The Contemporary Relevance of Thorstein Veblen's Institutional-Evolutionary Political Economy

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1 Introduction

After being in the doldrums for fifty years or so it seems that Veblenian institutional-evolutionary economics is starting to come of age. The Association of Evolutionary Economists (AFEE), a seminal grouping of Veblenian and other institutionalists that publishes the *Journal of Economic Issues*, has been operating energetically in the US for over three decades. But only since the 1980s has a sustained interest in Veblenian themes crossed the Atlantic. For instance, through the creative efforts of mainly American and European institutionalists, the broadly-based European Association for Evolutionary Political Economy (EAEPE) was organised in 1989. EAEPE recently had a centenary celebration conference on the subject of Thorstein Veblen's (1857-1929) legacy in political economy (see Louca and Perlman 2000).

Indeed, currently we are aflush with centenary celebrations of Veblen's earliest *major* works. The *Cambridge Journal of Economics* (July 1998) published an issue in centenary celebration of his 1898 paper, 'Why is Economics Not an Evolutionary Science', which one could say marked the official recognition by Cambridge-style economists of the importance of Veblenian economics; a notable event in itself. Hot on the heels of the celebration of Veblen's 1898 paper is a series of centenary celebrations of Veblen's most well-known book, *The Theory of the Leisure Class: An Economic Study of Institutions* (1899). For instance, Doug Brown (1998a) has edited *Thorstein Veblen in the Twenty-First Century: A Commemoration of 'The Theory of the Leisure Class' (1899-1999),* which examines the relevance of *The Leisure Class* in the contemporary scene. Warren Samuels (1998) published a volume with a similar theme, as did the journal *History of Economic Ideas* which is published in Italy (no 3, 1999).

One gets the distinct impression that more is happening than just centenary celebrations. It appears that Veblenian economics is gaining some respectability among other heterodox economists, even beyond American shores, and that orthodoxy is starting to take notice (see Hodgson 1998a). Of course, one could say that institutional and evolutionary themes, including Schumpeterian and new institutionalist varieties, have been on the upsurge for a decade or two now. So perhaps the rise in Veblenian themes is part of this trend. Nevertheless, this series of celebrations and the general expansion of Veblenian economics provides an impetus to consider an important theme: what lessons are there in Veblen's works *as a whole* that are relevant to us in the twenty-first century? If Veblen's works of one hundred years ago seem more relevant and better-known now than ever before, looking at the question globally, then what is it about his theoretical contribution that is special and durable? This is the subject of the current paper.

When studying the contemporary relevance of Veblen's major contributions to political economy, many approaches are possible. For instance, Veblen's ideas could be linked to critical characteristics of the contemporary economy; or they could be chronologically examined from his earlier work to *The*

Theory of Business Enterprise (1904), *The Instinct of Workmanship* (1914), *The Vested Interests and the Common Man* (1919) and so forth to *Absentee Ownership and Business Enterprise in Recent Times* (1923). The approach taken here is to present a picture of the whole corpus of Veblen's theory - to the extent possible in a single paper - in the light of recent research and contemporary issues of heterodox political economy. Veblen's economics is still a direct challenge to orthodoxy and has much in common with certain contemporary heterodox themes. It seems logical, therefore, to situate Veblen's institutional-evolutionary contributions within the framework of what is in many respects a shared legacy.

In looking at the economics of Veblen it is important to emphasise that we are not simply studying a single author, but also an approach developed by Veblen which has influenced thousands of economists over the past century, especially in the US and now also in Europe (see O'Hara 2000). But the fact remains, historically speaking, that Veblen's *overall project* remains in large measure undeveloped by subsequent scholars. This is true despite the existence of many influential institutionalists over the years, such as John Commons (1862-1945), Wesley Mitchell (1874-1945), and Clarence Ayres (1891-1972); plus Gunnar Myrdal (1898-1987) and John Kenneth Galbraith (born 1908), the most famous original institutionalists after Veblen. Some of them took up themes that are in continuity with aspects of Veblen's overall project – such as Mitchell on business cycles, Myrdal on circular and cumulative causation, Ayres on the institution-technology nexus, Galbraith on power and vested interests – but they did not follow Veblen's overall project.

None of these scholars tried to assess or update Veblen's theory of instincts, institutions and evolution according to recent trends in theory or practice. Rather, they either concentrated on the details of labour relations, business cycles, development, 'race relations', the corporation, or policy, or developed *an aspect* of the Veblenian corpus, and/or followed a somewhat different theoretical orientation. It is for this reason that some members of AFEE, and to some degree EAEPE, have recently come back afresh to Veblen's theoretical framework.[1] What becomes apparent is that Veblen did develop a relatively unified theory (or ensemble of related themes), as Karl L. Anderson recognised in a remarkable paper from the *Quarterly Journal of Economics* as early as 1932-33. He said:

> The thesis advanced here is … that Veblen offers an integrated system of economic theory. … Veblen's views fit together into a general theory every part of which is related to every other part. … *Thorstein Veblen's institutional economics is a theory of the evolution of those institutions which affect the production and distribution of wealth.* … The basic notions in it are three in number. They are: first, that behavior is governed fundamentally by … *instincts* which give rise to action of a dynamic sort; second, that behavior is guided more proximately by *institutions*; [and] third, that institutions as viewed over the course of human history have been in a state of slow but continual *change*. (Anderson 1932-33, pp. 618, 626, 605; emphases added)

In keeping broadly with this outline of the main aspects of Veblen's theory, we examine in successive sections the nature and contemporary relevance of his analysis under the headings of (1) instincts, habits and the individual-social nexus, (2) invidious and non-invidious institutions, and (3) evolution, cumulative causation and instability. This paper utilises these themes in the history of political economy to examine a contemporary question, something that offends some

traditional historians of economic thought. In a sense this paper is a challenge to established institutions. But given the need to develop innovative practices, to engage in institutional innovations that are instrumental, as Veblen might have said, I believe recasting the history of economics to relate it to *current questions* is to be encouraged.[2] Indeed, I can think of no better question relating to Veblen's political economy than: how relevant is it in the contemporary environment? Paul Sweezy (1957-58, pp. 106-107) believed that Veblen's 'overall vision and detailed insights were unsurpassed since Marx, despite some lapses in analysis', and even suggested that Veblen's discussion of wasteful expenditures in relation to business and industry 'applies, almost word for word, to the situation in the 1950s'. I am less interested in Veblen's detailed historical investigations than in whether his theory and method can be applied or modified to relate to contemporary concerns.

2 Instincts, Habits, and the Individual-Social Nexus

Veblen placed a great deal of emphasis on the relationship between instincts, habits and conscious reasoning (see O'Hara 1999b). His theory of 'higher-order' instincts emphasises the relationship and conflict between those propensities or bents that are self-serving versus those that promote the common good. Habit 'diminishes the conscious attention with which our acts are performed[; it] is thus the enormous flywheel of society, its most precious conservative agent' (William James 1890, pp. 114, 121). Veblen (1899, pp. 82-83) highlights the *social* positioning of individual habits, and provides an example of the 'standard of living' as a critical 'social habit', in which it is difficult to accustom oneself to a lower level of material means of life. He goes on to suggest that social habits can be stronger if they are reinforced by instincts (pp. 83-84). And his theory of conscious reasoning and purposive action posits little direct relationship between individual goals and societal evolution. Veblen thus developed a socio-economic psychology in which there are multiple levels associated with the cognitive-cultural architecture, some being propensities towards certain ends, others habits of learning and acting, while there are also forms of conscious reasoning. Indeed, Twomey (1998) argues that Veblen's analysis of instincts, social habits and conscious reasoning – which was influenced by Jacques Loeb, William James, William McDougall and C. Lloyd Morgan but recast in Veblen's original style - is consistent with modern research in psychology. This is highly relevant because up until a few years ago institutionalists tended to ignore Veblen's analysis of instincts (because they thought it was out-of-date and speculative);[3] they studied institutions but generally eschewed a thorough analysis of habits (until Waller 1988); and the notion of individual purposive action in Veblen's work was hardly ever mentioned (see Argyrous and Sethi 1996).

Veblen examined instincts that are the product of the interaction of biological, psychological and cultural factors (see O'Hara 1999b). The biological and psychological foundations provide for instinctual *potentiality*, while the cultural environment is a critical factor enabling certain instincts to be *realised* at the social level. For individuals, instincts provide for the activation of certain *aims or objectives*. *The Theory of the Leisure Class* (1899) and *The Instinct of Workmanship* (1914) are the main texts where Veblen extensively examines instincts. These works utilise biological, physiological and psychological studies that inform on instincts. In biology and physiology, Veblen was influenced by his friend and colleague, Jacques Loeb (1859-1924), whose pathbreaking work on

tropisms, reflexes and instincts (as well as his politics and social views) influenced Veblen's approach to science and society (Loeb 1900, 1912; Rasmussen and Tilman 1998). In psychology, Veblen was influenced especially by William James (1842-1910), William McDougall (1871-1938) and C. Lloyd Morgan (1852-1936). James (1890) discusses habits and a whole range of instincts including emulation, acquisitiveness, constructiveness ('workmanship'), curiosity, and parental love. McDougall (1908), who was a follower of James, expands on these and other instincts and habits. C. Lloyd Morgan (1896, 1906) influenced Veblen through his analysis of habit, instincts and the social environment. (See Tilman 1996, chapter 3.)

Veblen was able to utilise these influences so as to synthesise his own view of the relationship between instincts, habits and conscious reasoning. He is especially interested in the higher-order, 'social instincts', that are macroscopic. The positive instincts are said to be those of workmanship, idle curiosity and the parental bent. Workmanship 'disposes [people] to look with favour upon productive efficiency and on whatever is of human use. It disposes them to deprecate waste of substance or effort' (Veblen 1899, p. 75). Idle curiosity is the creation of 'the most substantial achievement of the race, - its systematised knowledge and quasi-knowledge of things' (Veblen 1914, p. 87). And the parental instinct relates to the potential for people to care for one another.

The negative instincts were not quite so well delineated by Veblen, beyond the pecuniary (or acquisitive), 'emulative predatory' and 'emulative' instincts which were specifically formulated. The pecuniary instinct relates to the valuation of things on the basis of money and price and the desire to enhance individual profit and wealth. The 'emulative predatory impulse - or the instinct of sportsmanship' - relates to various tendencies such as war and plunder, on the one hand, and prize-fighting and addiction to sport on the other (Veblen 1899, p. 179). He also discusses the instinct of emulation proper (1899, p. 85) as arising in the modern world in pecuniary emulation or 'conspicuous waste' where 'Relative success, tested by an invidious pecuniary comparison with other men [sic], becomes the conventional end of action' (1899, p. 40).[4] However, paraphrasing James, he adds crucially that 'the instincts incontinently touch, blend, overlap and interfere, and can not be conceived as acting each and several in sheer isolation and independence of each other' (Veblen 1914, p. 11).

Veblen saw a type of dialectical linkage between the positive and negative instincts, in which they influence and conflict with each other, providing Veblen with an important source of *human action*, change and motion. Generally, when the positive dominate the negative instincts, cultural development or the quality of life of the community is enhanced; when the negative dominate the positive, cultural decline is in order; and when the two are temporarily in an uneasy balance the status quo prevails. It is mostly true that, in Veblen's social economics, 'the instincts rule out *almost* no conceivable pattern of human behavior' (Rutherford 1984, p. 332; emphasis added); although Rutherford misleads to assert that causation is from institutions through instincts to behaviour. Rather, there is multi-directional, complex feedback, and intersectional processes at work in the instincts - habits - institutions - behaviour nexus.

Of critical importance is the emergence of conflict between individual practices and the common good, which Veblen repeatedly comes back to. He differentiated between individual motivation and objectives, on the one hand, and the interests of the collectivity, on the other; the latter of which he terms 'cultural development' (1899, p. 141), the 'interest of the community' (1899, pp. 153-54) or

the 'collective life process' (1899, p. 176). As he said, 'the evolution of economic life in the industrially more mature communities has now begun to take such a turn that the interest of the community no longer coincides with the emulative interests of the individual' (1899, p. 153). Thus, his theory of instincts was the foundation of his view of action and development; and he saw the need to moderate the instincts that promote individual interests. It is, therefore, crucial not only to recognise that contemporary research has reinvigorated the general analysis of economic psychology along Veblenian lines (as Twomey 1998 does)[5], but also to ascertain whether the specific instincts utilised by Veblen are useful tools and, if not, how the theory should be reconstructed. *This is a research agenda crying out to be advanced.*

Veblen believed that human action at the micro level was conditioned by instincts, habits and conscious plans. Instincts provide a source of human action, social habits guide and condition these actions, and human objectives and plans are means by which individuals can change or channel their habits into specific actions. However, while individual plans seek an end point or objective, following instinctual attributes or conscious reasoning under the influence of habit and culture, socioeconomic evolution attains no such teleological end-in-view, according to Veblen (Argyrous and Sethi 1996). Individual purposeful actions thus have little direct influence on the substantive direction of systemic change due to 'blind drift' at the system level. In other words, socioeconomic evolution tends in no particular direction because of the non-linear, complex, relatively indeterminate and multiple processes at work at the systemic level. While changes emanating from different spheres may impact upon the socioeconomy in a cumulative fashion (if the counter-tendencies are not strong), cumulative change relates only to the magnitude of the impact and not to the specific nature of the institutions that emerge.

Veblen's use of instinct theory and the individual-social interface is also used in his theory of collective or social wealth. For instance, his analysis of the origin of the *economic surplus* was unique in that he considered it to be the product of collectively generated wealth (see O'Hara 1999b, 2000), under the influence of the positive instincts. He was the first major economist to recognise the importance of social and technological wealth in the generation of the collective surplus. Social wealth is the stock of human norms, mores and structures of 'truthfullness, peaceableness, good-will, and a non-emulative, non-invidious interest in [people] and things' (Veblen, 1899, p. 173). Technological knowledge 'is … a common stock, held and carried forward collectively by the community' such that the 'state of the industrial arts is an affair of the collectivity, not a creative achievement of individuals working self-sufficiently in severalty or in isolation' (Veblen, 1914, p. 103). Veblen recognised that every new invention and innovation is to some degree made by individuals. However, we are 'social individuals' since every change 'so made is necessarily made by individuals immersed in the community and exposed to the discipline of group life as it runs in the community, since all life is necessarily group life' (Veblen, 1914, pp. 103-4).

To some degree, welfare generated by social wealth is a substitute for material output, but in addition it is a necessary condition for the long-term development of material output. Without structures of community and trust the bonds of interaction would be fragile, and human society would be at a low level of development. While technological knowledge is a common theme in economics nowadays, it is only in the past 20 years or so that the notion of social wealth,

which originated with Veblen, has been actively developed in the literature of political economy. For instance, one study shows that in the state of Kerala (in India) social wealth has provided the foundation for a high standard of living (life expectancy, literacy and health) with a small GDP per capita (see Heller 1996). The social structures of accumulation school developed a similar notion to that of Veblen, i.e., that suitable institutions can provide a reproductive foundation for growth and accumulation. Social wealth can promote growth or be a substitute for growth; either way it is essential to many dimensions of the quality of life. Ignoring social wealth in favour of durable business fixed capital can lead to a lower standard of living and 'development'; hence it is critical (World Bank 1997; O'Hara 1998).[6]

The emphasis Veblen gave to the collective generation of social, human and technological wealth has the potential to revolutionise economics. He believed that, while such wealth is collectively generated, under the influence of negative instincts it is perpetually being exploited by the vested interests for their own benefit in the form of a share of the surplus product. Corporations can exploit this wealth through degrees of monopoly. Financiers can gain a share of the surplus through interest, the lending of money and the creation of credit. Property-owners can gain a share of the surplus by renting their premises. Unions can gain a share of the surplus through industrial action and wages over and above labour's collective contribution to workmanship. These vested interests, according to Veblen, not only utilise a portion of the economic surplus (or try to in the case of unions) but also stimulate interests that reduce the production of surplus. Thus, Veblen believed that economists need to critically analyse the power of elites and classes, with a view to sharing the surplus product in a more egalitarian manner. Since it is mainly collectively generated it should be more equally distributed. *This thesis needs to be investigated more fully, especially in the contemporary global political economy, where new relationships and power structures are being generated.*

3 Invidious and Non-Invidious Institutions

In this section I examine Veblen's view of the nature of institutions and the relationship between invidious and non-invidious practices within institutions. It needs to be emphasised, at the start, that neither Veblen nor his followers have been consistent in their definition of 'institution'. Most authors quote the usual brief definition by Veblen that institutions are 'habits of thought'. However, a closer reading of Veblen demonstrates that he views institutions in different ways, depending on the context. Generally he views an institution as either an established social practice, or a habit of thought, or a form of organisation.

This is an important point, because in viewing institutions as 'habits of *thought'* most authors miss the *general* method of Veblen's economics. In his method, instincts provide the potentiality for human beings to engage in social action; social habits structure the thinking and behaviour of individuals; and institutions are those social patterns of regularity that establish a set of clustered norms and mores often within an organisational setting such as a firm or a family or the community (see Weed 1981). It is this multifarious view that enabled Veblen to variously talk about the institutions associated with the 'leisure class', 'ownership', 'industry', 'business', 'personal service' and so forth. As he said:

> Institutions are not only themselves the *result* of a selective and adaptive process which shapes the prevailing or dominant types of

> *spiritual attitude* and *aptitudes*; they are at the same time special *methods of life* and of *human relations,* and are therefore in their turn *efficient factors of selection*. (Veblen 1899, p. 131; emphases added)

Here Veblen conveys the message that institutions are affected by and in turn influence change; and also that institutions include certain attitudes, aptitudes, methods of life and human relations. Veblen then goes on to define the institutions associated with the economic structure as follows:

> These institutions - the economic structure - may be roughly distinguished into two classes, according as they serve one or the other of the two divergent purposes of economic life. … [T]hey are institutions of *acquisition or of production*; … *pecuniary or industrial* institutions; or in still other terms, they are institutions serving either the *invidious or the non-invidious* economic interest. The former category have to do with '*business*', the latter with *industry*, taking the latter word in the mechanical sense. *The latter class are not often recognised as institutions* … (Veblen 1899, p. 143; emphases added)

Thus, Veblen viewed institutions as including business principles and vested interests as well as production and technological systems. It is thus difficult to sustain the simplistic argument of some of Veblen's followers (especially Ayres 1978, chapter 9) who maintain that technology is the dynamic element of change that impacts on the backward institutions after a lag. Put simply, technology has its own set of institutional relationships and structures, and change is instigated by many varied aspects of the socioeconomy (see McFarland 1989, Hodgson 1998b).[7] Generalising, Veblen's use of 'institution' may justify including the structural institutions associated with the family, the state, the system of production, the financial system and the world economy (such as examined by social structure of accumulation and regulation theories), so long as it is recognised that there are ideological, knowledge and ethical institutions in addition to these.

Veblen emphasised the conflict between the two dominant institutions associated with invidious and non-invidious relationships and organisations. The invidious institutions associated with conspicuous consumption, speculative bubbles, warfare, and the like are especially influenced by the negative instincts. The non-invidious institutions such as industry, purely scholarly endeavours and bringing up children are dominated by the positive instincts. What has come to be called the 'Veblen dichotomy' - between invidious activities (or business), on the one hand, and non-invidious activities (or industry), on the other - is very much dependent upon instinct theory.

Modern Veblenian scholars in the tradition of Fagg Foster, such as Marc Tool and Paul Dale Bush, have reformulated the 'Veblen dichotomy' in a more pragmatic fashion without instinct theory. For Tool and Bush, a better dichotomy is that between *instrumental functions* of institutions (which are non-invidious and enhance the common good) and *ceremonial functions* of institutions (which promote invidious relationships and detract from the common good). The innovation here is that particular institutions are imbued with *both* instrumental and ceremonial functions, and it is the relative *degree* of ceremonial dominance over instrumental functions that matters (see Bush 1983, O'Hara 1997, Fayazmanesh and Tool, 1998). This perspective, along with the related view of institutional change is an advance in institutional economics. But we are still in a relatively early phase of evolution in developing the notion of the instrumental and ceremonial functions of institutions; this research agenda needs to be pushed ahead not only in

its theoretical context but also in empirical terms. *Many more applications and case studies are especially warranted*.

At a more general level, a prime theme (or principle) of Veblen's is that of *institutional holism*, which is advanced in various ways in all his works, but more especially in *The Theory of the Leisure Class* (1899). Central to holism is the need to study the interplay of social, political, and psychological factors in the determination of economic processes. Economics is part of an open system, with determination including values, beliefs, individuals, institutions, social behaviours and human-centred aspects of the provisioning process. Every aspect of economics, in this view, needs to be situated within a broad framework of reference in order to comprehend adequately the nature of the processes in motion and to recognise the element of *novelty and creativity* that are prime factors in change (along with blind drift).

This means that the processes of production, distribution and exchange need to be situated within the context of the reproduction of institutions associated with belief and organisation. Socioeconomic reproduction implies the need for a wide scope of vision when viewing the production of goods and services; the distribution of income, wealth and power between the social classes; and the exchange of money, credit and goods and services in the market. The reproduction of economic processes requires, according to Veblen, that the institutional structure and motion be activated by a set of processes that transcend normal market relationships. As Twomey emphasises, some recent research is consistent with Veblen's complex and realistic psychology. This shows that there is a 'multiplicity of minds' within a mind that have different, higher and lower order functions. Human cognition comprises a heterogeneous network of specialist and general processes, and necessarily operates in contextual linkage with the environment. Also, there are different forms of sensory interactions comprising not just information, but also knowledge as well as emotional energy that provides direction and social context, with the 'mind' not simply receiving but also creating 'sensory data' (Twomey 1998, pp. 440-444.)

Economic institutions – including firms and markets - are thus permeated with social relationships, values, organisation and active beings situated in a natural environment, and to abstract from these aspects is to ignore the dynamic functioning of economies (see Hodgson 1993, chapter 9; Hodgson 1999, chapter 11). For instance, individual preferences have been demonstrated to be endogenously affected by institutions (Bowles 1998); knowledge, information and communication are heavily bounded and institutionally or culturally generated (Rich 1998); while imagination and novelty are critical aspects of change and development, especially in a 'roomy framework' with an *intermediate* degree of structure (Loasby 1999). *These areas of investigation are very much in the Veblenian mould and critical to further analysis.*

Some controversy has developed in relation to the holistic view of institutions. For instance, a number of scholars agree with Coats (1954, p. 331) that 'Veblen proposed a kind of "organismic" concept of the universe as a "whole" within which everything was explained by everything else'. Certainly Veblen recognised that there are considerable interdependencies between the main elements of the system, but the way Coats explains it is going too far in proposing 'strong holism'. The strong form of holism states that *everything* is interrelated and because of this it is necessary to comprehend the totality *before* one can 'know it' or 'its parts'; and this is an impossible position.

Veblen's method was more in line with the notion of 'concessive holism' (Susan James 1984) which recognises that the parts of the economic system are interrelated in an *uneven* or *imperfect* manner and have an element of indeterminacy. One is thus able to comprehend the system by examining *important* aspects of the whole and to link these parts to illustrate the workings of the whole. Such are the results of a pragmatic philosophical position, following the work of Charles Sanders Peirce (1839-1914), William James (discussed earlier), and John Dewey (1859-1952), broadly speaking. Concessive holism is related to the modern notion of 'entry point' into discourse (Resnick and Wolff 1987), which is associated with the limits of comprehension of the human mind and the need to delimit the scope of analysis. Some modern institutionalists are using 'entry point' as part of their method (see Ramstad 1998, p. 6).

Another controversy is that concerning the relationship between the individual and institutions. Institutional economics in the tradition of Clarence Ayres (1978) had traditionally followed the methodological collectivist position where institutions and structures fundamentally influence individual choices and relationships. It is usually considered that Veblen had a similar view. Warren Samuels (1992, p. 117) suggests that 'Veblen's conception of the economic system was not devoid of methodological individualism, but it was principally methodologically collectivist' because 'He studied individual behaviour (for example, conspicuous consumption), but he was more interested in seeking knowledge in terms of group processes, problems, forces and phenomena'. However, historically institutionalists have tended to ignore Veblen's argument, discussed above, about individuals actively making plans and seeking objectives as ends-in-view (aims and objectives); and that this needs to be dialectically linked with the forces of instincts and habit (within institutions) to situate the major factors involved.

An institutionalist who has studied the link between individual and institutional processes in some detail is Geoffrey Hodgson (1988, 1998a). It seems clear that the framework that needs development is one in which individual and group processes are linked in mutual interdependency: what might be called the notion of 'social individuals'. Individuals have plans and objectives, which are influenced by group dynamics and habits, and such plans seek realisation or action in a group environment. Indeed, 'individualism' as a perspective is partly influenced by the prevailing systems of belief, ideology and practices under capitalism (O'Connor 1984). Individual action is also heavily constrained and patterned by relative ignorance, lack of information, the inherent complexity of the world, the limits of the human mind, radical uncertainty of the future, social groups, and the emergent properties associated with indeterminacy and creativity. This heavily bounded type of rationality and radical uncertainty clearly links with the research of Frank Knight, David Bohm, G.L.S. Shackle, Arthur Koestler, Ilya Prigogine and Herbert Simon; *and future studies need to explore and develop these notions within an 'institutionalist' context.*

Veblen was critical of the notion of *'homo economicus'* for ignoring the institutional and specific characteristics of human beings in a social setting. *'Homo economicus'* sought to reduce humanity to abstract commonalities and ultra-rational qualities that are devoid of heterogeneity and 'difference'. While he recognised that individuals often make plans and work on specific objectives, he also realised that they are affected by habits and conventions. He sought to comprehend the historically specific conditions and situations that fundamentally influence the

behaviour and thoughts of human beings (see O'Hara 1997). This is linked with his *pioneering work* on the interface between species, gender, ethnicity and class. Enabling myths that reinforce stereotypes and conformity are important to these 'divisions' (Dugger and Sherman 2000, chapter 4).

The primary 'difference' is based on species: Veblen centered his analysis, especially in *The Theory of the Leisure Class*, on active human beings operating in an ecological and social environment, with certain instincts and characteristics that make them both similar and different to other species. Human beings have a gene pool and social systems that influence their characteristics and behaviour. Instincts, for Veblen, became part of the systemic processes affecting and in turn being affected by the institutional set-up of specific societies because they are important to human beings as species and social beings.

'Race', ethnicity and nationality are similarly important. His discussion of the transition from 'peaceable savagery' (primitive communism) to 'barbarian culture' (e.g., feudalism) to capitalism illustrated the importance of cultural evolution in his work. Chapter 9 of *The Leisure Class*, entitled 'The Conservation of Archaic Traits' (1899, pp. 145-164), is an especially rich analysis of the linkage between ethnicity, instincts and socioeconomic tendencies. Discussion of the 'three main ethnic types; the dolichocephalic-blond, the brachycephalic-brunette, and the Mediterranean' (Veblen 1899, p. 146), to provide but one example, demonstrated that ethnic traits that are passed on from one age to another are critical to the shape of the contemporary economy and the power of the leisure class.

Gender is also important. Veblen noted, especially in *The Theory of the Leisure Class,* that women have historically been more in tune with the positive rather than negative traits. They have tended to engage in workmanship, such as the gathering of berries and fruit, handicrafts or domestic duties; and they have been inculcated more with the parental instinct of love and affection. Men, on the other hand, at least since the first historical creation of an economic surplus, have engaged in wasteful forms of combat, warfare and conspicuous use of property (including women). Veblen was the first important male feminist economist, and some modern feminists have been influenced by him in this respect.[8]

Class is also of significance. His great work, *The Theory of the Leisure Class,* recognised that as capitalism evolved the pecuniary instinct (business) began to infect and eventually dominate workmanship (industry). The capitalist class sought pecuniary wealth and prestige while the working and technical classes were left to work and promote industry as the foundation of their survival. The working class, Veblen realised, usually only had their 'labour power' to sell, and therefore if they didn't work they would find it difficult to survive. The capitalist class as well as other propertied classes, on the other hand, could benefit from the fruits of the collectively generated wealth not only in relation to money and property, but also in terms of status, prestige and power. Especially in *The Vested Interests and the Common Man* (1919) and *Absentee Ownership* (1923), Veblen saw class, defined in terms of inherited social position and background, as a critical factor affecting production, distribution and exchange. He realised that social position was affected significantly by birth, upbringing, occupation and mentality. Such class relationships were seen as heavily institutionalised and often abstracted from specific class consciousness and action. But the leisure class inhibits collective interests, Veblen believed, through inertia, conspicuous waste, and the unequal distribution of wealth (Veblen 1899, p. 141).

Veblen was the first major economist who sought to integrate questions of species, class, gender and ethnicity into institutional-evolutionary analysis.[9] He abstracted from 'rational economic man' in favour of 'the social individual' whose preferences and choices are affected by the multiple roles that a person is born into and which evolve and possibly change through life. In attempting to examine these 'differences' with a theory of heterogeneous agents in a cultural paradigm, Veblen was decades ahead of his time. Although Charlotte Perkins Gilman (1860-1935), Oliver Cox (1901-1974), Gunnar Myrdal (1898-1987) and others, were heavily interested in *some* of these 'differences', further development of the multiple differences theory (after Veblen) is a more recent phenomenon. This type of analysis re-emerged in embryonic form in the 1970s as labour market segmentation analysis (e.g., Gordon 1972), and only more recently has it taken a more general form within political economy. Feminists, neo-Marxists, environmentalists, institutionalists and social economists have sought to transcend the homogenous agent in the search for a more realistic approach to the social individual (see Sherman 1995, Dugger 1996, Mutari *et al*. 1997, O'Hara 1999a, and O'Hara 2000 for some examples). Had scholars taken note of Veblen's work in the area earlier, more may have been achieved to date.[10] *Much work lies ahead in this relatively 'new' and important field.*

4 Evolution, Cumulative Causation and Instability

Perhaps more than anything else, Veblen sought to situate his analysis of instincts and institutions in the dynamic evolution and instability tendencies of whole economies, especially capitalism. All of his major works seek a dynamic economics concerned variously with questions of movement, change, cyclical and secular dynamics, metamorphosis and transformation.

4.1 General View of Evolution and Cumulative Causation

In order to study the contemporary capitalist society of his time, Veblen developed a complex, yet schematic view of social evolution from the peaceable savage form through to slavery, feudalism, early industrial and modern forms of business. He pays special attention to 'the evolution of social structure as a process of natural selection of institutions' (1899, p. 131) where the habits of thought and behaviour that are the fittest tend to survive and evolve while those which are 'obsolete' tend over time to decay. Institutions are forever being selectively adapted to changes, and the habits of thought and behaviour of individuals tend to lag changes in the socio-material environment due to the process of learning, information-gathering and the relatively slow modification of existing habits and relationships (p. 133). The main forces for change include the 'blind' metamorphosis of institutions, the introduction of novelty and experimentation and the conflicting forces in the system and between social groups.[11]

However, there are certain conservative interests that may not be so efficient but which survive out of having a protected position in society. Veblen provides an example in the form of the leisure class that reaps a huge reward, a 'free income', and thereby retards investment and consumption in productive and reproductive activities (Veblen 1899, p. 134). Similarly, absentee owners tend to obstruct industrial change through protected profits in the form of monopolies, restrictive output to maximise capitalised income, and business decisions being made by the privileged few rather than being based on merit. Financial wheeling and dealing can obstruct the industrial system through unsustainable share returns,

short-run rather than long-term investment horizons and a class system that inhibits the full realisation of potential of the 'common people'. Such a business system has inherent contradictions and instabilities that cannot be adequately analysed through an equilibrium methodology. Instead Veblen proposed an evolutionary method for institutional economics.

By evolutionary method Veblen meant an economics that eschews the 'necessary' tendency toward equilibrium in favour of one concerned with blind drift, cumulation and metamorphosis. The notions of evolution, selection, adaptation and variation - at the cultural, industrial and species levels - were ones that Veblen explicitly utilised. He criticised the trend among 'classical economics' to be concerned purely with the possible exogenous shocks and the movement back to equilibrium, assuming *ceteris paribus* conditions, and ignoring questions of contradiction, instability, movement and crisis (see Veblen, 1898).

Veblen said that the mainstream economics of his time was concerned with the 'normal equilibrium case', based on short-term logical time rather than longer-run change and motion (Veblen 1899-1900). The equilibrium case tended to assume diminishing returns, short periods, independence of supply and demand, Say's Law, and the conformity of micro with macro laws. Veblen, in his analysis of modern times, was more interested in an economic system called large-scale corporate capitalism characterised by oligopoly corporations, increasing returns to scale, the introduction of new methods and means of production and possible schisms between micro and macro processes (see Veblen 1904, 1923). Presaging Nicholas Kaldor's (1972) *Economic Journal* article, Veblen believed that equilibrium economics offers no real insight into the central tendencies of the modern corporate system.

If one incorporates into the analysis increasing returns to scale, oligopoly, path dependence, and the interdependence of supply and demand, a framework evolves which is completely different from equilibrium economics. Interdependence of supply and demand means that, for instance, an increase in consumer demand could manifest itself in higher investment, innovation, lower prices, expansion on the world scale: in a phrase, a circular and cumulative influence on production and development. This could lead to a cyclical or wave-like expansion. However, an expansion of large-scale industry without a suitable expansion of the wage-goods sector or the state or the world market could promote generalised overproduction, as Veblen believed led to a long period of relative dislocation from the late 1870s to the late 1890s (see Veblen 1904, pp. 248-255).

This notion of *circular and cumulative causation,* as applied to institutions, is a major innovation in political economy, and specifically originated in the works of Veblen. Allyn Young was influenced by Veblen, and in turn influenced Nicholas Kaldor. In the current climate many heterodox scholars utilise the notion, including institutionalists and post-Keynesian scholars such as McCombie and Thirlwall (1994), Pini (1995) and Atesoglu (1999) (see Toner 1999 for historical details and main themes). This analysis is complementary to that of Veblen. So also, of course, is the circular and cumulative dynamics examined by Myrdal (1944, 1968) with respect to 'the Negro question' and 'development in Asia'. An important project ahead is to incorporate both traditions of cumulative dynamics into a more unified science of political economy that places emphasis on institutional analysis, as well as to develop the analysis further. *This is one of the most critical research agendas on the horizon.*

4.2 Historical Evolution of Capitalism and the Economic Surplus

Veblen was interested in circular and cumulative processes of all sorts, including those associated with the metamorphosis of capital from competitive forms (1780s-1840s) to corporate capitalism (1840s-1890s) and monopoly capitalism (1890s-19[30]s) and beyond.[12] Critical to such a metamorphosis are the conflicting forces of business and industry through cyclical and longer-term motion. He examined the production and distribution of 'economic surplus' or 'net product' between industry (directly productive of the surplus) and business (unproductive), and the cumulative impact different degrees of exploitation of industry by business have on macrodynamics through long historical time. While some *general* themes of this sort were discussed in *The Theory of the Leisure Class* (1899; for instance, p. 32), much more detail was provided in *The Theory of the Business Enterprise* (1904), *The Vested Interests and the Common Man* (1919), *The Engineers and the Price System* (1921) and *Absentee Ownership* (1923).

A brief outline of the nature of Veblen's work on the economic surplus and business and industry should illustrate its importance. Veblen argued that the resources of the unproductive sectors emanate from the surplus produced in the productive sectors (Veblen 1904, p. 64), under the influence of collectively generated wealth. He recognised that the very nature of capitalism necessitates the distribution of surplus to the vested interests of absentee owners, bankers, monopolists and rentiers. As he specifically said, 'In the long run nothing can accrue as income to the pecuniary magnates more than the *surplus product* of industry above the subsistence of the industrial community as a whole' (Veblen 1914, p. 354; emphasis added).[13] He defined the amount and nature of the surplus thus:

> The net [or surplus] 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 [or surplus] 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'. Indeed, it would seem that the number and average cost per capita of the kept classes, *communibus annis,* affords something of a rough measure of the net product habitually derived from the community's annual production. (Veblen 1919, pp. 55-56)

The collectively generated surplus originates from higher levels of productivity and demand, and is extracted through the institutions of private ownership of production. Veblen believed that, under capitalism, vested interests seek to gain a 'free income' from the surplus via business practices in the form of profit, interest rent, and potentially high wages (Veblen 1919), in a fashion reminiscent of Marx, but without the labour theory of value.[14] According to Veblen, the level of surplus is dependent upon the propensity of people to engage in workmanship, technological innovation and capacity utilisation in the productive areas (under the influence of positive instincts). To the extent that these positive traits are dominated by pecuniary elements, exploitation and emulation (negative instincts), the surplus is transferred to the unproductive areas (such as business or warfare) and cannot be invested in productive capital (Veblen 1919, chapter V).

In Veblen's (1904, 1923) analysis, there are three critical limits to the expansion or reproduction of capitalism (see O'Hara 1993, 1999c). The *first critical*

limit to capitalism is the amount of collective wealth in the form of knowledge, experience, skills and productive capacity. The production of commodities is fundamentally conditioned by this stock of wealth. The *second critical limit* to capitalism is the possibility of overproduction: that business may not exploit the surplus of industry sufficiently. In this case, the surplus would be distributed too much to industry, resulting in overproduction relative to the extent of the market, which brings on a major dislocation to trade, including crisis and depression. And the *third critical limit* to capitalism is the possibility of too great a level of exploitation of industry by business. Here too much of the surplus is being distributed to business, including activities such as takeovers, speculation, advertising, warfare, and the like, and not enough being distributed to activities that enhance productivity, productive investment, knowledge and skills.

Veblen then situated these limits within the framework of the historical evolution of capitalism (in the UK and US) through its three major phases: competitive (1780s-1840s), corporate (1840s-1890s) and monopoly (1890s-19[30s]) forms (extending the last phase beyond his death in 1929). He believed that during the competitive phase of capitalism none of the critical limits contributed to endogenous or systemic instability and crisis, because industry and business were unified under the leadership of the captains of industry. Capitalism was progressive because output and profit were undertaken by the same interests; the captains of *industry* also engaged in *business* in such a way that neither dominated the other (Veblen 1923, p. 72). Crises were common, but they were not inherent in the very nature of capital *per se*; rather, they related more to the weather, harvests, and some of the instabilities of speculation and the like.

It was during the phase of corporate capitalism that one of the critical limits led to major depression and disarray. Corporate forms were developing through the joint-stock company during the 1850s and 1860s, and economic activity was relatively bouyant. But during the 1870s large-scale industry had developed to the point of overproduction in the US and UK, leading to a protracted period of instability and crisis during the 1870s-1890s. Business was insufficiently exploiting industry due to high productivity and a relative high degree of competition. Too much economic surplus was being distributed to industry, leading eventually to low profitability, followed by crisis and depression. During this period the cyclical downswings tended to be quite sharp (Veblen 1904, pp. 248, 250-51, 255.)

During sustained periods of relatively low economic activity, Veblen surmised, decisions are taken and forces begin to emerge that may help to resolve some of the problems. For instance, from the late 1890s overproduction began to decline as business started to exploit industry more through takeovers, greater concentration, collusion, advertising, imperial pursuits, and creative financing.[15] Corporate oligopoly interests began to dominate the key sectors of power generation, transportation, fuel and structural materials. Eventually this resulted in the establishment of a New Order and fifteen or twenty years of relatively sustained growth and accumulation into the early years of the twentieth century (Veblen 1904, p. 255; 1923). The problem of too much industry was temporarily resolved by utilising a greater portion of the surplus for business strategies and barriers to entry; and, as a result, business cycle downswings were not as deep and financial instability not as intense as in the period of systemic crises.

However, as business interests began to become entrenched into the 1910s-1920s, especially through the power of speculators, bankers, oligopolistic collusion,

management and the military, the returns of business rose at the expense of industry and productive effort. This gradually led to a decline in the economic surplus as the instinct of workmanship became dominated by the instincts of pecuniary gain, emulation and emulative predation (warfare) in the competition between corporations and nations. As the 1920s progressed, Veblen (1923, pp. 418-431) believed that all this would soon result in a 'chronic, though fluctuating, margin of deficiency', a 'swifter and more widely corrosive agency of miscarriage and decay', and a 'progressive abatement of the net industrial output' (economic surplus). As he said: 'By this process of growth, such businesslike management of the industrial system has become incompatible with the current state of the industrial arts' and 'the continued management of industry for business purposes results in an industrial stalemate' (Veblen 1923, p. 430-31).

In the very last paragraph of *Absentee Ownership* (1923, p. 445), Veblen seems to anticipate the crisis which manifested itself some years later in the Great Depression as 'businesslike principles … result[ing] in a progressively widening margin of deficiency in the aggregate material output and a progressive shrinking of the available means of life' (Veblen 1923, p. 445). Thus, by the time of the 1929 Wall Street Crash and subsequent Great Depression, the third critical limit of capitalism had been reached where business vested interests dominated industry, and capital dominated labour, resulting in major dislocation and disarray. Veblen saw normal business times as the usual form, and depression as the most wasteful form of 'capitalistic sabotage' of production, characterised by the 'retardation, restriction, withdrawal, unemployment of plant and workmen – whereby production is kept short of productive capacity' (Veblen 1921, pp. 40, 42; see also Mouhammed 2000).[16]

Veblen's work on industry, business and economic surplus is of interest because he developed a critical systemic analysis of the accumulation problems of capitalism in different phases of evolution. The surprising thing is that no institutionalist has utilised or extended his framework of 'economic surplus' analysis to further stages of capitalism, even though the late Allan Gruchy (1958), who was described as the 'Dean' of institutionalism, clearly laid out its fundamentals over forty years ago. One reason could be that this analysis of Veblen's clearly came under the influence of Marxian themes, and some liberal institutionalists eschewed such an influence. But, on the other hand, none of the 'radical institutionalists', modern or otherwise, have utilised, modified or extended the framework either. Paul Sweezy (1958), the famous Marxist economist, however, was considerably influenced by Veblen, and in his joint book with Paul Baran, *Monopoly Capital* (1965), demonstrated this through quotes and substantive argument about the role of the economic surplus, the sales effort and the rise of monopoly capitalism.

Two research projects cry out for more development: those concerning the business enterprise and monopoly capital. The first concerns the need to study capitalism in its various phases, with the emphasis placed on institutional processes and the conflict between vested interests or classes. Special attention needs to be given to the relevance of his method, or changes required, in the currently emerging phase of capitalist development in the early twenty-first century, as globalised institutions, transnational corporations and neoliberal governments become strong stakeholders.

The second relates to an economic surplus approach to economic growth and accumulation. These concerns have variously been developed by some *Monthly*

Review School neo-Marxists, Regulation School scholars and others. These groupings are continuing what is a shared legacy of institutional, evolutionary and surplus approach analysis of growth and accumulation, which in a sense is continuing the legacy of Veblen, in some cases wittingly and in others unwittingly. Many institutionalists have studied the evolution and transformation of corporations and stages of capitalism, but without the surplus approach. Nevertheless, the broad concerns of Veblen in all these matters are actively being pursued by various heterodox scholars, which is encouraging. However, this is not being done with an explicitly collective analysis of wealth, as Veblen's was; and usually Veblen's analysis of institutions and instincts is abstracted from. His analysis of institutions and collective wealth, at least, should be scrutinised more closely by these heterodox groups, and *further development of the notion of collective wealth can be reiterated once again as a critical research area.*

5 Conclusion

This paper has sought to investigate the contemporary relevance of Thorstein Veblen's theory and method in the light of recent research and various themes of institutional and more generally heterodox political economy. Special attention was paid to his theory of instincts, institutions and change. The first thing that becomes obvious is that Veblen's theory is integrated and well developed. It is only relatively recently that scholars have started to follow the lead provided by Veblen in attempting to develop his analysis of the evolutionary transformation of institutions. It is important that a critical and cultural analysis of institutional change continue to be formulated along the lines started by Veblen.

This paper found that there are three main aspects of Veblen's project. The first is based on an attempt to provide a species view of humans as embodying various instincts that enable them to become *active* beings. The positive instincts include workmanship, idle curiosity and parenting, and the negative ones are the pecuniary, emulative and predatory traits, although they cross and fuse with each other in a complex interactive pattern. Veblen sought to show how human beings are under the influence of instincts that provide them with a direction and plan; that the instincts are conditioned and also activated through various habits of life and thought; and also that they are transmitted through various macrosocial institutions. It is a closely-knit body of theory. Recent research in psychology and institutional economics has shown that there is much promise to this theory.

Following from his theory of instincts, habits and institutions is an analysis of the collective generation of wealth, in which the building of trust, sympathy and effective communication enables the development of the 'life process of the community'. Collective or social wealth takes many different forms, from what we now call social capital through to knowledge, organisation and cultural capital. Veblen was decades ahead of his time in recognising the role that social wealth plays in the standard of living and quality of life of the community. He also recognised that the power of business can compete with social wealth, and that therefore there are institutional alternatives in the development process, some of which are more egalitarian than others. Underlying this theory is his notion of positive and negative instincts, given that they 'cross and blend' together in a way that sometimes makes it difficult to delineate them as separate instincts. The collective wealth theory is a major development in political economy, and needs to be linked with contemporary analyses as well as developed further both technically

and empirically. The big question is whether we can adequately link it to the role of instincts or whether it can play a more independent role in political economy.

The second aspect of Veblen's project is associated with institutions and the various invidious and non-invidious elements impinging on the social economy. Veblen had a multifarious view of institutions, depending on the task at hand, comprising social habits of thought, behaviour and organisation. The economic institutions he concentrated on are those corresponding to the activities of business and industry or, more generally, the invidious and non-invidious institutions. This 'Veblen dichotomy', as it is termed, has been an area of very active research in institutional economics. Indeed, it has much in common with certain neo-Marxian and post-Keynesian themes that link to speculative bubbles versus fundamental values and the concerns of financial versus industrial capitals. Marc Tool and Paul D. Bush have sought to direct the inquiry toward an analysis of the 'instrumental' (non-invidious) and 'ceremonial' (invidious) functions of institutions and the way in which various classes and processes seek to control the commanding heights of the economy. This is a very fruitful research project, as is the related view of institutional change associated with the notions of minimal dislocation, recognised interdependence and social value theory.

A related theme to develop is that of the 'social individual', who engages in action within the context of various endogenous preferences, constraints and institutionalised patterns. Veblen originated the notion of individuals existing within a fabric of different groupings or roles associated with species, race, gender, and class, that needs further development and application. He wanted to develop a view of humans as active individuals under the influence of instinctual tendencies and plans, as well as members of various groups that influence access to income, wealth and power. There are similarities between those analysing bounded rationality and endogenous preferences and those interested in the more social concerns of class, gender, ethnicity and species. A critical question is whether it is possible to merge the two concerns so as to link the theory and practice of social individuals to a more unified institutional political economy. Much work remains to be undertaken in this broad area.

Lastly, Veblen more than anything else tried to develop an economics of change, evolution and instability. His 'evolutionary' economics eschewed a comparative-static framework in favour of one orientated to long-term processes. He provided the foundations of an evolutionary view of institutions, a problematic that recently has been rediscovered by many economists. Veblen applied the notions of selection, adaptation and variation that Hodgson and others have utilised in reconstructing evolutionary economics. For Veblen, institutions tend to move in a fashion of 'blind drift' with no end-in-view, and this usually happens in a cumulative fashion through business cycles and longer-term dynamics. There is much in common here with post-Keynesian scholars who are working on cumulative models and theories of growth and distribution. Post-Keynesians tend to emphasise economic growth and economies of scale while institutionalists concentrate on the more socioeconomic dimensions of change. This shared legacy needs further integration and development, while the theory and empirics of evolution, circular and cumulative change need more creative and rigorous development.

Veblen developed a surplus approach to political economy which, depending as it does on his theory of collective wealth and vested interests, could well be reconstructed along institutional lines. We need an explicitly institutional

explanation of the economic surplus, including its origin, expansion and distribution. Veblen provided the foundations in terms of social wealth, the role of industry and business, and the contradictions involved in the process of capitalist evolution. Much work needs to be done in this area. This could be applied to the latest, early twenty-first century phase of capitalist transformation. To date no-one has attempted this project, yet it is crying out to be advanced. Once work is commenced in earnest, and progress is made, the question may then arise as to whether it might be possible to link an institutional analysis of the surplus with existing neo-Marxist and Sraffian explanations.

It is good to see the re-emergence of an active group of economists who study Veblen and wish to construct a modern theory of the evolutionary transformation of institutions. Veblen provides a vast array of hypotheses and themes, and more importantly a unified theory that can guide modern scholars. This paper has presented an agenda for a complete research program in neo-Veblenian political economy. There is a plentiful harvest in the field of Veblenian economics that can keep scholars fully occupied in sharing the delights of the cuisine for many years to come. There is much work to be done, both in theory and practice. Recent advances have been encouraging, and hopefully more progress will occur in the future. Nothing less than a thorough-going and critical comprehension of the structure and evolution of socioeconomic institutions depends upon such advances.

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Notes

1 Indeed, there is a relatively heterogeneous grouping of Veblenian political economists who have published numerous volumes and articles in an attempt to resurrect and reconstruct the original themes of Veblen in the light of new institutional and theoretical developments. One such group has been termed 'radical Veblenians'; it is headed by Bill Dugger and Ron Stanfield, and includes scholars such Doug Brown, Ann Jennings, Bill Waller, Phil O'Hara, Rick Tilman, Paulette Olson, Jackie Stanfield, Charles and Linda Whalen, Jim Dietz and many others. Three good volumes on the main concepts of radical Veblenian political economy are Dugger (1989), Peterson and Brown (1994) and Brown (1998). There is a closely related, but perhaps less explicitly radical, group of Veblenian economists associated with the work of Geoff Hodgson, Marc Tool, Dale Bush and many others. Then there is a group of less explicitly Veblenian political economists, whom one might associate with most of the membership of the Association for Evolutionary Economics (AFEE), instituted in 1965.

2 The question of the rationale for teaching and researching the history of economic thought has been examined by a number of scholars, most recently by Kerr (2001) and Blaug (2001). Blaug believes that the most persuasive argument for studying the history of economic thought is 'to labour at historical reconstructions' (p. 152). What he means by this is that a contemporary theme is provided with a richer meaning and comprehension if it is examined historically. He shows how this can work in relation to the question of the short- and/or long-run neutrality of money. Kerr examines a number

of arguments for studying the history of economic thought, including that (a) it is of intrinsic value, (b) it enriches our understanding of economics, (c) it helps to avoid the errors of the past, (d) it expands the number of hypotheses, (e) there is unfulfilled potential in past works, (f) past holistic scholars enhance our comprehension of economic systems, (g) it helps to preserve alternative paradigms, and (h) it enables us to eschew fads and fashions. This present article, it could be argued, is consistent with all these arguments, with special reference given to the contemporary relevance of Veblen's institutional-evolutionary political economy. I am going directly from Veblen to the present because no-one in the history of political economy consistently tried to develop Veblen's major insights as part of an integrated analysis (until recently). Indeed, it is becoming quite common for history of economics journals to examine the links between the history and contemporary themes, especially when dealing with Veblen. As Luca Fiorito (1999, p. 83) recently stated in the foreword to a special section on Veblen in the journal *History of Economic Ideas*: 'the main concern of authors is not solely with the history of thought, but also with the contemporary discussion of certain issues that continue to be of central importance to contemporary institutional economists'.

3 But see, for instance, the interesting work of Ayres (1958) and Kaplan (1958). Kaplan's paper, in particular, is of importance because of the analysis of a critical instinct, that of 'idle curiosity'. See also the highly interesting early work of Zenas Dickenson (1922) and the recent work of Jennings and Waller (1998).

4 The work of Ramstad (1998) examines the contemporary relevance of Veblen's analysis of emulation, and finds that it has a continuing usage. Of course, in economic theory the notion of 'Veblen effects' and especially Duesenberry's theory of the relative income hypothesis in consumption analysis is based on emulation. Olson (1998) argues that, in the contemporary scene, emulation now becomes manifest to a high degree at the global level between nations, which is an important extension to Veblen's theory. And Brown (1998b) argues that Veblen's analysis of conspicuous consumption has given way to conspicuous personal success in the late twentieth century as the ultimate form of emulation.

5 As Twomey (1998, p. 442) says: 'For example, Margolis (1987) uses evolutionary arguments to explore how higher-order functions, such as reasoning, emerge from lower-order instincts and habits. His work has strong similarities to the evolutionary theorising of William James (1842-1910) and William McDougall (1871-1938).' Twomey then goes on to examine the importance of 'different modules' of the mind and other areas of relevance.

6 This theme also links into a more general question of the creation, maintenance and relationship between ecological, social, human, business and even cultural forms of wealth (or as some people call them, 'capital'). On the question of social structures of accumulation and modes of regulation, which advance themes first advanced by Veblen, see O'Hara (forthcoming, (a) (b)), who applies them to the contemporary scene in the US and world economies.

7 The issue of technology and institutions has a long history in institutional economics, and even now there are many differences of opinion about the topic. Veblen's own perspective was mixed. His main 'dichotomy' was between instrumental and ceremonial functions, delimited where necessary to that between industry and business. Often he saw technology as including institutional aspects (as quoted in the text); sometimes he thought institutions were 'imbecilic' or 'ceremonial'. In the modern institutionalist perspective, my own view is that the paper by Samuels (1977) is the best, mostly supported by Hodgson (1998b). Generally, Ayres's perspective was reductionist in seeing technology (however widely viewed) as being progressive while institutions are backward-looking and unproductive.

8 See, for instance, the four chapters in Doug Brown (1998, Part III) on 'Veblen and the Women's Movement', many of which discuss the work by Veblen on gender and related issues. The paper by Nils Gilman (1999) is also very good.

9 It might be argued by some that some early Marxists examined these areas. But only Engels (1882, 1884, 1894) came close, through his analysis of class, gender, species and ethnicity. The field of anthropology and biology was better developed by the time Veblen came to look at these questions, and hence his analysis was more advanced than that of Engels (see also Woolfson 1982). Veblen more specifically examined the relevance of these themes for political economy and institutions, the central theme of this paper.

10 Examples of studies of a more inductive nature that may be consistent with this 'multiple agent' theory include Bowles and Gintis (2000) and Young (1998). This approach examines strong reciprocity, endogenous preferences, and incomplete contracts as a way of developing a non-Walrasian political economics that links the (somewhat apparently divergent?) institutional concerns of Coase and Williamson with that of Veblen and Marx. There may, indeed, be bridges that can be built here to develop a more realistic and institutional political economy.

11 Mayhew (1998) discusses in some detail the importance of 'novelty' in the evolutionary process. It should be kept in mind, however, that change is also directed by 'blind' drift and the conflict between various processes and groups.

12 Here and soon after in this article I discuss the '19[30s]', where '30' is put in brackets. Veblen died in 1929. Therefore, what I am trying to indicate is that one could perhaps anticipate him delineating the era of monopoly capitalism lasting from the 1890s through to the 1930s; hence the square brackets. Perhaps, in relation to the corporation, one could call the 1940s-1990s, the era of transnational corporations.

13 There are a number of opinions about whether Veblen had a surplus approach to political economy. My own view, backed up with this and other evidence (O'Hara 1993, 1997, 1999a 2000) supports the notion that Veblen took the materialistic conception of history seriously, yet he wanted to modernise it in many ways. Veblen's surplus approach, borrowed from Marx and the classical economists, but remoulded in Veblenian fashion, was a useful method to analyse productive and unproductive activities, classes and vested interests. Ted Wheelwright, Ron Stanfield and Bill Dugger broadly support this proposition, from conversations I have had with them. However, there is a group of institutionalists, among them Anne Mayhew, John Adams and Terry Neale, who at least in conversation are not convinced of this. They had the chance to debate it at the second International Thorstein Veblen Association conference (in 1996), but some of them turned it down. I am working on a paper explicitly detailing the analysis of Veblen's surplus approach (in even more detail than O'Hara 1993). Many of the secondary sources also support Veblen having a surplus approach, based on surplus product rather than surplus value, and collective wealth rather than labour value; including Gruchy (1958, p. 158), Harris (1934, p. 51), Adorno (1941, p. 393), and Hill (1958, p. 140).

14 This discussion of Veblen as having links with Marx has been discussed in detail in the literature. See, for instance, the survey and substantive discussion provided by Hill (1958); and also O'Hara (1997), who argues that Marx and Veblen sought to develop a type of 'materialistic conception of history', but Veblen wanted to modernise and reform the basic analysis. In relation to the link between industry and business, among other areas, there are many similarities between Marx, Veblen, Schumpeter and Keynes (see O'Hara 2001).

15 Sweezy's (1958) analysis of these issues is highly instructive. There is little doubt that Veblen was a major influence on Sweezy, which emanates in the principal argument of Baran and Sweezy (1965) concerning the sales effort, waste of the surplus

and the temporary resolution of the accumulation difficulties of capitalism (Sweezy is more likely to have included the references to Veblen in this work).

16 Veblen's analysis of sabotage applied to all cases where the vested interests sought to gain a 'free income', devoid of industrial innovation, productivity and workmanship. Thus it applied to business interests that sought to restrict supply in the interests of greater profit, unions that tried to gain higher wages irrespective of the contribution of workers to collective wealth, and also to the state, which Veblen thought tended to try and look after the interests of national capitalists through the use of tariffs. But the state may also sabotage production through various regulations, prohibitions and war penalisations (Veblen 1921, chapter I). This notion of the vested interests is a critical concept, closely bound up with the unproductive use or restriction of the surplus product (see Veblen 1919, chapter V) so as to maximise the capitalised earnings of the firm.

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