



UNIVERSITÀ DEGLI STUDI DI MACERATA

Dipartimento di Economia e Diritto

Veblen, economic policy and the present crisis.

P. Ramazzotti

Quaderno di Dipartimento n. 76

Ottobre 2014

Veblen, economic policy and the present crisis.

P. Ramazzotti

Abstract

There are two basic ways to provide a critical view of the economy we live in and of mainstream accounts of it. The first one is to assess whether and how it can meet the procurement requirement, i.e. whether it can achieve the material reproduction of society. It typically includes analyses of the economy's ability to achieve goals such as full employment, real and financial stability, a decent income for all. The second one is to assess whether, quite independently of its performance, it meets a social requirement, i.e. whether its overall setup is consistent with a range of generally accepted values. The aim of the paper is to focus on this second approach by discussing Veblen's views of how and why business requirements intrinsically contrast the livelihood of the community. It contends that, in so far as Veblen's intuition about such a contrast is correct, it should be possible to envisage an appropriate policy to deal with it. Unfortunately, Veblen's discussion of possible alternatives is not very helpful, in this respect. The paper argues that this has to do with theoretical shortcomings in Veblen's treatment of profit. The paper is structured as follows. Following the Introduction, Section 2 briefly summarizes the basic features of the Veblenian dichotomy. Section 3 discusses how technology fits into the dichotomy and the unsolved issues in Veblen's theory. Section 4 points out what appears to be a policy stalemate. It discusses Veblen's treatment of what he thought could be an alternative to the existing state of affairs. It suggests that Veblen's notion of pecuniary gain is either too restrictive or too broad to conceive of an economy that overcomes the profitability-serviceability dichotomy. Section 5 contends that a proper understanding of the dichotomy and of possible policies to contrast it has to situate the dichotomy within market relations. Markets are depicted not only as a choice mechanism based on relative prices but as one where important social categories are turned into commodities despite their incompatibility with such a role. This typically Polanyian approach provides some insights on how to conceive of a policy that takes account of the dichotomy but does not waver between the forced acquiescence to the status quo and the millenarian expectation of an all-encompassing change. Our emphasis on the extension of contracted exchange suggests that policy may act on the degree of commodification of the economy and, in particular, of its fictitious commodities. It suggests that other criteria - typically those concerning people's civil, political and social rights - may prevail over those of relative prices. It goes without saying that this is only a guideline for policy, not a road map. To some extent a guideline such as this one prevailed in some countries during the post Second World War "golden age". Neoliberalism has changed this. It has reinstated the principle whereby everything should be conceived of as a commodity, so that markets - contracted exchange based on relative prices - are the ultimate criterion for whatever change. The paper does not aim to discuss the insurgence of neoliberalism. It does suggest, however, that the dichotomy occurs - and should be contrasted - in relation not only to how business chooses the amount and composition of output but also to how it manages labor relations, the creation and application of technology and, more generally, of knowledge.

Paolo Ramazzotti, Università degli Studi di Macerata.
E-mail: paolo.ramazzotti@unimc.it.

1. Introduction

There are two basic ways to provide a critical view of the economy we live in and of mainstream accounts of it. The first one is to assess whether and how it can meet the procurement requirement, i.e. whether it can achieve the material reproduction of society. It typically includes analyses of its ability to achieve goals such as full employment, real and financial stability, a decent income for all. The second one is to assess whether, quite independently of its performance, it meets a social requirement, i.e. whether its overall setup is consistent with a range of generally accepted values.

The two approaches may or may not overlap and it is sometimes the case that scholars not only deal with both but provide an outlook of the economy that shows how they are interdependent. Veblen is one such scholar. Thus, he stresses that the existing economic setup eventually leads to a depression¹ and to unemployment². He traces this feature back to the peculiarity of business requirements³. But he also points out that these business requirements reflect a value system – salesmanship – that clashes with the livelihood of the community. This clash is not only due to the undesired performance of the economy that it leads to. It is therefore not enough to try to contrast or to make up for economic depression. Salesmanship – thus, business - involves a composition of output and a distribution of income that prejudices the livelihood of the community independently of economic trends.

The aim of the paper is to discuss Veblen's views of how and why business requirements intrinsically contrast such a livelihood. It contends that, in so far as Veblen's intuition about such a contrast is correct, it should be possible to envisage an appropriate policy to deal with it. Unfortunately, Veblen's discussion of possible alternatives is not very helpful, in this respect. The paper argues that this has to do with theoretical shortcomings in Veblen's treatment of profit.

The paper is structured as follows. The section that follows briefly summarizes the basic features of the Veblenian dichotomy. Section 3 discusses how technology fits into the dichotomy and the unsolved issues in Veblen's theory. Section 4 points out what appears to be a policy stalemate. It discusses Veblen's treatment of what he thought could be an alternative to the existing state of affairs. It suggests that Veblen's notion of pecuniary gain is either too restrictive or too broad to conceive of an economy that overcomes the profitability-serviceability dichotomy. Section 5 contends that a proper understanding of the dichotomy and of possible policies to contrast it has to situate the dichotomy within market relations. Markets are depicted not only as a choice mechanism based on relative prices but as one where important social categories are turned into commodities despite their incompatibility with such a role. The paper ends with a few, brief concluding remarks.

Although the paper is basically centered on theoretical and methodological issues, Section 5 stresses the relevance that they have in the light of the neoliberal age and of the present crisis.

2. The dichotomy and distribution

The point of departure in our discussion of Veblen is that “The production of goods and services is carried on for gain, and the output of goods is controlled by business men with a view to gain.” (Veblen 1904: 15). He is not concerned with the income of “the typical owner-employer of the earlier modern time [... who] could still truthfully be spoken of as a ‘master,’ a foreman of the

¹ “It may, therefore, be said, on the basis of this view, that chronic depression, more or less pronounced, is normal to business under the fully developed regime of the machine industry.” (Veblen 1904: 74).

² “The primary hardship of a period of depression is a persistent lesion of the affections of the business men; the greatest secondary hardship is what falls upon the workmen, in the way of partial unemployment and a decline in wages, with consequent precariousness and reduction of their livelihood.” (Veblen 1904: 75)

³ “Crises, depressions, hard times, dull times, brisk times, periods of speculative advance, ‘eras of prosperity,’ are primarily phenomena of business; they are, in their origin and primary incidence, phenomena of price disturbance, either of decline or advance. It is only secondarily, through the mediation of business traffic, that these matters involve the industrial process or the livelihood of the community.” (Veblen 1904: 60).

shop, [...] still invested with a large reminiscence of the master-craftsman, as known in the time of the craft-guilds.” (Veblen 1919: 41). While this owner-employer received an income because – together with his workers – he produced an output that was functional to the livelihood of the community, the businessman Veblen focuses generally is the (co)owner of a firm, knows very little – if anything – about the industrial process and considers the collective livelihood as a mere constraint.

Veblen’s distinction between pecuniary gain and serviceability recalls Marxian themes⁴. Since businessmen pursue money gain by selling goods, these must be salable or, as Marx would put it, they must have an exchange value. Salability has little to do with the utility of the goods, Marx’s use value: “it does not follow that the highest serviceability gives the largest gains to the business man in terms of money, nor does it follow that the output need in all cases have other than a factitious serviceability.” (*ibid.*). Serviceability is not the rationale underlying production, and businessmen may well try to bypass it.

There are two major ways, according to Veblen, that business pursues pecuniary gain to the detriment of serviceability. One is “sabotage”, when firms do not produce goods that would be beneficial for the community, and/or they do not produce them in a cost-effective way. Sabotage “commonly has to do with something in the nature of a vested right, which one or another of the parties in the case aims to secure or defend, or to defeat or diminish; some preferential right or special advantage in respect of income or privilege, something in the way of a vested interest.” (Veblen 1921: 6).

The other way that business pursues pecuniary gain – monetary profit - to the detriment of serviceability is somewhat the opposite: it is when firms do produce goods but these are not beneficial to the community: “there are [...] certain lines of industry, such as many advertising enterprises, the output of which may be highly effective for its purpose but of quite equivocal use to the community. Many well-known and prosperous enterprises which advertise and sell patent medicines and other proprietary articles might be cited in proof.” (*ibid.*).

By pursuing money profit in the above depicted way, business affects the quality of life of (sections of) the community in two ways. It affects it directly by selecting lines of business “of equivocal use” and by acting upon the firm-level of output, the distribution of income and the extant structure of rights. It affects it indirectly by determining an inadequate aggregate level of output. Although the two types of effects are interrelated – while the purposeful reduction of output favors profit, the consequent distribution of income affects the multiplier, hence the level of income – the focus of the paper will be mainly on the first one.

The shift from the owner-employer to the businessman depends on a change in technology. The increased size of plants/firms makes it convenient to produce at less than full capacity. More important, however, is that the greater interdependence among industries leads to two consequences. First, it determines a generalized standardization: “these greater industries of the machine era extend their domination beyond their own immediate work, and enforce a standardization of much the same mechanical character in the community at large; in the ways and means of living as well as in the ways and means of work.” (Veblen 1919: 39). Second, because of this standardization, it makes it easier to focus less on a firm’s specific line of business than on the interstitial opportunities associated to industrial interdependence. In other terms, the interconnectedness of industrial activities improves the coordinating capability of the market mechanism. While a conventional view would suggest that this favors arbitrage, thus a smoother working of the industrial system, “Gain may come to them [the greater businessmen] from a given disturbance of the system whether the disturbance makes for heightened facility or for widespread

⁴ In an important attempt to deal with the need for dialogue among different strands of thought, P.A. O’Hara (2000) and O’Hara and Sherman (2004) focus on the many themes that Veblen and Marx (and one of the most influential American Marxists, P.M. Sweezy) share.

hardship, very much as a speculator in grain futures may be either a bull or a bear. [...] The end is pecuniary gain, the means is disturbance of the industrial system” (Veblen 1904: 9).

This standardization allows a further step in the evolution of the economy. Along with the dichotomy between industry and business a new dichotomy emerges, within the business community, between ordinary business firms and the great financiers. The latter use their great financial resources to “shift from one point of investment to another as the relative efficiency-earning-capacity-of one and another line of investment may make it expedient” (Veblen 1908: 133). As a result, “the old-fashioned capitalist-employer loses his discretionary initiative and becomes a mediator, an instrumentality of extraction and transmission, a collector and conveyer of revenue from the community at large to the pecuniary magnate, who, in the ideal case, should leave him only such an allowance out of the gross earnings collected and transmitted as will induce him to continue in business.” (*ibid.*).

It is worth pointing out that, since the financiers determine a redistribution of wealth within the business community alone, this further step in economic evolution “should appear to have little more than a speculative interest for those classes of the community who do not derive an income from investments”. (*ibid.*: 134). According to Veblen the only reason for concern is for those who stand to lose by this redistribution.

Summing up, technological change leads to two types of effects. One is the dichotomy between business and industry; the other relates to the distribution of capitalized wealth among businessmen. Since the latter apparently is of no consequence for the rest of the community, it is the former that Veblen mainly focuses on. The issue is one of social efficiency: the livelihood of the community is constrained by the profit motive and the waste it gives rise to. The question we wish to address is whether it is possible to remedy this problem.

3. Technology and preferential rights

Veblen (1921) clearly points out that a solution would be possible. It is possible to envisage an economy that pursues an efficient use of industry by contrasting the vested interests of business i.e. by changing the legal-economic nexus and its related rights. Quite independently of whether political or other circumstances allow it to occur, Veblen’s soviet of technicians reflects this possibility.

This policy perspective is subject to a range of constraints, however. Veblen clearly points out that ideological myths may prevent people from properly assessing what the political-ethical issues are, thereby precluding appropriate choices and change. Thus, knowledge of society and of how to live in it may be constructed so as to be functional to business interests. This emphasis on the role that ideology and culture play in maintaining the hegemony of the kept classes is important. It suggests that change is not just a technical matter. On the other hand it is not clear whether this cultural dimension is in any way related to the standardization of living conditions determined by the evolution in technology. If this were to be the case – if what people think is in some way related to how their life is organized - a soviet of engineers that properly manages technology would not be enough. More specifically, there might be more to the absence of a consensus to change the economy than mere inertia or propaganda.

In Veblen’s view, ideological myths are deemed distinct of technological knowledge. This suggests that, if one were not blinded by the former, a policy could nevertheless be depicted that “provides for the continuity of human life and the noninvidious re-creation of community through the instrumental use of [technical] knowledge.” (Tool 2001: 293). As Dugger and Sherman (2000: 50) point out: “Technological learning is different from ceremonial. It is not about who is superior and who inferior. It is about how to do things better and how to do new things. You could say that technological learning teaches us how to get a job done while ceremonial learning teaches us who to credit for doing the job.”

Bush (1994), however, contends that this ceremonial-instrumental dichotomy is inadequate because “certain instrumentally warranted activities are ‘ceremonially encapsulated’ by the dominance of ceremonially warranted values within the institutional structure” and quotes Dewey, who argued that “... the simple fact is that technological industry has not operated with any great degree of freedom. It has been confined and deflected at every point; it has never taken its own course. The engineer has worked in subordination to the business manager whose primary concern is not with wealth but with the interests of property as worked out in the feudal and semi-feudal period.” (Bush 1994: 651; the quotation is from Dewey [1927, 108]).

If it is not possible to identify “instrumentally warranted activities” in that they may be “ceremonially encapsulated”, what guidelines are there for a socially efficient policy? Invidious behavior and ceremonialism may well underlie the activities of economic actors but, in the absence of an instrumental terms of reference, it is not possible to realize whether any specific action is motivated by ceremonial rather than instrumental goals. Engineers are just as unable to deal with these problems as anyone else.

Samuels (1977) also questions the neutrality of technology but his conclusions are more dramatic. While he stresses that “Technological change is a function of research and development efforts which are a function of power structure-*cum*-capitalized expectations, both of which are a function of property and other rights.” (Samuels 1977: 878) he points out that what is at issue is the very notion of efficiency: “‘Efficiency’ is a function of power and the valuational process (governing whose interests count) which operates through the power structure.” Samuels (1977: 882).

These remarks raise further issues. As long as you can conceive of an efficient technology, that is, a way to properly use tools and knowledge in order to achieve specific ends, the issue is whether the ends actually pursued are the appropriate ones. Veblen’s focus on how business determines the amount and composition of output reflects his emphasis on the ends rather than on the means. When the very notion of efficient technology turns out to be conceptually inadequate, in that there may be many ways to produce output and their appropriateness depends on the rights structure and on power relations, it is reasonable to believe that profit may be pursued not only by acting on the level and composition of output but also by determining the organization of production. Technological change may be pursued in order to affect the distribution of income within firms, e.g. by reducing the control that workers have of the production process (Braverman 1974; Marglin 1976)⁵. It may be devised so as to shift private business costs onto sections of society or onto society as a whole e.g. through greater environmental pollution, through more dangerous working conditions, etc. (Kapp 1963)⁶.

Technological change may, therefore, allow business to pursue profit at the expense of the community not only by choosing *what* to produce and *how much* to produce but also *how* to produce it. This type of change may eventually feed back on the rights structure and determine a general perception of economic compatibilities and efficiency that is consistent with the vested interests of business. In other terms, ideology and culture may result less from propaganda than by the organization of life that standardization leads to. As Samuels (1977: 884) puts it, “Technology is a key force influencing culture, society, and institutions, including power structure”.

Samuels’ remark is important in that it stresses that it is not enough to determine a legal-economic nexus. Innovation may well be a means to bypass existing rules or simply to enter that no man’s land where, owing to establishment of a novel economic and social context, no rules exist: consider, for instance, the implications that new technologies had on genetics. In this perspective the creation of technology reflects the same rationale of sabotage as quoted above from Veblen.

⁵ See Kalecki (1943) in relation to how this type of change may affect the overall business climate.

⁶ Needless to say, these costs may or may not be measurable in money terms. What is measurable in money terms is the pecuniary gains that result from this cost shifting.

This perspective on technology ultimately suggests that business may orient its creation and subsequent deployment in a variety of ways and that it may lead not only to a conflict between profitability and serviceability but to other conflicts as well. One pertains to the distribution of income between business profits and workers' wages. Another one has to do with the distribution of private and social costs within society.

Under these circumstances, it does not seem reasonable that those very businessmen who are so keen to take advantage of all opportunities available for pecuniary gain should disregard such an important means to control not only distribution but also power relations. It may well be that "Business discretion necessarily centres in other hands than those of the general body of owners." (Veblen 1904: 82) but, as the managerial theory of the firm contended on the basis of this very statement, it is in the interest of those who are in charge of production to keep their job by – at the very least - ensuring a minimal dividend to owners.

We are faced with a range of interests/rights that may converge or diverge. Following Samuels, any policy concerned with the collective life process would have to choose which ones count. It would have to do so, however, by keeping into account how technology determines their interdependence.

This, however, turns out to be a rather problematic issue: technology consists in the tools and knowledge to efficiently carry out production; technological efficiency, in turn, can be adequately defined only in relation to what interests count; the interests that count, for their part, include, at the very least, profit. If efficiency involves producing profitable goods and services but profitability prejudices other interests and rights, we are faced with a rather dramatic alternative. Either we deny business the opportunity to pursue innovation or profit is bound to remain a "preferential right" no matter how the legal-economic nexus constrains it. Furthermore, should a policy somehow constrain business and profitability, could it be that these constraints negatively feed back on those same collective interests it is attempting to defend? A more radical way to say this is that while it is conceivable to defend or to defeat a given "preferential right" rooted in a vested interest, the defeat of the "right" to innovate in order to reap a profit would seem to be a more complicated matter, something that involves the switch from capitalism to an altogether different social arrangement. Is this the issue?

4. Possible social arrangements and profit

Although Veblen did point out that an alternative to the existing state of affairs existed, he claimed that it was not in the agenda. Apparently two conditions must hold for the alternative to come into being. First, business priorities must undermine collective livelihood to an unbearable point: "The margin for error and wasteful strategy is, in effect, being continually narrowed by the further advance of the industrial arts. With every further advance in the way of specialization and standardization, in point of kind, quantity, quality, and time, the tolerance of the system as a whole under any strategic maladjustment grows continually narrower." (Veblen 1921: 76). Second, an altogether different setup of the economy is required: "So also it is well to keep in mind that even a fairly disastrous collapse of the existing system of businesslike management need by no means prove fatal to the Vested Interests, just yet; not so long as there is no competent organization ready to take their place and administer the country's industry on a more reasonable plan." (Veblen 1921: 76).

Veblen (1921: Ch. 6) discusses at length what the alternative would consist in. He does not discuss how it ought to be pursued, however. He goes to great lengths to explain why it is not to be expected but he never identifies what purposeful action would actually favor it. His emphasis on a mere description of the state of affairs - as opposed to an inquiry on how to pursue change - is an important methodological feature of his work. It is his pretense to an objective analysis that leads him to neglect the need for a proper identification of the variables that could be relevant for change.

Despite his obvious dislike for the way the economy is arranged, he provides an account of the way it works that does not allow for a discontinuity other than in the form of some kind of palingenesis. As a result, he ultimately acknowledges the *status quo*.

A possible way out of this intellectual stalemate is to go back to the serviceability-profitability dichotomy. The discussion on technology suggests that it is not enough to argue that technological change increased the opportunities for profit. Since the latter feed back on how technology changes, what allows this feedback to occur needs to be assessed. In turn, this begs for a qualification of the notion of profit. The issue is what notion of profit is relevant in relation to our discussion of technology.

Veblen is not very clear on this issue. In Veblen (1919) he refers to profit in terms of net product: “The net product is the amount by which this actual production exceeds its own cost, as counted in terms of subsistence, and including the cost of the necessary mechanical equipment; this net product will then approximately coincide with the annual keep, the cost of maintenance and replacement, of the investors or owners of capitalised property who are not engaged in productive industry; and who are on this account sometimes spoken of as the ‘kept classes’.” (Veblen 1919: 55). Here reference is to a residual or surplus⁷ which is extremely broad. It encompasses the gains of a wide range of classes and, in so far as it is a residual – given the cost of production - it may well transcend capitalism, however defined. Indeed, in the absence of some qualification, it is compatible with the surplus reaped by feudal lords.

A possible qualification comes from his discussion of pecuniary gain. In Veblen (1904), he refers to capitalism in a historically specific sense: “So long as the machine processes were but slightly developed, scattered, relatively isolated, and independent of one another industrially, and so long as they were carried on a small scale for a relatively narrow market, so long the management of them was conditioned by circumstances in many respects similar to those which conditioned the English domestic industry of the eighteenth century. [...] It was then still true [...], that an unsophisticated productive efficiency was the prime element of business success. A further feature of that *precapitalistic* business situation is that business, whether handicraft or trade, was customarily managed with a view to earning a livelihood rather than with a view to profits on investment.

“[...] With a fuller development of the modern closeknit and comprehensive industrial system, the point of chief attention for the business man has shifted from the old-fashioned surveillance and regulation of a given industrial process, [...] to an alert redistribution of investments from less to more gainful ventures, and to a strategic control of the conjunctures of business through shrewd investments and coalitions with other business men.” (Veblen 1904: 8; my emphasis.).

The distinguishing feature of capitalism, here, is that technology is potentially able to increase income relative to the past. At the same time, two different types of income are possible: pecuniary gains and earnings functional to livelihood. This coexistence arises because the very technology that makes it possible to increase output also determines opportunities for gains that are decoupled from the production for livelihood.

This notion of profit and of capitalism is very restrictive. It does not allow for all of the potential gains listed above that business can reap at the expense of the rest of society⁸. It does suggest, however, that technological change increases the opportunities for pecuniary gain by enhancing the role of prices as an all-encompassing coordinating mechanism for business decisions. “Until the machine industry came forward, commerce (with its handmaiden, banking) was the only branch of economic activity that was in any sensible degree organized in a close and comprehensive system of

⁷ “Veblen reasoned that these theories [of surplus value and exploitation] must be rejected in the form stated by Marx. The relevant problems could be analyzed in terms of surplus product instead of surplus value.” (Hill 1958: 140).

⁸ Furthermore, while it does relate pecuniary gain to technological evolution, it has little to say on how pecuniary gain is shifted from ordinary businessmen to the financiers. It is true that these two phenomena need not have the same determinants. It is, however, odd that such a dramatic sequence of changes in the economy should depend on (exogenous) circumstances that emerged only little time before.

business relations. [...] This was the only field in which men habitually took account of their own economic circumstances in terms of price rather than in terms of livelihood. Price disturbances, even when they were of considerable magnitude, seem to have had grave consequences only in commerce, and to have passed over without being transmitted much beyond the commercial houses and the fringe of occupations immediately subsidiary to commercial business. [...] As a result of the machine industry] the close-knit, far-reaching articulation of the industrial processes in a balanced system, in which the interstitial adjustments are made and kept in terms of price, enables price disturbances to be transmitted throughout the industrial community with such celerity and effect that a wave of depression or exaltation passes over the whole community and touches every class employed in industry within a few weeks.” (Veblen 1904: 60-1).

It is the price mechanism that provides businessmen with the information about what is (potentially) profitable. Technological change leading to the machine industry has removed many of the frictions that prevented prices from carrying out this informative function. At the same time, prices provide the requirements that technology must meet in order to be profitable. So it is prices that allow a feedback between technological change and profit to occur.

These prices have nothing to do with conventional – neoclassical or Austrian – prices and markets. While they do have a coordinating function, the information they provide relates to profitability, not to scarcity or serviceability. In this sense they qualify profit in relation to a capitalist market economy. Furthermore, they are in no way “natural” or neutral. Businessmen act upon relative prices in order to increase their profit. They do so though their decisions concerning the composition and amount of output and, following our discussion of technological change, through changes in what can be produced and how it can be produced. Finally the greater businessmen act on relative prices by shifting their financial assets from one industry to another in order to extract profit from traditional capitalist-employers.

What this leads to is that relative prices are a necessary – albeit not a sufficient – condition for business to pursue profit in a capitalist market economy. The question this leads to is whether they can be the variables that are relevant for change. Rather than discussing this issue in abstract terms, it may be appropriate to consider recent changes and how they impinge on the answer.

5. The present social arrangement and relative prices

These above depicted features of the price mechanism have two implications. First, depending on how business affects technology and finance, power relations within the economy change. Let us consider technology first. Combined with appropriate organizational innovations, technological change has allowed business to decompose production into distinct modules and to outsource some of these. In so doing business was able to localize production where labor cost is lower either in terms of nominal wages or of working conditions, or both. It could also avoid workers from being too concentrated in one location. Both these actions reduced the bargaining power of workers and allowed business to redistribute value added from wages to profit. Data on income distribution throughout the industrial countries shows that a strong spread in the redistribution of income has occurred in the past decades (Petit 2010; Onaran 2012). It is arguable that, quite apart from income shares, the very quality of life has worsened in some sections of society, owing to unemployment and working conditions.

Outsourcing allowed business to locate environmentally dangerous activities in countries where there are less environment-friendly restrictions and where taxes and - given the conventional wisdom’s rejection of budget deficits – welfare provisions are low. This led to a conversion of pecuniary business costs into pecuniary and non pecuniary social costs in the countries involved. Furthermore, together with the effects on labor cost, these actions have allowed a redistribution of income from uninational companies in slow-growth industrial countries to multinational companies (Milberg and Winkler 2009).

Patents and, more generally, property rights have allowed companies to reap profits by preventing competition rather than improving the quality of output, not to speak of the quality of life (Serfati 2008). A particularly impressive case was the action that pharmaceutical multinationals took when some Asian companies started to export anti-AIDS drugs to pandemic-stricken African countries.

Moving on to finance, these last decades are characterized by the emerging role of big money-managing business. Backed up by the ideology of shareholder value, financial companies operating on the stock market have increasingly dominated manufacturing business decisions. In order to keep up with their profitability requirements, manufacturing firms changed their goals and organizational setup. Short-termism prevailed and financial activities eventually displaced production. Financial innovation favored gains that were not backed up by output but redistributed income from manufacturing to finance or, as Veblen would put it, from old-fashioned capitalist employers to pecuniary magnates (Lazonick and O'Sullivan 2000).

Finance also provided credit to consumers who suffered the consequences of this income redistribution but wished to maintain their traditional standard of living (Bellofiore 2013). Here, too, financial innovation was in no way neutral. It allowed money managers to reap profits only to claim, when the situation became unbearable, that they were too big to fail, i.e. that their private costs had to be shifted onto the community. To some extent, just like technological innovation in manufacturing introduced the machine process age as one where price frictions were sensibly reduced and big business could gain at the expense of the community, recent financial innovation introduced money manager capitalism as one where price frictions were further reduced and money managers could gain at the expense of the community (Varoufakis 2011).

The conventional wisdom's typical comment whereby there is no free meal would hold if relative prices could provide information on the (somehow) efficient allocation of resources. This is not the case. Much like in Veblen's times, the community's livelihood is a byproduct of business activities and relative prices are functional to the latter. They are the metric that allows profitability to be assessed. An important issue therefore is how to measure the community's livelihood. A thorough discussion of this issue lies beyond the scope of this paper but a few remarks are possible.

It is obviously possible that profitability and serviceability may go together. When this is not the case, it is reasonable to claim that prices are an inadequate metric for the community's livelihood. K.W. Kapp (1963) suggested a range of transdisciplinary indicators to assess how specific circumstances – working conditions, environmental conditions, etc. – affected the quality of life of people. He therefore rejected the attempt to reduce social welfare to prices, i.e. to monetize it. He proposed what we might refer to as a social accounting principle that substituted price-centered accounting when basic elements of the quality of life were involved. Such a social accounting principle did not involve a common numerical denominator nor any other comparability in that it focused on minimal social requirements, what a conventional economist would associate to lexicographic preferences. Such an approach implies that market activities – decisions based on relative prices – should be restricted to whatever does not interfere with these key social requirements.

On similar grounds, K. Polanyi (1944) argued against the pervasiveness of the price mechanism in so far as it commodifies what cannot be reduced to a commodity. A typical such 'fictitious commodity' is labor power. Labor power, i.e. the ability to work, is transformed into a commodity in the context of a wage labor relationship. In so far as it is a commodity, its price can be determined in terms of its exchange value, i.e. according to its supply and demand. When there is excess supply of labor power, its price may drop below its cost of reproduction. Contrary to other commodities, such a low price does not lead to a drop in its production – at least not the way we see with other commodities - so it may remain below the cost of reproduction for quite a long time. It is the case that labor power cannot be separated from the worker. Consequently, when a price is determined for the commodity, it is the life of the worker that is at stake. The rationale of price formation leads to the conclusion that a redundant worker may well starve to death, which in itself

suggests that the labor power's use value clashes with the "use value" of life. Reciprocity or redistribution may prevent an individual from starving but they transcend the principle of contracted exchange – i.e. the mechanism of relative prices - which underlies a capitalist market economy. They may exist as long as society is not completely embedded in the economy.

In order not to starve to death the worker must sell his/her labor power. S/he is forced to comply with the commodification of his/her working activity. Given a technology that is consistent with the most profitable use of this commodity, the outcome is what Veblen pointed out almost a century ago: "Under the new order the going concern in production is the plant or shop, the works, not the individual workman. The plant embodies a standardized industrial process. The workman is made use of according as the needs of the given mechanical process may require." (Veblen 1919: 38).

Rejection of the commodification of labor involves fixing rules on wages and on working conditions that transcend profitability. It implies that workers need not risk starving to death nor suffer the consequences of business decisions. Aside from this, it has far reaching consequences for the economy as a whole. What is important about labor power, along with the social relevance of its price and of how it is used, is that it is common to all productive activities. Its degree of commodification or decommodification affects all industries. Wages and working conditions become the common denominator for all transactions, including those carried out by businessmen.

Another 'fictitious commodity' is money. It should be fairly clear that in a capitalist market economy it cannot be reduced to a means of exchange alone. Money is crucial as a means not only to extend but also to initiate the process that leads to pecuniary gain. The creation of money – the provision of spending power – may consist in a variety of actions, ranging from the reduction of bank reserves to the creation of derivatives. Some are completely independent of public authorities such as central banks. The exchange value of any spending power that is created depends on its capitalized pecuniary gains. What its use value is depends on what it is created for: it may be functional to the creation of something serviceable. It may be functional to the creation of commodities, i.e. products with an exchange value that is fairly independent of anything serviceable. Lastly, it may be functional to the creation of more spending power, independently of production⁹. This is precisely what happens when speculative bubbles occur. It has much to do with the activities recently carried out by money managers¹⁰.

The degree of commodification of money has to do with who creates money, how it is created and how it is used, which is tantamount to deciding whether financial innovation or extra-territorial financial markets should exist, whether asset inflation should be considered as a normal state of affairs and, in the end, the extent to which money should be functional to the creation of exchange value *per se*. In other terms, it may be based on the requirements of money managers or on those of the community.

A final case, one that Polanyi does not consider, has to do with knowledge. Its use value ought to be to make sense of reality, either to satisfy idle curiosity or to change it. Commodification acts on these goals in a twofold manner. First of all, the creation of knowledge (including technology and

⁹ Whereas in the above case, money is functional to the acquisition and transformation of commodities in order to achieve a pecuniary gain – hence a Money-Commodity-Money Plus, or M-C-M', process – here money is functional to more money: a Money-Money Plus, or M-M', process.

¹⁰ These remarks on money allow us to point to an issue that Veblen tends to neglect. The above redistribution within the business community occurs through changes in the value of the assets. These changes may affect the financial market as a whole – as when it turns from bull to bear or viceversa – in which case they determine a change in interest rates and in the incentive to invest. They may also affect certain assets relative to other assets, in which case they may change the relative profitability of an industry relative to another. Finally, they may change the relative profitability of finance relative to manufacturing. In all of these cases it is most likely that the outcome will be a change in real investment, thus a change in the level and the distribution of income throughout the economy. Contrary to what Veblen contends, what happens within the business community is of concern for the rest of the community. In accordance with Veblen, the pecuniary motive has wide ranging effects on the livelihood of the community.

organizational techniques) is likely to be appropriately financed only if it is functional to business¹¹. Even if we stick to a rather conventional view of knowledge, whereby it is the neutral uncovering of a theretofore hidden reality, the selective money-based choice of what should be sought will lead to a biased knowledge, one that privileges what is vendible and functional to profit rather than what would be serviceable but is not profitable. If, on the contrary, we consider knowledge as a creation of an outlook of reality, money-centered inquiries will inevitably shape the view of reality that people have. This issue is relevant because it provides insights on one of the open issues in Veblen's discussion of the obstacles to change. The creation of knowledge may be functional to the creation of techniques that hinder social conflict and to the acquisition of social consensus.

The second feature of the commodification of knowledge is its transformation into an exchange value as such. Reference, here, is to the privatization of knowledge through intellectual property rights. It is relevant not only because it marginalizes learning based on idle curiosity but because it precludes access to serviceable knowledge, subjecting its use value exclusively to its exchange value. While the first feature mentioned above explains that only what is profitable will be sought, this second feature contends that only those who can afford it will be able to take advantage of that knowledge. A typical case, mentioned above, is how trade related property rights preclude an adequate treatment of the AIDS pandemic in sub Saharan African countries.

Contrasting the commodification of knowledge involves acting in favor of the dissemination of knowledge and in favor of education but also questioning what knowledge is relevant for the community rather than for business. This policy, much like other policies related to the decommodification of fictitious commodities, raises the issue of coordination. In so far as the boundaries of market relations are restricted, it would seem natural to consider collective deliberation the means to choose how to organize and manage an economy where choice is not based on relative prices alone. Coordination is strictly related to democracy but this raises another issue.

Quite independently of the above features of the commodification of knowledge, knowledge is affected by commodification in general and by the rationale of contracted exchange. Emphasis on market-centered and individualistic, as opposed to solidaristic and collective, priorities makes it more difficult to conceive of solutions to collective problems that require a general – non-individualistic - view of society. Hence, when the former priorities prevail, problems tend to be tackled at the individual level, with sometimes perverse social outcomes. Forced individualism is likely to lead to widespread detachment from democratic deliberation, given the emphasis on individualistic, rather than collective, solutions. As Champlin and Knoedler (2004: 900) argue, “Is it any wonder that engagement in our political process is low, when democracy and the public interest are reduced to consumer sovereignty [...]?” Furthermore, in the absence of a broader outlook of society, it is easy to conceive of specific individuals or groups of people as the prime causes of what is wrong: “Demonization is specified scapegoating: it is a means by which individuals can feel better about themselves and take satisfaction in their superiority” (Wrenn 2012, 408). Thus, individualistic action tends to reinforce individualistic views, all to the advantage of vested interests who rely on market mechanisms.

6. Concluding remarks

The discussion above shared the view that the Veblenian dichotomy between profitability and serviceability, which reflects the dichotomy between the vested interests and the common man, is an extremely insightful concept. It argued, however, that the categories Veblen used and his

¹¹ The openness of the learning process cannot prevent the creation of knowledge that is unrelated to the ends of business. In some instances, new knowledge may even contrast them. Business may nevertheless react, for instance by investing in debt creation. A discussion of such a strategy with regard to mobile phones is provided by Frigato and Santos Arteaga (2012).

presentation of the problems did not provide an adequate treatment of how to solve – or, at least, deal with - those problems. The approach adopted here is that the dichotomy should be traced back to the extension of contracted exchange and to the commodification of social categories that, owing to their peculiarities, can only be fictitious commodities. This approach provides some insights on how to conceive of a policy that takes account of the dichotomy but does not waver between the forced acquiescence to the status quo and the millenarian expectation of an all-encompassing change.

Our emphasis on the extension of contracted exchange suggests that policy may act on the degree of commodification of the economy and, in particular, of its fictitious commodities. It suggests that other criteria – typically those concerning people’s civil, political and social rights – may prevail over those of relative prices. It goes without saying that this is only a guideline for policy, not a road map.

To some extent a guideline such as this one prevailed in some countries during the post Second World War “golden age”. Neoliberalism has changed this. It has reinstated the principle whereby everything should be conceived of as a commodity, so that markets – contracted exchange based on relative prices – are the ultimate criterion for whatever change. This paper does not aim to discuss the resurgence of neoliberalism. It does suggest, however, that the dichotomy occurs - and should be contrasted - in relation not only to how business chooses the amount and composition of output but also to how it manages labor relations, the creation and application of technology and, more generally, of knowledge.

References

- Bellofiore R. (2013) “‘Two or three things I know about her’: Europe in the global crisis and heterodox economics”, in *Cambridge Journal of Economics*, 37: 497–512
- Braverman H. (1974), *Labor and Monopoly Capital*, New York: Monthly Review Press
- Bush Paul D. “The Pragmatic Instrumentalist Perspective on the Theory of Institutional Change” *Journal of Economic Issues* Vol. XXVIII No. 2 June 1994
- Champlin, D.P., J.T. Knoedler (2004) “Embedded Economies, Democracy, and the Public Interest”, in *Journal of Economic Issues*, 4: 893-907
- Dewey J. (1927) *The Public and Its Problems*. Chicago: Henry Holt and Company.
- Dugger W.H., H.J. Sherman (2000) *Reclaiming Evolution. A dialogue between Marxism and institutionalism on social change*, London, Routledge
- Frigato P., F.J. Santos-Arteaga (2012) “Planned obsolescence and the manufacture of doubt. On social costs and the evolutionary theory of the firm” in P. Ramazzotti, P. Frigato and W.Elsner (eds) *Social Costs Today: Institutional Analyses of the Present Crises*, London, Routledge, 73-95
- Hill F.G. (1958) “Veblen and Marx”, in D.F. Dowd (ed.) *Thorstein Veblen: A Critical Reappraisal*, Ithaca (NY), Cornell University Press, 129-49. Also published in G.M. Hodgson (ed.) *The Foundations of Evolutionary Economics: 1890-1973* Vol. 1, Cheltenham, Edward Elgar: 215-235.
- Kalecki, M. “Political Aspects of Full Employment.” *Political Quarterly*, vol. XIV (1943). Also published in M. Kalecki *Collected Works of Michal Kalecki. Volume 1. Capitalism: Business Cycles and Full Employment*, edited by Jerzy Osiatynski; translated by Chester Adam Kisiel, 348-356. Oxford: Oxford University Press, 1990.
- Kapp K.W. (1963) *Social Costs of Business Enterprise*, Bombay, Asia Publishing House
- Lazonick W., M. O’Sullivan (2000) “Maximizing shareholder value: a new ideology for corporate governance” *Economy and Society*, 29(1):13-35

- Marglin S.A. (1976) “What Do Bosses Do? The Origins and Functions of Hierarchy in Capitalist Production” in A. Gorz (ed.) *The Division of Labour: The Labour Process and Class Struggle in Modern Capitalism*, Brighton, Harvester Press: 13-54
- Milberg W., D. Winkler (2010) “Financialisation and the dynamics of offshoring in the USA”, in *Cambridge Journal of Economics*, 34, 275–293
- O’Hara, P.A. (2000) *Marx, Veblen and Contemporary Institutional Political Economy: Principles and Unstable Dynamics of Capitalism*, Cheltenham, UK, Edward Elgar Publishing.
- O’Hara P.A., H.J. Sherman (2004) “Veblen and Sweezy on Monopoly Capital, Crises, Conflict, and the State”, *Journal of Economic Issues*, Vol. XXXVIII(4)
- Onaran Ö (2012) “From the crisis of distribution to the distribution of the costs of the crisis. The case of Europe” in P. Ramazzotti, P. Frigato and W.Elsner (eds) *Social Costs Today: Institutional Analyses of the Present Crises*, London, Routledge, 115-41
- Petit P. (2010) “The systemic nature of the rise in inequality in developed economies”, in *International Review of Applied Economics*, 24 (3): 251–267
- Polanyi K. (1944) *The Great Transformation*, New York, Holt, Rinehart & Winston.
- Samuels W.J. (1977) “Technology vis-à-vis institutions in the JEI: A suggested interpretation”, *Journal of Economic Issues*, 11, pp. 871-895
- Serfati C. (2008) “Financial dimensions of transnational corporations, global value chain and technological innovation”, in *Journal of Innovation Economics*, 2: 35-61
- Tool M.R. (2001) *The Discretionary Economy. A Normative Theory of Political Economy*, New Brunswick, USA, Transaction
- Varoufakis Y. (2011) *The Global Minotaur*, London, Zed Books
- Veblen T. (1904) *The Theory of Business Enterprise*, New York, Schribner's
- Veblen T. (1908) “On the Nature of Capital: Investment, Intangible Assets, and the Pecuniary Magnate”, in *The Quarterly Journal of Economics*, Vol. 23, No. 1 (Nov.), pp. 104-136
- Veblen T. (1919) *The Vested Interest and the State of the Industrial Arts*, New York, B.H. Huebsch
- Veblen T. (1921/2001) *The Engineers and the Price System*, Kitchener, ON (CA), Batoche Books
- Wrenn, M.V. (2012) “Agency, Identity, and the Great Crisis: A Veblenian Perspective”, in *Journal of Economic Issues*, Vol. XLVI, No. 2: 403-410.