Thorstein Veblen, the Provisioning Process, and the Need for a Job Guarantee Program

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Abstract

In his 1904 *The Theory of Business Enterprise*, Thorstein Veblen advanced a theory of the then-modern corporation that fundamentally differed than that portrayed in standard economic theory. Veblen developed his argument within the stage of the “credit economy” in which the capital market dominated the goods market. Rather than production in order to “earn a livelihood,” the point of the modern business enterprise is to make “profits on investment.” As a consequence of the changes in the structure of capitalism, there arises a conflict of interest between the business enterprise and the community. In particular, “sabotage” of production, thus increasing monetary gain, is standard business practice when sufficient control of an industry has been established, and this obviously runs counter to the objectives of the community which is interested in increasing that production. To increase monetary returns, when capitalists have sufficient control over the production process, they then can control pricing. But to control pricing, output must be controlled. As the majority of the population must sell their skills for wages and salaries, it is necessary that a sufficient number of jobs be offered to allow them to do so—full employment. However, the number and types of jobs offered are based on decisions made by owners and/or managers based on decisions to produce output. While Veblen does not address any program equivalent to that of a job guarantee program, the main point, however, is that the normal functioning of a modern capitalist economy is unlikely to satisfy the requirements of the provisioning process necessary to allow a viable social organization. Beyond the issue of unemployment, a host of other concerns can at least partially be addressed with such a program.

Keywords: Veblen, New Order, Credit Economy, Sabotage, Job Guarantee

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Thorstein Veblen (1857-1929) was arguably the greatest economist the United States ever produced. It is without contention that he was the most iconoclastic. While he is best known for his 1899 Theory of the Leisure Class, it is Theory of Business Enterprise (1904) that represents his greatest contribution to the ongoing analysis of a capitalist social organization. I draw on this work to examine the nature of a modern capitalist society—sometimes referred to as “corporate capitalism” or “monopoly capitalism”—to demonstrate why such an organization requires a Job Guarantee program (hereafter, JG) in order to remain viable.

In his 1904 The Theory of Business Enterprise, Thorstein Veblen advanced a theory of the then-modern corporation that fundamentally differed than that portrayed in standard economic theory. Rather than analyzing a hypothetical mode of organization associated with the competitive (small-scale) stage of capitalism, Veblen developed his argument within the stage of the “credit economy” in which the capital market dominated the goods market. Rather than production in order to “earn a livelihood,” the point of the modern business enterprise is to make “profits on investment.”

For the purpose at hand, several features of his analysis stand out. Initially, there is a separation of management and ownership. Rather than the typical owner-manager associated with the earlier stage of capitalism, one now finds absentee owners who hire professional managers to oversee the production operations of the enterprise. Managers pursue the long-run survival and growth of the enterprise, while owners are largely concerned with short-run financial interests.

“The motive of business is pecuniary gain…. The aim and usual outcome is an accumulation of wealth” (Veblen [1904] 1975, 20). That is, Veblen anticipated the dominance of Wall Street because of the very nature of the modern business corporation. The “Entrepreneur,” noted Veblen, “takes care of the financial end of things…. The typical entrepreneur is the corporation financier…. Indeed, it is nearly true that in current usage “producer” has come to mean “financial manager”” (Veblen 1921, 29, original emphasis). “The captain of industry, typified by the corporation financier, and more latterly by the investment banker is one of the institutions
that go to make up the new order of things, which has been coming on among all the civilized peoples ever since the Industrial Revolution set in” (31).

All this is to say that in the “new order,” capitalism has changed its form. With the changes in the structure and nature of capitalism, changes that began with the Industrial Revolution in England, monetary objectives increasingly override production objectives, and production of goods and services is the foundation of people’s livelihood—the “provisioning process.” The “Captains of Finance” now rule the roost.

Secondly, as a consequence of the changes in the structure of capitalism, there arises a conflict of interest between the business enterprise and the community. “The outcome of this management of industrial affairs through pecuniary transactions...has been to dissociate the interests of those men who exercise the discretion from the interests of the community” (Veblen [1904] 1975, 29). The welfare of the community, associated with the social provisioning process, is directly related to the production of output—the industrial process—while the interests of the “Captains of Finance” are purely of a pecuniary nature—the business process. And these interests might well, and probably will, diverge as business interests become dominant over production interests. While the industrial system could potentially function as something of an integrated, harmonious machine, the modern businessman is interested in “the interstitial adjustments of the industrial system” in which “[h]is gains (or losses) are related to the magnitude of the disturbances that take place, rather than to their bearing upon the welfare of the community” (28-29). Translated, this refers to the profit-making opportunities associated with disruptions in or to the production process rather than a coordinated process designed to generate a smooth flow of output. Essentially, the money-making and output-making aspects of the modern capitalist economy are (usually) at odds. “Serviceability...is not the decisive point. The decisive point is business expediency and business pressure” (39). In particular, “sabotage” of production, thus increasing monetary gain, is standard business practice when sufficient control of an industry has been established, and this obviously runs counter to the objectives of the community which is interested in increasing that production. To increase monetary returns, when capitalists have sufficient control over the production process, they then can control pricing. But to control pricing, output must be controlled. Modern technology allows tremendous increases in output, but such increases would cause prices to fall toward zero. To prevent such an outcome with its attendant reduction in profits, production must be restricted—“sabotaged—and prices “administered.”

The last characteristic of concern here speaks to the modern economy as a “credit economy.” Contrasting then-modern capitalism with the “money economy” associated with the handicraft stage, Veblen highlights several features that are important for our purposes. With the development of the corporation, “the basis of capitalization has gradually shifted, until the basis is now no longer given by the cost of material equipment owned, but the earning-capacity of the corporation as a going concern” (Veblen [1904] 1975, 137). “The effective [business]
capitalization...is not fixed permanently and inflexibly by a past act of incorporation or stock issue. It is fixed for the time being only, by an ever recurring valuation of the company’s properties, tangible and intangible, on the basis of their earning-capacity. In this capitalization of earning-capacity the nucleus of the capitalization is not the cost of the plant, but the concern’s good-will....” (138). Good-will includes various sorts of factors—trade-marks, copyrights and patents, brand names, reputation—“that give a differential [pecuniary] advantage to their owners, but they are of no aggregate advantage to the community.... they make no part of the wealth of nations” (139-140). That advantage is in large part derived from the increasing difference between the stock market value and the real asset value of a corporation, which in the first place requires the increasing divergence between industrial capital and business capital, and which later triggered significant changes in capitalism, such as concentration of ownership, corporatization, conglomeration, securitization, and financialization.

In the credit economy, the capital market dominates the goods market. This opens the door to an ongoing “valuation and revaluation—i.e., a capitalization and recapitalization—on the basis of its [the corporation’s] presumptive earning-capacity, whereby it all assumes more or less of a character of intangibility” (Veblen [1904] 1975, 154). In this process, the most important consideration is that of good-will, “since these are intangible goods from start to finish” (154).

In this ongoing valuation and revaluation, one finds a more or less constant reorganization of the corporation. Credit enters this process at two points: in the financing of the reorganization and in the inflation of stock prices. The former advantages the organizer and the providers of credit; the latter, the stockholders (Veblen [1904] 1975, 120, ff.) Further, the “putative earning-capacity of a given block of capital...may differ appreciably from the actual earning-capacity of the capital as known to its manager; and it may readily be to the latter’s interest that such a discrepancy between actual and impute earning-capacity should arise” (155). When the putative value sufficiently exceeds the actual, managers “may find their advantage in selling out, or even in selling short...” (155). To affect this differential, managers “will be able to induce a discrepancy...by expediency well known and approved for the purpose. Partial information, as well as misinformation, sagaciously given out at a critical juncture, will go far toward producing a favorable temporary discrepancy of this kind...with advantage to themselves” (156-157). “The consequence is that a given block of capital...may, and in practice it commonly will, change owners much more frequently than a given industrial plant was wont to change owners under the old régime...” (156).

Basically, the whole point is to gain some strategic advantage, an advantage that results in monetary gain. To this end, the business enterprise makes strategic decisions and takes actions such as the extensive use of “loan credit,” the capitalization of earning-capacity and of good-will, and the control of market. Hence, “the interest of the managers of a modern corporation need not coincide with the permanent interest of the corporation as a going concern; neither
does it coincide with the interest which the community at large has in the efficient management of the concern as an industrial enterprise” (Veblen [1904] 1975, 157). The “new order” was thus designed to enhance the ability of both managers and capitalist owners to advantage themselves. Rather than a structure organized to enhance the productive capabilities of society, the corporation was (and remains) a “money-making machine,” generating increasing discrepancies between the production of output and monetary gain. In a nutshell, in the beginning of the 20th century, Veblen not only saw the new capitalist order arising, but also warned that this new order controlled by captains and absentee owners was inimical to the welfare of the community.

Now, what does all this have to do with the provisioning process and the need for a JG program?

As noted above, the ostensible purpose of an economic organization is to produce the output that provisions members of society; the food, clothing, shelter, etc. constituting people’s consumption. In an economic organization labeled capitalism, such output is offered for sale on markets (however tenuous those markets are). In order to purchase output, then, people must acquire income, or the means with which to provide themselves with the provisioning necessary to survive and reproduce. For the majority of the population (and increasingly the overwhelming majority) this requires that they sell their skills—mental and physical—for wages and salaries. This is so because of the property relations of a capitalist economy. Some—a minority—own and control the land, raw materials, plant and equipment that are necessary for production to take place. Others—the majority—must secure the jobs that are offered so that the means of production are put into operation. And this is a crucial point. The number and types of jobs offered are based on decisions made by owners and/or managers based on decisions to produce output.

However, as Veblen argued, in the “new order” of capitalism, these decisions are themselves based on the expected profitability associated with production. And profitability is increased through the control of output and pricing and is associated with, not a smoothly functioning, efficient machine process at the social level, but one in which “disturbances” (or inefficiencies) allow greater monetary returns. Hence, the number of jobs offered will not be determined by the needs of the larger population in satisfying provisioning requirements, nor by some social objective to maximize output. Rather, jobs, thus employment, thus the provisioning process itself will be “sabotaged” in the pursuit of monetary gain.

How do we know this? Veblen himself noted that with U.S. entry into World War I, a problem arose: “(T)he war administration under pressure of necessity somewhat loosened the stranglehold of the vested interests on the country’s industry; and in so doing it has shocked the safe and sane business men into a state of indignant trepidation and has at the same time doubled the country’s industrial output.” However, “(a)ready the vested interests are again tightening their hold and are busily arranging for a return to business as usual”—waste, restriction of
output, unemployment, etc.” (Veblen [1919] 1964, pp.140-1). War, and Veblen’s observation could be applied to World War II or any other major conflagration, demonstrates that industrial output, and, thus, employment and the satisfying of the needs of provisioning, could be greatly increased if governments overrode the “normal” constraints of private (non-social), capitalist profit-making requirements.

While Veblen does not address any program equivalent to that of the JG, his acute observations and analysis of the “new order” certainly brings this into play. It is not necessary here to lay out the specifics of such a program—that is done in other papers in this series. The main point, however, is that the normal functioning of a modern capitalist economy is unlikely to satisfy the requirements of the provisioning process necessary to allow a viable social organization. Beyond the issue of unemployment—a “normal” and perennial issue in the current period—a host of other concerns can at least partially be addressed with such a program. Poverty, in particular child poverty, homelessness, health issues caused by unemployment, etc., all can be at least ameliorated if governments were willing to undertake the necessary reforms to the prevailing economic system in order to address the inadequacies of that system in providing the means whereby the majority of the population can provide itself with those necessaries to allow a comfortable existence. The question then becomes, why doesn’t it?

References

