

# The Moral Problems of Capitalism in Thorstein Veblen's Thought

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## Introduction

Thorstein Veblen, who revealed the institutional and cultural transformation of American capitalism at the beginning of the 20th century, is one of the most original and influential theorists in the history of the United States (Hunt & Lautzenheiser, 2011, p. 317). For him, the emergence of an ethically rational society, or getting to the "good life," depends on the increase in real production and its non-invidious consumption (Knoedler & Schneider, 2010). Increase in real production hinges on an efficient and smoothly operating industry. This appearance reflected in human behavior is the dominance of positive instincts in society, especially the workmanship instinct. However, negative instincts such as predatory, pecuniary, and emulative instincts are more dominant than the positive influences in the capitalist system (O'Hara, 1999, p. 167) and these instincts lead to bad behavior that emerges as moral evils in front of the ideal of the good society (Knoedler & Schneider, 2010). This paper introduces these moral evils.

## Human Nature and Society

For Veblen, the main moral critique of capitalism is the domination of bad instinctive behaviors that support individualism, serve invidious interests, and harm so-

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cial welfare (O'Hara, 1999, p. 153). These instincts only benefit the individual and lead to behaviors that have devastating consequences for society, such as waste, exploitation, unemployment, and stagnation (Zingler, 1974, p. 329; Hunt & Lautzenheiser, 2011, p. 336; Harris, 1953, p. 3; Davis, 1957, p. 66). Veblen's this critique of capitalism is based on his following assumptions. First, contrary to the Orthodox economists' claim that equilibrium is good and the results of market equilibrium are beneficial for all of society (Landredth & Colander, 2001, p. 341), Veblen rejects the tendency of markets to move toward equilibrium. For him, there is no equilibrating natural power. Markets operate on the basis of traditional business principles (Waller, 2007, p. 110). Second, based on some of the societies he had observed, the main determinant that encourages people to work is not a profit, but a natural workmanship instinct, a concern for the livelihood of future generations as a parent, and social norms such as praising work (Heilbroner, 2019, p. 201). Stated more generally, instinctive behaviors motivate human behavior, not self-interest. Third, in classical political economy love of money is the basic necessity of the economy's ability to produce. Contrary to this approach, the ability of economies to produce for Veblen is the function of technology, which is the sum of the knowledge, skills, and techniques existed in society (Roll, 1992, p. 448). Therefore, contrary to the traditional approach, the source of production is technology, not money. Technology is the collective accumulation of a society; it is developed collectively in a culture and is the driving force of economic change (Zingler, 1974, p. 327). Fourth, social life is more important than individual actions, and social provisioning behavior is desirable (Waller, 2009, p. 568). Finally, according to the Orthodox theory based on Adam Smith's invisible hand, making money coincides with real production (Landredth & Colander, 2001, p. 342). As a matter of fact, money is gained by individuals working harder, producing more and selling them to others (Weisskopf, 1973). However, production and making money are different things for Veblen (Reinert, 2013, p. 65). While the first is carried out by the machine process and its engineers, the second is carried out by the businessman who sabotages the machine process (Heilbroner, 2019, pp. 204–205).

### **Development of Veblen's Economic Thought**

Thorstein Veblen did not introduce a comprehensive critique of capitalism in any of his papers or books (Davis, 1945, p. 147). He presented these criticisms in his various papers and books with different aspects. But in a few of his remarkable books, his ideas about the moral criticism of capitalism are as follows. Veblen fo-

cused on the instinct of pecuniary emulation in *The Theory of the Leisure Class*. He argued that consumption behavior is driven by pecuniary emulation in the USA. People often spend depending on the appropriate consumption standard set by their income level. The leisure class, however, sets standards at the top of the social hierarchy and engages in conspicuous consumption and leisure (Waller, 2009, p. 567). For this reason, the benefit obtained from the goods or services that mediate conspicuous consumption arise not only from the physical qualities of those goods or services but also from the satisfaction of showing off to others by reflecting the high purchasing power (Demir, 1996, p.100). As these goods and services become cheaper and abundant through the effects of technological development, they lose their ability to serve as signifiers of high status. (Waller, 2009, p. 567). Veblen described how the machine process in the modern industry contributes to increase in the production of the means of life in *The Theory of Business Enterprise* (Waller, 2009, p. 568; Sweezy, 1958, p. 22) and drew attention to the conflict between different actors in the capitalist system. Veblen also emphasized the importance of the institutional environment of industrialization. In *Imperial Germany and the Industrial Revolution*, he compared the industrialization process of Germany and Britain and emphasized the importance of institutions.

### **Veblen's Analysis of Capitalism**

For Veblen, two basic moral evils are the priority of pecuniary interests of businessmen: sabotaging the industrial system in various ways and the dominance of leisure-class values in society; by extension, social status coincides with the ostentatious and wasteful display of wealth.

#### **Business Activities against Industrial Activities**

According to Veblen, business enterprises or pecuniary activities are bad because their purpose is to obtain power and make money (Zingler, 1974, p. 329); what matters is real production, and real production is the basis of economic activity (Reinert, 2013, p. 65). Employment resulting from business activities is related to the distribution of wealth and is based on private property, whereas employment resulting from industrial activities is related to workmanship (Veblen, 1899[2011], p. 277).

Engineers design and create the tools of production systems in an industrial economy. On the other hand, pecuniary activities are under the control of businessmen. The interests of engineers and businessmen are in conflict within Veblen's analysis. When engineers design the tools of modern production systems,

they pursue maximum efficiency. The pecuniary interest of the capitalists who manage the system supports industrial sabotage. They reduce production and increase prices (Clark, 2001, pp. 1224–1225; Harris, 1953, p. 12).

Veblen essentially mentioned two different entrepreneurs or capitalists. The entrepreneur known as the “captain of industry” had contributed significantly to increasing social welfare from the Industrial Revolution to the mid-19th century when corporate finance began to emerge. This entrepreneur was “the proprietor and manager of enterprise,” “the organizer of the industrial process,” “the controller of industrial equipment,” and “in charge of all financial transactions.” Veblen argued that this entrepreneur’s profit should be considered a fair and justifiable reward. However, the purpose of the captain of finance, the entrepreneur that emerged in the second half of the 19th century, was pecuniary interest and therefore predatory (Veblen, 1923, pp. 102–105; Griffin & Karayiannis, 2002, p. 62; Edgell & Townshend, 1993, p. 731).

Veblen’s criticisms of businessmen had been based on his observations of developments in the USA since the last quarter of the 19th century. Technological developments that transformed the productive forces of capitalism in this period had caused important changes in the structure of companies in the US economy. Businessmen realized that if they could transform the competitive market into an oligopolistic market, they could lower their production costs and, more importantly, control prices (Nevins & Commager, 2011, p. 321; Hobson, 1937, p. 141). Absentee ownership had created an unprecedented structure until that day, and the dominance of business activities over industrial activities had increased (Nevins & Commager, 2011, p. 326; Hobson, 1937, p. 141). Veblen called these organizations’ deliberate reduction of labor and capital productivity as sabotage to keep prices and profit high. In his own words, he defined the concept of sabotage as “conscientious withdrawal of efficiency” (Veblen, 1921[2011], p. 21).

Aside from increasing prices and shrinking production as a result of imperfect competition, Veblen criticized the strategies that had created this oligopolistic market structure. He rejected the effect of product differentiation on the market structure as an economic strategy, arguing that trademark, brand loyalty, advertising, and other sales strategies create serious costs and have no social advantage. They only provide market power (Arrow, 1975, pp. 6–7).

Veblen believed that technological development had made large corporations, and the concentration of markets was inevitable. Returning to the earlier period of

competitive capitalism that had contributed more to social welfare was impossible. Veblen's proposal was to delegate the control of corporations to engineers and scientists whose focus would be on efficiency and quality. By depending on technocrats for increasing social welfare, Veblen proposed a system between capitalism and Marxian socialism (Clark, 1998, pp. 60–61).

### **Conspicuous Consumption: Leisure Class against Working Class**

Veblen criticized the expenditures of the leisure class, too. This class lives in grandeur on income from the ownership of property and contributes little to production; its expenditures are known as conspicuous consumption. It draws resources from the industrial process, consciously transfers it to conspicuous expenditures, consumes goods that are not necessary for maintaining human life, and serves as role models for the rest of society (Clark, 1998, p. 60).

In neoclassical theory, regardless of the type of expenditure consumers prefer or their purpose for choosing it, conspicuous consumption is not waste due to the assumption that it benefits consumer based on their preference. However, Veblen argued that this consumption was waste could be understood by considering his holistic approach. For him, expenditures or efforts essentially must serve social welfare and the approval of an economic phenomenon or activity has to meet the condition of impersonal usefulness and provide well-being to society (Davanzati, 2006, p. 55; Veblen, 1899[2016], p. 90).

While the leisure class lives in luxury and grandeur without engaging in productive activities, it does so with the approval of other segments of society through the effect of the emulation instinct. Income/wealth inequality and higher education are important factors contributing to social harmony (Veblen, 1899[2016], p. 182; Davis, 1957, p. 73).

### **Long-Term Tendencies in Capitalism and the Implications for Problems in Modern Capitalism**

According to Veblen, the capitalist system, whose main priority is not social welfare, should change. He proposed two possible long-term social changes. The first is technocratic revolution. Absentee ownership, financial manipulation and profit seeking would come to an end and the industry would produce serviceable goods for humanity with the realization of the technocratic revolution. The second possibility is a socialist revolution that eliminates class differences (Knoedler, 2007; Landreth & Colander, 2001, p. 350; Walker, 1993, pp. 186–187).

Veblen's analysis sheds light on the problems modern capitalism experiences. For example, the relative importance of financial activities that Veblen had presented as an obstacle to industrial production has increased even more today, and its effects at the firm level are evident. Non-financial firms have begun to derive most of their income from financial investments rather than traditional productive activities (Krippner, 2011, p. 34). Although the patterns of consumption have changed significantly since the time Veblen lived, the social purpose of conspicuous consumption has remained the same, and an emulation-based consumption culture has emerged. The advertising industry, which Veblen called the parasitic industry, contributes to disrupting the industrial processes of today and produces nothing but a sense of social inadequacy for consumers (Watson, Glaze & Clarke, 2015). In addition, conspicuous consumption shows its effect on the economic development of nations.

Some aspects of Veblen's analysis of American capitalism, based on the production, consumption, and distribution processes at the beginning of the 20th century, have acquired a different character with technological advances, and some of the ideas he made have become controversial under current circumstances. For example, new technological developments such as artificial intelligence have created other moral problems. Two important issues that are discussed economically and ethically are unemployment and how to distribute the wealth created by machinery (Bossmann, 2016).

## Conclusion

Veblen's possible visions for the future of capitalism have not occurred. The moral problems that he introduced have deepened, and some issues such as technological development, which he referred to as good, have brought up other moral problems. Nevertheless, Veblen's ethics allow for institutional change that eliminates monopolization, waste, and conspicuous consumption and promotes human development offer important ideas about what values should be prioritized today.

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