although the two cases are somewhat different.¹⁶

In summary: capitalism will be reproduced at a stable or higher level, and therefore have a greater potential for pushing the PP line outwards away from the origin, if it operates within the feasible region, between the EE_{max} and EE_{min} bars within the PP bar. But when the system moves outside the feasible region, in the sense of operating within the bars of overexploitation or underexploitation, there are either relatively too few or too many productive activities, and a major depression is highly likely to set in. It should be emphasised that, if the economy is operating within the bar of underexploitation, there is a great potential for the system to rebound from chronic depression since the cyclical behaviour of the economy may eventually restore normal reproduction. However, such potential is less likely if the economy operates within the overexploitation bar, since it indicates that the culture of workmanship is completely dominated by business elements. A new strategy of business is probably necessary as the system evolves into a new phase of evolution, or the system may turn to fascism, or the masses may conclude that 'something needs to be done' and instigate reforms which promote a more democratic political economy ('socialism').

Thus far it has been recognised that Veblen's primary thesis concerning the ratio of industrial/business activities is by no means the only influence on material production. The primary thesis needs to be qualified according to (1) the relatively indeterminate value of EE_{min} , EE_{max} (and PP), (2) the extent to which unproductive activities have a positive influence on workmanship, (3) the contribution of business to productivity and competitive effort [a subset of (2)], and (4) the possibility that business activities may at times be relatively stable. Business exerts an indirectly productive influence on industry to the extent that it promotes workmanship, capacity utilisation, and stability, according to Veblen's own analysis of the problem.

On the other hand, business performs indirectly unproductive functions to the extent that it (1) necessitates cutbacks to production during times of market saturation and overproduction, (2) is highly variable in its spending patterns over time for reasons unconcerned with (1), and (3) reduces the rate of workmanship during crises due to the dominance of speculative activities, conflict over the distribution of economic surplus, greater oligopolisation and collusion, and an increase in the proportion of the population who are dependent upon 'free income'.

3. From 'Industry and Business' to 'Institutional Reproduction'

Veblen's analysis of productive-unproductive activities is very ingenious. He specifically formulated his business-industry dichotomy so as to study the basic contradictions of capitalism. These contradictions emanate from the two main tendencies of capital towards (1) competition for profits and (2) the expansion of unproductive activities and collusive business practices. Veblen said that the machine process of production is crucial to capital, but that it leads to severe limits through the under-exploitation of industry by business. The other tendency of

monopolisation, salesmanship, and pecuniary interests has major limits since it has a tendency to over-exploit industry and thus promote instability and crisis. Crises of the institutional fabric are thus endemic to capitalism because of the limits and tendencies which predicate the motion of this contradictory system. Essentially, Veblen is saying that the institutions of capitalism need to expand the collective social wealth (workmanship) in order to expand the interests of business in the long-term; but that resources are wasted which could be used for expanding the collective wealth; and if the social wealth is unhampered by business it fails to distribute enough surplus to business to sustain profits.

The question as to whether business is both productive and unproductive, then, centres on whether these functions are to be considered direct or indirect. Business represents the pecuniary aspects of control over property. The above analysis clearly illustrates that Veblen considered business to have indirectly productive and unproductive functions from the point of view of material production; they are indirect because business always affects the circuit of industry from without. Business is unproductive to the extent that no surplus can be produced by 'financial wheeling and dealing' per se.

The practice of defining business activities (or unproductive activities in general) as necessarily wasteful of either surplus product, or the long-term interests of capitalism or socialism, is problematical. This is so because some of the institutions of business may promote the collective social wealth over long historical time. Veblen showed this to be the case for three of the major qualifications to his thesis about the unproductive nature of business. Parsons is correct to the extent that he says that the business (unproductive) and industry (productive) dichotomy underestimates the extent to which business promotes the continuation and expansion of capitalism.¹⁷ Veblen's objective, however, lies elsewhere; he is interested in the direct reproduction of the collective wealth, not the private power of capital, and the fundamental limits to collective wealth under the rule of business are said to be considerable. However, if the problematic is changed from 'production' to 'institutional reproduction' then it is possible to consider directly the contribution of all the institutions to system-reproduction. Institutional reproduction examines the underlying factors affecting stability, certainty, information, knowledge, skills, and communication in the long-term workings of institutions. Examining institutional reproduction leads directly to Veblen's early work on *The Theory of the Leisure Class* [Veblen 1899].¹⁸

The business-industry dichotomy presents problems when other institutional spheres, such as the state, are introduced into the analysis. Veblen believed that the State promotes the pure interests of business, and thus corresponds to an extension of business principles. As he said in a typical passage:

In effect and ordinarily the intervention of government agencies in these negotiations between the owners and the workmen rebounds to the benefit of the former. Such is necessarily in the nature of things. In the nature of things, as things go in any democratic community, these governmental agencies are administered by a businesslike personnel, imbued with the habitual bias of business principles, - the principles of ownership; that is to say, under current

conditions, the rights, powers, and immunities of absentee ownership. [Veblen 1923:404]¹⁹

Veblen's analysis of the role of the state is extremely problematical, even for the pre-welfare-state era in which he wrote. To reduce the state to the pure functions of capitalist business led Veblen to accept the traditional Marxist view of the state as a mere tool of the capitalist class, which has no interest in the long-term stability of the system, or the general welfare of the population (to the extent that it differs from the short-term interests of capital).

Modern research²⁰ has shown this view to be anomalous, especially (but not just) in the case of the post-war (1945-1990s) period of capitalist development. The state necessarily approximates neither the pure functions of business, nor those of industry, but represents a *qualitatively different institutional sphere examinable in its own right*. Veblen overlooked the extent to which business and the state may differ in their objectives; or that the state may be a qualitatively different institution, unique in itself. Veblen took effective demand into account, but only in an indirect sense that demand may increase the productive utilisation of industrial capacity, without itself being productive. Veblen underplayed the role of the state as an important institutional set of relations and arrangements, and therefore it is important to examine strategies to increase demand as being potentially productive activities, rather than simply indirectly productive. When the state is viewed as incorporating potentially reproductive and unreproductive functions, a critical factor such as Keynesianism (for instance) can be usefully incorporated into analysis, as an ideology, as well as a set of organisational arrangements, which materially effects the institutional and growth structure of the modern capitalist economy. It is the origin of the practice, rather than the manifestation of material output, which is the central point of an institutional analysis of the reproduction of collective wealth.

Many criticisms have been made of Veblen's simplistic theory of the relationship between occupational habits and broader aspects of thought and behaviour.²¹ He seems to have assumed that occupational tasks play a large part in conditioning thought and behaviour patterns outside work, and that the development of 'matter of fact' advances in technology will reduce the hold of outdated ceremonial beliefs and habits, at least in the case of the technicians and workers. This view is problematical. A more important aspect of his materialist theory is the notion that the collective wealth of the community is the foundation of socioeconomic progress. In more general works by Veblen it is the institutional structure of immaterial knowledge and belief about the industrial arts which forms the basis of community wealth. And 'Like any other phase or element of the cultural heritage, it is a joint possession of the community, so far as concerns its custody, exercise, increase, and transmission' [Veblen 1919:57]. He added that, to the extent that people contribute to directly productive work, industrial knowledge and innovation, their per-capita share of income is justified. Otherwise, they are getting an unearned income; 'free income'.²² Fundamentally, however, the social wealth goes beyond the narrowly technological domain to include the social fabric of organisation, language, and certain positive traits like parenting and idle curiosity.

Veblen's analysis of industry and business as espoused in *The Theory of Business Enterprise* and *Business Enterprise in Recent Times* is a delimited view of social wealth, not the full-blown theory of workmanship, idle curiosity, and the parental instinct found especially in *The Theory of the Leisure Class*. Veblen's more general theory of wealth generation and welfare is a holistic account of the social origins of collectivism and community. And despite capitalism's privatised institutions of business, it is the more social origins of wealth and community for which its long-term reproduction depends. Veblen's distinction between industry (productive) and business (unproductive) is simplistic. It indicates neither the extent to which business promotes industry (indirectly), nor the extent that working principles of industry and business are inextricably intermeshed in the production or technological system.²³ An example of the latter is where the sphere of production is structurally organised in order to maximise output by subordinating workers to the production system.²⁴ More importantly, however, it does not do justice to Veblen's model of the roots of the collective social wealth, to the extent that this goes beyond the spheres of material production and business. The goods which are consistent with collective wealth are not simply 'material goods', such as corn, or workmanship narrowly defined, but represent institutional structures promoting peace, cooperation, idle curiosity, warranted knowledge, and language. To some extent Veblen's more 'economistic' works, such as *The Theory of Business Enterprise* and *Absentee Ownership and Business Enterprise in Recent Times*, underrate the importance of a more general theory of collective wealth as espoused in *The Theory of the Leisure Class* [1899] (and, to some extent, *The Theory of Workmanship* [Veblen 1914] and the *Vested Interests and the Common Man* [Veblen 1919]). The differences between the narrower and broader works is, of course, a matter of subject matter, emphasis and degree.

It is important to comprehend the institutional reproduction of collective goods as a whole, rather than the narrow production of material output. Veblen's emphasis in some of his works on direct material output represents an implicit attack on culture, to the extent that he assumed that many institutions are wasteful, and not consistent with usefulness in the form of production. This provided the basis for beliefs about 'his [Veblen's] overemphasis on the limited sphere of production' [Adorno 1941:399] (in some of his works), and the contradiction between his recognition of the institutional roots of collective wealth and his critique of unnecessary and useless aspects of culture. Human beings collectively reproduce the institutional structure, which necessitates the utilisation of resources for cooperative interaction in a manner which is crucially linked to the genetic history of humanity. One cannot reduce the productive elements to the purely physical aspects of material production, despite the extent to which this is an important part of a wider theory. An institutional theory should, therefore, examine the institutions with a view to delineating the conditions of reproduction, from the point of view of capitalism or socialism, in the long-term regeneration of collective wealth.²⁵

At the centre of Veblen's general theory of collective wealth, enunciated in *The Theory of the Leisure Class*, is the simple notion of 'good' and 'bad' instincts (where instincts are partially institutionally determined). Good instincts, such as the

'parental bent', 'workmanship', and 'idle curiosity', promote the collective welfare or collective life process of the global society. The parental bent relates to the tendency of human beings to care for each other; workmanship links to the work ethic, technological knowledge, and material production; and idle curiosity is the non-directed activity of exploration in the search for answers to life's interests ('play' is one aspect; 'fundamental' thinking is another). Veblen believed that the instincts have a differential level of effectivity for the collective life process. The dominant instinct is workmanship, close behind that is the parental instinct,²⁶ and less important, at least in terms of the extent to which he emphasised it, is idle curiosity. But, despite this, idle curiosity is actually crucial for the long-term reproduction of knowledge in its various forms. As Veblen said in *The Instinct of Workmanship*: 'the long-term consequences' of idle curiosity is the creation of 'the most substantial achievement of the race, - its systematised knowledge and quasi-knowledge of things' [Veblen 1914:87; emphasis added].

In *The Theory of the Leisure Class*, Veblen developed a theory of 'productive and unproductive activities', or, more fundamentally, reproductive-nonreproductive actions from the point of view of collectivist processes. It approximates an analysis of reproduction, since it is quite broad and centres on the long-term socioeconomic conditions of maintenance, regeneration, and evolution of institutions. This theory is set within the context of the interplay of institutional, instinctual, and material structures in evolution over time. The reproductive activities are those of material production, cooperation, love, care, curiosity, and the growth of knowledge, which promote reproduction of the long-term livelihood of the human population. These functions satisfy interests such as peace, livelihood²⁷, warranted knowledge²⁸, long-term development, and hence social wealth. The origin of this wealth is the collective mode of organisation of the community, and the degree to which this mode influences the direction of instinctual tendencies. While the origin of these activities is collective, it is possible to privatise their benefits by controlling the institutions and material assets, which brings us to the unreproductive elements.

Bad instincts negate collective welfare in the interests of individual gain through warfare, private profit, patriarchy, and emulation. Hence the 'predatory', 'emulative', and 'pecuniary' instincts of human society. The predatory instinct links to the tendency toward aggression, attack, war, and plunder; the emulative instinct is the tendency for comparison on the basis of criteria of status and prestige; and the pecuniary instinct is the tendency to make judgements on the basis of monetary standards. Unreproductive activities are based on the manifestation of predatory, emulative, and pecuniary instincts within institutions, which discriminate in order to promote the vested interests of certain businesses, classes, tribes, nations, and sexes. The real problem is not so much the existence of these unreproductive elements, but that they may dominate reproductive elements, promoting considerable exploitation and waste. Veblen used the term 'exploitation' to cover the unreproductive activities which emanate from direct plunder, war, and aggression. It is but a short step to differentiate this from 'indirect exploitation', or the use of competition, emulation, and pecuniary methods of privatising the communal wealth; legal control of persons through slavery; forcing workers to labour for wages by not providing them with the

means of production to share in the control of surplus production above their basic level of livelihood; gaining a much greater share in production than the average through control of the 'key industries'; and using business methods to control industry rather than utilising purely technical means.

The unproductive activities or functions are a form of waste because they exploit the institutional resources of the community in order to reap certain private 'rewards', including material rewards such as the ownership or control of the means of production, consumer goods, territory, and raw materials. As Veblen said of the 'self seeking' institutions of business and the leisure class of his time:²⁹

The relation of the leisure (that is propertied non-industrial) class to the economic process is a pecuniary relation - a relation of acquisition, not of production; of exploitation, not of serviceability ... The immediate end of this pecuniary institutional structure and of its amelioration is the greater facility of peaceable and orderly exploitation; but its remoter effects far outrun this immediate object. [Veblen 1899:143-4; emphasis added]

In an evaluative sense the central principle of Veblen's work is what he variously calls the 'motion of economic life' or the 'collective life process'. This principle of collective or social wealth is discussed in different contexts throughout his work. To the extent that he emphasised the instinct of workmanship, rather than the parental instinct and idle curiosity, particularly in the more 'economistic' works, such as *The Theory of Business Enterprise* and *Absentee Ownership and Business Enterprise in Recent Times*, his theory of the collective life force centres on the material production process, or at least the knowledge and skill which forms the communal basis of production. But there are the wider dimensions of idle curiosity and the parental instinct. In the more general theory of reproduction, the collective goods are peace, knowledge, organisation, communication, production, and technology. Collective welfare is positively related to the degree of institutional dominance of parental care, workmanship, and idle curiosity rather than warfare, emulation, and money-making. Veblen believed that there is a contradiction between reproductive and unproductive functions, which takes different institutional forms depending on the specific social relations of industry, knowledge, belief, ideology, and law which are examined. Essentially Veblen developed a theory of economic waste and exploitation from the point of view of collective welfare rather than individual gain.³⁰ Business, the nation state, conspicuous consumption, and the vested interests, when they are dominant, are said to inhibit collective development through selfish instincts such as competitive monetary gain, status, force and war. Thus, his wider view of institutional reproduction is a general normative theory of progress based on collectivism.

4. Conclusion

The purpose of this paper has been to (a) illustrate Veblen's analysis of the production and distribution of the economic surplus (via the corn model), (b) analyse his theory of the contradictory limits or barriers to capital, (c) isolate important qualifications to his thesis of the unproductive nature of business, and (d) develop a critique of his model of business and industry.

Veblen argued that the material surplus is produced within industry, and that business expropriates part of the surplus for financial and wasteful purposes from the point of view of general material welfare. The limits of capital are threefold. First, the production distribution schedule (PP) indicates the degree of workmanship in the economy, which poses a limit to output. Secondly, it is possible to get to a situation of extreme underexploitation of industry by business (along EE_{\min}), which leads to instability because business profits are low while industrial output is high. And thirdly, the overexploitation of industry by business (along EE_{\max}) is destabilising due to the dominance of unproductive over industrial motives.

According to Veblen, in the largely competitive phase of capitalism (1780s-1850s) the limits were not highly developed. But in the late 1800s (during corporate capitalism phase 1: 1850s-1890s) competition was reasonable while largescale production gradually became dominant. Chronic depression was normal from the 1870s until the 1890s in the U.S. due to the dominance of largescale production, and the tendency towards overproduction and hence underexploitation of industry by business. But capitalism continually evolves, and the early twentieth century saw the trend towards greater salesmanship, oligopoly power, and the pursuit of pecuniary rewards above industrial motives (corporate capitalism phase 2: 1900-1930s). Unproductive activities began to dominate in the 1920s to counter the limits of overproduction, with a subsequently high ratio of exploitation of industry by business, leading to a greater probability of major depression. Had Veblen lived longer he probably would have posited a new phase of capitalism during the post-war era (1940s-1990s), adding further dimensions to the limits of capital.

Veblen recognised that the limits to capital are qualitative and institutional in their workings; and that they cannot be precisely predicted and analysed. While he argued that business is unproductive, and industry is productive, he qualified this by recognising that, from time to time, unproductive activities may enhance demand and hence output; pecuniary motives may enhance productivity through monetary incentives; and a sudden drop in unproductive or 'wasteful' expenditures may induce a depression. Business may thus in some cases be indirectly productive. While this was argued in *The Theory of the Business Enterprise* [Veblen 1904], the indirectly productive role of business was not emphasised in *Absentee Ownership and Business Enterprise in Recent Times* [Veblen 1923].

In my critique of Veblen's theory of business enterprise and industry, it was argued that there are major problems with the business-industry dichotomy since (a) business can often be (indirectly) productive; (b) Veblen tried to apply the dichotomy to areas where it had questionable value (e.g., the state was defined as being synonymous with business); (c) business principles often operate within the factory system itself (e.g., Taylorism), which casts doubt on capitalism being truly dichotomised in this way; and (d) collective wealth goes beyond industry and workmanship to the stock of organisation, language, knowledge, and communication. Veblen's broader work, *The Theory of the Leisure Class*, provides a more general theory of wealth which transcends the business enterprise towards a more institutional analysis of the roots of long-term economic reproduction and development. A truly institutional view of economics needs to take a broader view

of the economy than his works on business enterprise, although business enterprise needs to be part of this broader vision.

One needs to go beyond the industry-business dichotomy and study in detail the relationship between families, the state, enterprises, the financial system, and the world economy, and along the way develop concepts and principles which enhance an understanding of institutional reproduction. The contradictory limits of capital discussed in Veblen's works on the enterprise, while useful to some extent, should play second fiddle to his macroinstitutional perspective of the leisure class and the vested interests. Many modern institutionalists, such as those in the Association for Evolutionary Economists (AFEE), seem to have followed this latter road, and many useful interdisciplinary concepts and principles have been developed to enhance our understanding of institutional reproduction and evolution, some of which emanate from Veblen.³¹ But there is a long way to go along the evolutionary road, with its many twists, deviations, and transformations.

NOTES

- 1 The author is a lecturer in political economy in the Department of Economics, Curtin Business School, Curtin University, GPO Box U1987, Perth, Australia, 6001. This paper was presented at the Association for Evolutionary Economists (AFEE) meetings of the ASSA Conference at New Orleans during 2-5 January 1992. I wish to thank Allen Oakley for many useful comments on earlier versions; Jay Dee Martin for stimulating discussion of the paper in New Orleans; and George Argyrous and an anonymous referee made useful suggestions for revision. The author is responsible for any remaining problems.
- 2 It is unfortunate that there is little secondary material dealing with Veblen's theory of capital and capitalist motion beyond the superficial level. Notable exceptions are the papers by Gruchy [1958] and Sweezy [1958]. Excellent though they are, they merely provide a stimulus for more detailed analysis. There is scope for a monograph on this area.
- 3 A basic commodity is defined in the Sraffian sense of a commodity which is used as an input in the production of every other commodity [Sraffa 1960].
- 4 Because long-term economic activity depends on the rate of reproduction this average is defined with reference to the long-wave. Workers will probably save corn during long-wave upswings and go into debt during downswings.
- 5 In this passage, Veblen ignored the replacement investment of material capital.
- 6 The notion of productive and unproductive consumption does have relevance to Veblen's theory.
- 7 What is suggested here is that there are varying degrees of unity and disunity; when the unity is stronger it is shown as 'u'; when disunity is stronger it is shown as 'd'; and when there are about equal qualitative degrees of disunity and unity it is shown as 'du'.
- 8 For more detail on Veblen's analysis of evolution see Harris [1934], Sowell [1967], Rutherford [1984] and Argyrous and Sethi [1993].
- 9 Or as he said elsewhere: 'But the de facto rise of the new order may be conveniently dated from about the turn of the century' (1900) [Veblen 1923:211].
- 10 For instance, Veblen [1919;1923].

- 11 Veblen reiterated this point in many places. For instance: 'No new order of business and industry has strung up suddenly and complete at any given date, even though a visible change has taken effect within a reasonably short time. It is only that somewhere about the turn of the century a critical point was reached and passed, without much visible change of circumstances at the time. The new system, in business and industry, has in fact been maturing in its present working shape through some twenty years past.' [Veblen 1923:212]
- 12 As may be obvious, it could be possible to transform this diagram into a firm or industry or whole economy market structure price-revenue-output graph. Under oligopoly or monopoly, production would be restricted and price raised; and under a competitive regime the opposite would prevail.
- 13 Veblen could not foresee when this phase of capitalism declined, since he died in 1929, on the eve of the stockmarket collapse. The 1940s is taken as a rough guide to the period when this phase of capitalism transformed into new structures (post-1945 capitalism).
- 14 Whereas in *The Theory of Business Enterprise* (1904) Veblen cited the above-mentioned four major qualifications to the primary hypothesis, he is much less concerned with the positive functions of business in *Absentee Ownership and Business Enterprise in Recent Times* (1923). As in the earlier work, Veblen left the ratios of EE_{max} and EE_{min} relatively indeterminate. But he seriously considered the possibility in *Absentee Ownership* that the situation in the USA and Europe had begun to decline to the critical area of over-exploitation during the 1920s. Veblen thought that the early 1920s represent a time of sustained reduction of workmanship, due to an increase in unproductive activities approaching a critical level which questions the further stable reproduction of absentee ownership. He thus placed more emphasis on the proposition that [the economic system] will not tolerate an unreserved shift [of resources] from workmanship to salesmanship' [1923:290].
- 15 We have also shown the PP_0 line to be a thick bar, because of the indeterminate results of the cumulative processes of workmanship and non-workmanship: evolutionary processes have no specific end points.
- 16 Veblen also stated that the turnover of capital can be increased by extra advertising [Veblen 1904:100]; that credit may expand industry by increasing prices [Veblen 1904:102]; but that this is an indirect expansion of material output [Veblen 1904:264]. In any case, under conditions of excessive competition, with many firms and no effective collusion, the profits of business will be eroded over time, leading eventually to depression [Veblen 1904:94].
- 17 See Parsons [1977]. Simich & Tilman [1983] discuss these issues, and present a criticism of Parson's critique of Veblen's theory of status and emulation. Parson's is said to underrate the extent to which business and industry are contradictory, as distinct from functional, and ignores the extent to which emulation and status may differ across cultures and over time.
- 18 Plus to some extent *The Instinct of Workmanship* [Veblen 1914]. The work of Karl Polanyi [1944], the Social Structures of Accumulation (SSA) [Gordon et al 1990] and Regulation [Aglietta 1976] approaches, plus the work of Ron Stanfield [1984, 1989] and Resnick and Wolff [1987], develop this theme of institutional reproduction in innovative ways. The emphasis here is on the long-term conditions underlying institutional stability to the extent that varying degrees of relative certainty and confidence are possible. It is important to transcend the narrower 'reproductive schema' problematic vis-a-vis volume two of Marx's *Capital* [Marx 1885]; although this is important to some extent in a wider theory of institutional reproduction.
- 19 Leathers [1989] correctly points out that Veblen's dominant theory of the state is one in which it satisfies the interests of business, and in which the 'common person' supports such governments because of the mistaken belief that common aims are satisfied by the state.

He recognises another element of a theory of the state in *The Theory of Business Enterprise*, in which the state looks after its own interests. Overall, though, Leathers recognises that the second theory is overlooked in most of Veblen's works, and his theory of the state is somewhat undeveloped.

20 See, for instance, Gough [1979], Head [1983], Frankel [1983], and Offe [1984]

21 For instance, Hill [1958:148] argues that such a theory is unrealistic.

22 As he said: 'Indeed the chances are that the owner [of the business] has contributed less than his per-capita quota, if anything, to the common fund of knowledge on the product of which he draws by virtue of his ownership, because he is likely to be fully occupied with other things, - such things as lucrative business transactions, e.g., or the decent consumption of superfluities' [Veblen 1919:69].

23 Nor does it consider the extent to which business principles may be useful or necessary (and hence productive or reproductive) in a socialist economy. Accounting techniques may be cited as an example. Business enterprises may also be 'productive' for their own interests (specific capitals) but not necessarily for the political economy as a whole (global capitals).

24 For Marxist work on this notion, see Marglin [1974, 1975] and Rose and Rose [1976]. Modern institutionalists refer to this as an example of the 'ceremonial encapsulation of technology' [Bush 1987], as part of their theory of the instrumental and ceremonial functions of institutions. This theory, I believe, is an excellent modern critical view of reproductive/non-reproductive functions within institutions as an explicit extension of Veblen's system.

25 For a more detailed analysis of collective wealth and institutional reproduction, as applied to Veblen and modern political economy, see O'Hara [1992].

26 As he said: 'Chief among those instinctual dispositions that conduce directly to the material well-being of the race, and therefore to its biological success, is perhaps the instinctive bias spoken of as the sense of workmanship. The only other factor of human nature that could with any likelihood dispute this primacy would be the parental bent. Indeed, the two have much in common.' [Veblen 1914:25]

27 'Livelihood' is the process of obtaining food, clothing, shelter, love, and meaningful employment in order to reproduce the personal and social dimensions of the community for long-term progress.

28 Warranted knowledge means the type and degree of information, theory, and relations between people and groups which enable a community to reproduce productive activities; the broader the category gets the more one emphasises reproductive rather than simply productive functions of institutions.

29 Veblen did not consistently discuss pecuniary institutions in terms of exploitation of the collective wealth [see Veblen 1899:46-47]. In *The Theory of Business Enterprise and The Instinct of Workmanship*, Veblen more specifically differentiated between overt force (exploit), business, and emulation. Nevertheless, all of them are considered unproductive, and in this sense represent the exploitation of the resources of collective wealth; getting 'something for nothing' without contributing anything directly to material production.

30 The argument of this present paper differs from Bell [1963:32-33] when he says that: 'What Veblen disliked about capitalism, as T. W. Adorno has shrewdly pointed out, was not its exploitation of the people but its waste of goods'. Rather, the waste and the exploitation are intimately linked.

31 For more detail on this see O'Hara [1992].

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