

Lecture Note 13: Other important economists in the last part of the 19th century

Thorstein Veblen (1857 – 1929) does not belong to any of the schools or traditions introduced previously, rather he was himself the initiator of a school of his own, the *institutionalism*.. He studied economics with J.B.Clark but subsequently turned to philosophy before returning to what he called social anthropology. Veblen was as most scientists in the 19th century influenced by Darwin and saw society's institutions as being involved in an evolutionary process. He was critical both of the actual American society with its deep inequalities and the neoclassical theorists who in his view served to obscure the fundamental contradictions in a class society, reducing the antagonism between capitalist and worker to a presumably neutral theory of remuneration of production factors.

The most wellknown work by Veblen is "The theory of the leisure class" from 1899. Here Veblen analyses the behavior of members of the rich and the poor classes and show how this behavior fits in with its evolution. The notion of *conspicuous consumption* was introduced here: Much of the very expensive consumption of the rich members of society does not give any direct utility but are signals to the surrounding society indicating their rank, status and wealth. But it goes further: Looking at the working class, one can find workers living under conditions of abject poverty, and they usually present no threat to the stability of the capitalist society. But other workers, typically those with some professional skills, may present a danger due to their capacity of thinking, cooperation, mutual aid etc., and such workers are neutralized by *emulative consumption*, inspired by the consumption habits displayed by the rich, and this will place them in a threadmill of consumerism securing the continuation of the class society (called predatory by Veblen).

Since conspicuous consumption is connected with *signaling*, it is not surprising that there has been a certain revival of interest in Veblen in recent years. This has led to some new work on *Veblen effectes*, the willingness to pay a higher price for a functionally equivalent good, arising from the desire to signal wealth. To see how this can happen, if it happens at all, one has to formulate the situation in a more detailed way, as done in e.g. Bagwell and Bernheim (1996).

One of the most wellknown institutionalists is **John Kenneth Galbraith** (1908 – 2006), born in Canada but having his professional activities in the United States. Galbraith wrote several books in the structure of modern industrial societies, e.g. "The affluent society" from 1958 characterizing several features of contemporary American society, among which the military-industrial complex. The book was a bestseller outside academic circles, actually quite deserved, it is readable even today.

He served as economic adviser under the Kennedy administration, and he was criticized for writing for a general public rather than for academic readers.

The theory of capitalist imperialism. With Veblen we are back in the consideration of class societies and the inherent tendency to overproduction, given that workers are reduced to (relative) subsistence and capitalists may be unable to absorb the production as investment and consumption. Here attention is directed towards one of the characteristic features of the period considered, namely imperialist expansion. Clearly this phenomenon could not go unnoticed to (all) economic thinkers.

John Atkinson Hobson (1858 – 1940) first became interested in economics through studies of underconsumption and wrote a critical review of J.B.Say and the classics, which was not well received in English academic circles. His main work is “Imperialism: A study” from 1902. Here he is the first to go beyond the official statements of bringing culture and Christianity to uncivilized nations and show that very large incomes were created in the countries engaging in imperialist expansion. While the possibility channeling overproduction abroad in the form of exports was not new, Hobson pointed out that the essential idea of imperialist expansion was direct investments in the subjugated countries, so that surplus production was converted to profits and interests in the future.

While Hobson had approached the problem of imperialism from a classical angle, beginning with overproduction, the analysis of **Rosa Luxemburg** (1870 – 1919) in her main work “The accumulation of capital” is based on a Marxian approach, beginning with Marx’s model of capitalist expanded reproduction with the intention to show that balanced growth will be impossible, since demand for consumer goods cannot keep pace with the capitalists’ desire to expand the production capacity. This is why the capitalist state has to engage in activities which may relieve the overproduction problem, either as militarism or as imperialist expansion.

Rosa Luxemburg argues that the persistent expansion of the productive capacity can be rationalized by capitalist competition, the attempts of the individual capitalist to keep up with the other capitalists, so that in modern technology the seemingly unprofitable expansion of business is a Nash equilibrium (best given the choices of the others) within the capitalist class, which in other respects such as exploiting labour, have reached a consensus.

A further elaboration of the theme can be found in the book “Imperialism, the highest stage of capitalism” from 1916 by **Vladimir Ilyich Lenin** (1870 – 1924). Lenin acknowledges his debt to Hobson but adds some new aspects. One of these is the introduction of a financial sector in the argumentation. The financial capital had at that time acquired considerable influence, and Lenin saw them as the instrument of connecting the divergent interests of industrial capitalists into a common action, connecting also to the government. The resulting division of the world into spheres

of influences was initially seen by mild critics of imperialisms as a guarantee of world peace, but in 1916 it was all too evident that this was not the case.

The main difference between Hobson on one side and Luxemburg and Lenin on the other was not the characterization of imperialism and its causes, but rather the problem whether imperialism could be controlled by suitable political measures (active trade unions and working class political struggles) or whether it would have to proceed to the final collapse of the capitalist system, something which by both Luxemburg and Lenin was seen as imminent.

An author who is far off the main track of economic thinking is **Silvio Gesell** (1862–1930), a German-Argentine economist, who advocated the idea of “free money” as a way of freeing the economy from rent and interest. The principle of free money is that it should be costly to keep – technically this could be achieved by a system where the paper money should be updated monthly by adding a stamp to be bought by the owner just like postage stamps, and without which it would not be legal tender. This arrangement would prevent hoarding of money, and Gesell’s ideas had a brief revival (being recognized by Irving Fisher and Keynes), since such a monetary system might increase effective demand in the context of economic depression.

Gesell’s ideas were much debated in the 1930s but are now almost totally forgotten. A couple of practical experiments were initiated (on a small local scale) but they were abandoned rather quickly due to the political developments in the period. For more about this, see Blanc (1998).

References:

- Bagwell, L.S. and B.D. Bernheim, Veblen effects in a theory of conspicuous consumption, *The American Economic Review* 86, 349–373.
- Blanc, J. (1998), Free money for social progress: Theory and practice of Gesell’s accelerated money, *The American Journal of Economics and Sociology* 57, 469–483.