

## One Hundred Years from Today

**T.B Veblen. *The Theory of Business Enterprise*. New York: Charles Scribner's Sons, 1904.**

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*The Theory of Business Enterprise (TBE)* first appeared in 1904, was reprinted in 1912 and again in 1932 by Charles Scribner's Sons; later an A.M. Kelley reprint appeared in 1965, with the addition of a review by J.H. Tufts. The last edition of *TBE* appeared in 1978, published by Transaction Books with a new introduction by Douglas Dowd. The only initial review in an economics journal of any standing – in the *Journal of Political Economy*, December 1904 – gave the book a muted, perfunctory reception and scant praise. Across the Atlantic the book was shunned by the editor of the *Economic Journal*; it did not receive a review.

It would scarcely be surprising if *TBE* was not accorded the proliferation of commemorative articles of the kind produced on the occasion of the centenary of the *Theory of the Leisure Class (1899)*. *TBE* has stood in the shadow of Veblen's other works in the minds of most historians of economic thought. Perhaps many have taken their lead from John A. Hobson's (1936) authoritative study of Veblen, which virtually ignored *TBE*. When considering the contemporary relevance of Veblenian economics, *TBE* has been treated as narrow, supplementary work (O'Hara 1993, p. 93; 2002). So in revisiting *TBE* on this occasion and reading some important secondary literature on the subject in this journal, I was favourably surprised to find Jan Toporowski's (2002, p. 171) remark that *TBE* was 'a seminal achievement in economic analysis...whose ideas [Veblen] tended to recycle in subsequent works'. In this commemoration I shall ignore Veblen's other works and view *TBE* in isolation, seeking aspects of the book which have immediate relevance to the present.

Like Marx, Veblen begins with the specific mode of production as a key indication of the material conditions of human existence in the capitalist economy. The 'machine' mode, as he called it, was a prime characteristic of capitalism in 1904 and it was overseen by private 'business enterprise'. Whether it be machines or, as more commonly now, services, capitalist production activities are increasingly standardised, so that individuals are 'required to adapt themselves to the exigencies of the process' (*TBE*, p. 131). Industrious technicians and engineers manage the process, assisted by creative, conscientious workers interested in attaining a livelihood. By contrast, 'business' plans are prosecuted by those focused on making money or profits. In short, profit-making is a business behaviour; producing goods for a livelihood is not the concern of business.

*TBE* is founded on an industry versus business dichotomy. The former is an instrumental function promoting the common good; the latter is an example of a ceremonial function not conducive to the common good. Veblen also relies on some sub-dichotomies satirically to characterise the distinguishing features of business behaviour. Wage workers, engineers and technicians are united by industrial motives, whereas business executives, along with speculators, stakeholders, investment bankers, lawyers, even elected politicians and government

officials, are motivated by short-term pecuniary gain. Workers and engineers are 'serviceable' agents who produce goods, whereas business enterprises promote vendibility. While Veblen appreciates the positive incentive effects of financial rewards, he implies throughout *TBE* that exorbitant financial incentives are required to keep business enterprises interested in producing any significant quantity of serviceable goods.

Veblen determined that industry was carried out for the sake of business, with deleterious consequences for the human condition because business was inherently wasteful and inefficient. Business enterprise by its very nature always sought a 'monopoly' element in the markets where it operated. The terms 'competition', 'competitive' and 'to compete' were always in *TBE* concerned with the idea that business competes to create some degree of monopoly. Whereas in contemporary neoclassical treatments competition was a benign force referenced to the ultimate efficient outcome of perfect competition, for Veblen real competition was essentially the outgrowth of a predatory instinct. Furthermore, far from producing an overall macroeconomic equilibrium at a high level of production, Veblen demonstrates how competition can lead to serious economic dislocations and violent fluctuations in aggregate economic activity. And, well before the monopolistic competition revolution in economic thought in the 1930s, Veblen discussed the role of advertising at length, showing how it aimed to establish 'differential monopolies resting on popular conviction' (*TBE*, p. 55).

*TBE* engendered a debate over the origins and anticipation of the fertile Berle and Means (and later Galbraithian) distinction between owners and managers (see, for example, Leathers and Evans 1973, 1980). The real issue in *TBE* was not the separation of ownership and management and all the agency problems implied thereby, but the ownership and control of intangible business assets (Rutherford 1981; Endres 1984). These assets encompass a wide variety of 'such things as established customary business relations, reputation for upright dealing, franchises and privileges, trade-marks, brands, patent rights, copyrights, exclusive use of special processes guarded by law or by secrecy, exclusive control of particular sources of materials' (*TBE*, p. 139). A profit-making monopoly element inheres in all these phenomena. Moreover, the 'value' of stockmarket-listed companies represents a gamble on the future control of this element.

The issuance and subsequent market valuation of common shares is for the most part representative of the existing and, more crucially, prospective value of a business's intangible assets. Preference shares, debentures and financial claims on physical assets are generally held by the issuers of credit – the banking institutions. To the extent that business executives own a large portion of common shares or short-dated options over shares, the control of a business's profit-making power is essentially given over to this class of managers; they have the utmost discretion over using credit and physical assets; their control is especially strengthened if common shareholding is widely diffused or if shareholders desire short-term financial gain (*TBE*, pp. 116-17, 144-65, 174-5). Therefore business will be carried on myopically to increase the value of intangibles as valued by stockmarkets. The rules of the business game turn on inflating intangibles, damaging the intangible assets (for example, the brands) of other businesses, use of credit resources to create a large stock of intangibles, and so forth. Since 1904, the development of stockmarket institutions and markets in financial securities and the plethora of stock option 'incentives' have increasingly blurred the traditional mid-twentieth-century distinction between ownership and control. The recent Enron, Tyco and World

Comm scandals were precisely about short-term control, reckless management and manipulation of intangible assets by managers and their lackeys in the stockbroking, investment banking and accounting communities. The underlying culture was one obsessed with the day-to-day movements of stock prices, which were ultimately rooted in the imagined, future earnings power of intangible business assets (Lowenstein 2004). In these circumstances, stock price variations will be volatile, genuine industry in Veblen's sense will be an afterthought, and financial bubbles and crashes will proceed in tandem with the cult of shareholder value based on perceptions of management's future control of intangibles. Veblen would have been equally sceptical of modern reforms in 'corporate governance' simply because the whole edifice of business enterprise rests on creating obstacles to the free play of market competition, on spruiking the future earnings capacity (ultimately from intangibles) of a business, and on manufacturing pecuniary munificence for a select few business managers.

*TBE* outlines a symbiotic relationship between business and banking institutions. Vast lines of bank credit afford differential advantages to *some* so they may secure control of industry. While credit extension proceeds on the putative stability of the capitalised asset backing of a business, in fact business asset values are very uncertain and precarious, the more so when key asset values are essentially uncertain and intangible. In an economy dominated by services (rather than machines) this problem is surely compounded. For Veblen, bankers were not fazed, since speculative business activity using credit causes periodic financial crises and business 'liquidations', thereby allowing greater control of industry to gravitate toward a small coalition of managers *and* bankers. All this seems to play out with or without central bank control over money supplies. Veblen's 'capital' is a fund: capital is 'presumptive' future earnings capacity, which is valued in monetary terms; it depends on profit expectations and is 'created' by the extensive use of credit to enter bets on the future value of profit from intangibles. Credit institutions are not, fundamentally, 'serviceable' because credit bears 'a remote, indirect, shifting relation to the aggregate material wealth and the material changes to which this wealth is subject' (*TBE*, pp. 127, 132). Moreover, credit can give rise to excessive expectations of profit from intangibles.

Veblen illustrates how capitalism suffers periodic depressions, more or less pronounced. *TBE*'s emphasis on the role of credit in this process repays re-reading in conjunction with the works of Hilferding and Marx (Toporowski 2002). Veblen also supplements Marx's deficiencies in elaborating on the close relationship between business and polity. The class struggle for Veblen is between the interests of business (including government), and industry. *TBE* warns us that constitutional government is a business government, and that so-called 'representative' democracy is potentially controllable by business. A particular kind of government failure is likely, and it is *not* failure of the kind popularised more recently by Gordon Tullock and James Buchanan. The military, diplomatic services, legislature, police services and the administration of justice are all considered in *TBE* as potentially corruptible by business enterprise in the pursuit of pecuniary gain. Ordinary citizens become oblivious and unquestioning, thinking that government policies favouring business will promote the common good. Government officials may, unwittingly or otherwise, become vehicles for the legitimation of business principles – promoting particular tax, expenditure and international trade policies at the behest of business enterprise (*TBE*, pp. 185-6).

According to Veblen, business 'principles have a peculiar hold upon the affections of the people as something intrinsically right and good. They are therefore drawn on for guidance and conviction even in concerns that are not conceived to be primarily business concerns' (*TBE*, p. 382). *TBE* predicts the development of government-funded 'business schools'. Veblen observed a public education system sanctioning narrow schemes and languages of instruction designed to give ready application to 'practical' ends – representing predatory business behaviour and pecuniary motives as without exception desirable. Systematic, liberal learning to develop general knowledge and 'intellectual initiative' is then lowered in value. Education subsequently becomes 'a conservative factor' reinforcing status quo bias toward business interests (*TBE*, pp. 382-3).

Readers of *TBE* will be struck by Veblen's insights into the standardisation of language and other forms of communication so that they conform to business fads and mannerisms (*TBE*, pp. 384-9). Even in 1904 the popular press had been influenced by business discourse; indeed all forms of media as then available were permeated by business language as if it carried messages which were intrinsically good. Lately it has been recognised that the very existence of 'public language', independent of business, is being threatened by platitudinous commercial expressions and phraseology, marketing 'spin', and business jargon favourable to the tastes, prejudices and misapprehensions of business (see Watson 2003). A cursory glance at the table of contents of a modern academic text on recent corporate developments in Australia indicates that it too has been swayed by the language of business (Fleming, Merrett and Ville 2004). There is more grist here for a modern Veblen's satirical mill.

Behavioural scientists may not find much support for the idea that business executives are addicted to ceremonial, wasteful and predatory behaviour any more than wage workers, technicians or engineers, who are supposed to be imbued with peaceful, cooperative, creative, and industrious motives. Is *TBE* and Veblen's indictment of capitalism therefore irrelevant? His prediction that the 'full dominion of business enterprise is necessarily a transitory dominion' (*TBE*, p. 400) certainly finds no support 100 years on. Nevertheless *TBE* offers some enduring warnings and insights: the vital role of heterogeneous intangible assets in the battle to control capitalist industry; the accommodating role of credit in the business cycle; the concept of 'competition' as a continual struggle to monopolise intangible assets; the ever-present danger that a symbiotic relationship between business and government will be legitimised and, above all, the insidious infiltration of business principles and behaviour into all areas of human life, learning and expression.

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