

A Critique of A Marxist Critique Of Thorstein Veblen

Adil H. Mouhammed

University of Illinois at Springfield

ABSTRACT:

Over his career, Thorstein Veblen provided the economics profession with a magnificent economic theory which later proved superior to other economic theories. His principle theory concerns the microeconomic foundations of reserve productive capacity and mark-up pricing. He also examines macroeconomic theory dealing with inflation, unemployment, the business cycle, productivity and income distribution, and economic development. His entire economic theory is ultimately critical of imperialism, militarism, and patriotism, as well as the higher plane capitalism in its zenith of large corporations and financial magnates. Given all these contributions, Marxist economists such as Sweezy, Baran, Dowd, and Hunt have criticized Veblen's work as being grounded in Say's Law. They criticize Veblen for having no adequate theory of investment and employment, a weak theory of imperialism, an incomplete theory of the business cycle, a tendency to racism, weak materialism, and so on. This paper aims at providing a condensed review of Veblen's economic theory within his evolutionary framework, and criticizes the Marxist critique of Veblen's work. It is hoped that this paper will convince Veblen's critics of the significant value of his work.

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1. INTRODUCTION

Thorstein Veblen, the greatest American economist of all time, critically analyzes American capitalism as it is reflected in its aspects of large corporations, financial magnates, crises, imperialism, militarism, and patriotism. To provide a convincing economic theory explaining American capitalism and its features, Veblen builds a cultural evolutionary framework demonstrating the rise of capitalism as we know it. This goes back to the emergence of the private ownership, the leisure class, and the underlying population. The leisure class is parasitical and conservative with an instinct to exploit others, while the underlying population is progressive and characterized by an instinct of workmanship which tends to reject the business principles and to help others. This social conflict existed in numerous civilizations and has taken several forms depending on whether a particular system is slavery, feudalistic, or capitalist.

Based on this historical and antagonistic division, Veblen develops an economic theory which contains microeconomic and macroeconomic dimensions to explain capitalism, particularly American capitalism. The first dimension of his theory consists of the reserve (unused) productive capacity and the mark-up pricing. The second dimension contains theories of aggregate demand, employment, inflation, the business cycle, productivity, development, and imperialism and patriotism. In both dimensions finance and financiers, which are represented by the Federal Reserve Bank, play a crucial role in controlling the whole economy for their own pecuniary advantages at the expense of the underlying population.

Marxist scholars, particularly Paul Sweezy and Paul Baran, whose economic analyses are similar to Veblen's analysis, have frequently criticized Veblen. Their critiques need to be revisited, because they contain many incorrect readings of Veblen's work. Reading their critiques carefully suggests that Baran and Sweezy did not accurately read Veblen's intellectual work. This proposition can be substantiated by the facts that they did not back their critical points with quotations from Veblen's writings, and that Sweezy depended heavily on Joseph Dorfman's summaries of Veblen's work rather than reading Veblen's writings directly. These facts have caused a clear misunderstanding of Veblen's intellectual system. Dowd, who understands Veblen better than Baran and Sweezy, has unwittingly echoed most of their critiques in his work on Veblen. Lastly, E. K. Hunt has provided an excellent evaluation of Veblen's contributions, with minor errors compared to Baran, Sweezy, and Dowd. Hunt even recognizes Veblen's influence on Marxism.

This paper aims at analyzing these Marxist critiques and demonstrates that they are not only misleading but inaccurate. Section 2 of this paper will provide a condensed summary of Veblen's economic theory. This section is highly significant for an objective evaluation of the Marxist critique of Veblen's work, which will be analyzed in sections 3, 4, and 5. These sections will explain Sweezy's, Baran's, Dowd's, and Hunt's critiques of Veblen's intellectual system, respectively. The last section is devoted to a summary and conclusions. It is hoped that this paper will clear away most of the obfuscation and misinterpretations of Veblen's greatest work, and will put his economic theory in a deserving place.

2. A CONDENSED REVIEW OF VEBLLEN'S ECONOMIC THEORY

Like other great scholars, Veblen (1899, 1914, 1923) starts with a cultural evolutionary theory explaining the history of human civilization, which he divides into four stages of savagery, barbarism, capitalism, and the new industrial republic: socialism. The savage period ended in the early half of the Neolithic period and was characterized by peace among people, as ownership was communal. Technology was primitive and its development depended on the community's talents. It collapsed as a result of the emergence of private ownership and wars.

The barbarian stage emerged from the savage stage. It depended on private ownership whose sources were the seizure and exploitation of helpless people: looting (Veblen 1914: 157). The most important looted treasure was women and children who became trophies of the powerful victorious chiefs. Economic surplus was generated due not only to looting and exploitation but also to the technological knowledge which was developed during productive activities. Clearly, those who controlled the economic surplus and the looted items (or the unearned income) became the wealthiest. These were the ones who constituted the most powerful leisure conservative class which made its living at the expense of the entire community: "The loot ...may become (private) property and be accumulated in sufficient mass to make a difference between rich and poor" (Veblen 1914: 157).

The barbarian stage included both the slavery and feudalistic systems. Veblen thinks that both slaves and then land became objects of ownership during these historical periods of civilization (1908b: 526). He also points out, "The effect of slavery in its best day, and of landed wealth in medieval and early modern times, was to make the community's industrial efficiency serve the needs of slave-owners in the one case and of the land-owners in the other" (Veblen 1908b: 528).

Veblen does not provide exact dates for the emergence of these periods, because it is impossible to do so, as historical periods overlap. However, he was able to describe the antagonistic classes of these periods and gave an approximated demarcation for each historical stage.

Usually, the upper leisure class controls occupations of honor: “the upper classes are by custom exempt or excluded from industrial occupations, and are reserved for certain employment [such as] warfare, government, politics, religious observances, sports, and priestly services” (Veblen 1899: 1). The other social groups are lumped according to Veblen (1899: 2) to form the inferior class which includes slaves, other dependents, and women that perform all “Manual labor, industry, whatever has to do directly with everyday work of getting a livelihood”. Therefore, Veblen (1899: 12) argues that the society is indeed divided into two great classes “which would in modern phrase be called exploit and industry”. Industry, or industrial employment, means the creation of new things; whereas, exploit means the seizure of another agent’s energetic work. Seizure by force justified the killing of competitors, and labor became irksome. Arms were honorable, and wars became the dominant institution. Wealth and power, which they confer honor, became the marks for comparing individuals, and both indicators characterized the leisure class which was helped by its servant whose life was “spent in maintaining the honor of the gentleman of leisure” (Veblen 1899: 61). In Marxian’s terms the savage stage corresponds to the primitive mode of production, while Veblen’s barbarism corresponds to the Marxist’s slavery and feudalistic modes of production.

Eventually, barbarism shaped the society clearly and divided it into three classes after the rise of the business groups due to the evolution of exchange and commerce. The aristocratic leisure class possesses wealth without working for it, the middle class which holds commercial businesses, and the lower class consists of the working people living on their workmanship. Veblen (1914: 185) describes the class division as, “It is a gradation of (a) predation, (b) business, (c) industry; the former being disserviceable and gainful, and the second gainful, and the third serviceable”. Once commercialization developed further a transition took place from the basic predatory coercive scheme into the business competitive system whose pecuniary gain became the incentive to industry. Technology improved in urban areas under the business system, and the oppressed people and peasants rejected feudalism and its exploitive system. Hence, the system was transformed into capitalism.

The evolution of capitalism is divided by Veblen into four eras. The first era was the era of handicraft which emerged at the end of the Middle Ages, and which was the outcome of peaceful conditions in Northern Europe, especially England. The fundamental factor in the development of the handicraft was the Masterless Man, the drifters who earned their livelihood through the use of their skills in the production process. These drifters were widely scattered geographically and were able to develop industrial towns, which gave rise to contracts, the wage system, and credits. Funds were required to initiate business transactions and to build plants. The wealthy leisure class was able to provide the necessary finances, and the industrial drifters had the technical knowledge to run the plants. Both controlled these plants, but “the owners of the plant became employers of their impecunious fellow craftsmen” (Veblen 1914: 279). That is, the control of the industrial plants and ownership had transformed from the working craftsmen to the owner who according to Veblen (1914: 281) became in effect “the owner of the community’s technological knowledge and workmanlike skill, and thereby the owner of the workman’s productive capacity”. This condition provided the ground for the emergence of the absentee

ownership and business enterprises with its basic components of the captains of industry, of the financial houses that used their funds to provide credits and to own some of these enterprises, and of the hired labor. For example, in lending the use of an article went to the borrower, but the usufruct stayed with the creditor (owner), and in employment, the hired labor received wages from an employer to produce a commodity that was owned by an owner that was not engaged in the business enterprise. Hence, because of credits and hired labor, the institution of “absentee ownership chiefly found its way into the industrial system of recent times” (Veblen 1923: 50).

The second era of capitalist development was the era of the Machine Industry, which started in England around 1770. It emerged at that time because of peace, availability of funds and skilled labor, innovative technology, freedom, cultural integration, property rights, and competition. Some of the industrial drifters became business men who used industry for private gains. As more and more business men emerged, credits and money became the necessary means for the system to function properly. Consequently, investments and absentee ownership were further developed, and the financiers became the most powerful social group in the country since they controlled the funds and the credits societies needed. On the one hand, industrial plants became business concern heavily dependent on net profits and capitalization, and the more net profits generated from the community, the more valuable the plants and the businessmen became. On the other hand, the working people and the rest of the industrial drifters became wage earners or proletariat in Marxian terms. That is to say, the social division between industry (workmanship) and business (exploit) became the norm. The first represented the underlying population (or the common man), while the second represented the vested interests: those who obtain something for nothing.

The third era of capitalist development was the era of perfect competition (1800-1850), where the captains of industry controlled substantial parts of industrial equipment and machines and invested their funds for profits. Technology was improved and the productive capacity of industrial firms was lower than the market capacity. As a result of technological progress, increased population, and free international trade; production increased, so did the productive capacity of firms. A business decision to restrict output was a logical outcome, and no longer was perfect competition used in order to increase profits: “substitution of salesmanship in the place of workmanship” (Veblen 1923: 78). This means the captains of industry had to be replaced by the captains of finance who used capitalist sabotage such as restriction of output, financial manipulation, and other dishonest business means for increasing profits.

The fourth era of capitalist development was the era of large corporations: “means of making money, not of making goods” (Veblen 1923: 83 and 249). Under this corporate economy sabotage of unemployment and restriction of output became the indispensable strategy for making money. In America, Veblen contends, big business dominated the production and distribution of coal, oil, and transportation, which resulted from merger and collusion. Absentee owners changed competition from competition between firms to competition between firms as one entity and the rest of the community as another. Veblen (1923: 127-28) explains:

Instead of competing against one another to their mutual defeat, the absentee owners now turn their undivided competition efforts against the consumers. It became a competition not within the business but between the business as a whole and the rest of the community.

These new characteristics of mergers, collusion, salesmanship, capitalist sabotage or deliberate unemployment of physical and human means of production, bigness, capitalization and finance, and making money, not goods, helped Veblen conclude that a shift from perfect competitive firms to oligopolistic and monopolistic firms had been established, and both firms, large and small, formed a dualistic economy: “Technological situation does not admit a complete monopolization of the community’s technological expedients....There is still current a large body of industrial processes to which the large-scale methods do not apply” (Veblen 1908b: 539).

Concretely, Veblen, in contrast to Marx, makes the large corporation (not the small perfect competitive firm) the fundamental unit of his economic analysis.

During this era of large corporations the problem of racism and sexism emerged. Both could be used to reduce wages and free more workers to work for large corporations. Killing of Native Americans and importation of slaves became new institutions, as labor and natural resources were needed for more profits. Big businesses could employ a small segment of the labor force and physical means of production in order to increase profits. This means high inequality in income distribution, as the few obtained more compared to the many. Large financial businesses were able to establish their economic power by merger, holding companies, interlocking directors, and trusts, and were able to control any business enterprise that was in need for funds for investment. Big financial groups or the financiers became the most powerful institution, and large corporations controlled the whole economy by spending on advertising and salesmanship in order to deceive the community and to spread emulative conspicuous consumption.

Big businesses also controlled governments and legislatures and provoked imperialist wars to obtain economic resources such as oil from helpless nations. Imperialism, for Veblen (1923: 442), is a national graft: “the national pursuit of warlike and political ends has come to be fairly single-minded chase after unearned income to be procured by intimidation and intrigue.” Clearly, Veblen (1934: 432) realizes that business interests become national interests: “unbalanced budget and an increased armament by use of which to “safeguard American Interests”—that is to say, negotiate profitable concessions for American oil companies--”. And for attracting and intensifying the public support for those imperialist adventures, the leisure class and governments customarily resort to the effective use of patriotism (Veblen 1917). In other words, if a citizen does not support an imperialist war, the person is considered unpatriotic.

The fourth stage of cultural evolution of humanity is the industrial republic or socialism. For Veblen, the various problems created by capitalism such as unemployment, insecurity, erosion of freedom, alienation, wars for enriching the wealthy at the expense of the community, exploitation of the underlying population, and the like will force people to transform the higher plane capitalism into socialism for better or worse. Veblen does not provide a detailed analysis for this period, but it is supposed to create a society where waste, private ownership, alienation, sabotage, vested interests, and the dictatorship of the leisure class and financiers are eradicated (See Veblen 1961 on Private Ownership).

How do people arrive at such a stage? Veblen (1921) thinks that the underlying population will make a general strike by which they can establish the free society. Veblen (1894) also suggests an evolutionary method of transformation. Assume the business principles have become unacceptable by few people, and if the few people decide to advocate the ideas of full employment and security for people, then this mental attitude may grow into public sentiment,

spreading in the society to become a dominant trend and a new habit of mind. That is, the community becomes supportive to the ideas of full employment and security for its members, because these ideas serve and advance the common good. If this general acceptance, which reflects the class-social conscious and workmanship, becomes an effective institution, then the system of absentee ownership is replaced without a revolutionary overturn. As Veblen (1894: 458) explains:

If the new habit of mind should spread so far as to become the dominant attitude of an effective majority of the American people, [then it] is tremendous. It means the difference between the civil republic of the nineteenth century and the industrial republic of the socialists, with the gradual submergence of private initiative under the rising claims of industrial solidarity....In order to [continue the] growth of the sentiment it is necessary that experience should prove the feasibility of ...socialism on a scale that is not borne out by the experience of the past.

Finally, Veblen feels that a third method is available to change the system. Here, a group of the underlying population will forget business-as-usual and will revolt against the system, establishing a new system of socialism.

Based on this cultural evolution, which is grounded in social conflict between the vested interests and the underlying population, Veblen's economic theory can be used to explain the higher plane capitalism. His economic theory consists of the following fundamental elements. The first element is the reserve productive capacity. This concept is used to describe the available productive capacity that is not utilized by the corporate economy. This represents a large part of machines and equipment that is idle, which is matched by idle (reserve) workers who are able and willing to work but cannot find employment. Such behavior is explained by the profitability principle. Once capacity is idle and production is restricted, prices and profits can increase, assuming cost is constant. This has two economic implications. Entry of new firms becomes very difficult, because the cost of the incumbent firms is lower than that of the newcomers. In other words, this implies that economic liberty of everyone, including capitalists, is restricted under the corporate economy. Second, an increase in demand does not lead immediately to a rise in induced investments, as the reserve capacity is utilized to meet the new demand. That is, the accelerator does not function under this condition.

The second element is the mark-up pricing. Given the reserve productive capacity and the restricted volume of production, large corporations are able to determine their prices according to per unit cost of production plus a profit rate. The more market power a corporation has, the higher the prices will be. For example, a large corporation whose commodities are insulated by protective tariffs will have more economic power in setting higher prices than other firms. Once supply is manipulated downward, the mark-up prices will rise. Similarly, if the production cost of labor and materials rise, large corporations can increase their prices in order to defend their profit margins.

Veblen uses markup prices because he rejects Marx's theory of labor value, which is based on the equilibrium condition: value of labor power must equal wages. But for him, workers produce the output, and in their hands "the capital goods owned by the capitalists become a means of

production....Without them [these] goods...would be simply raw materials” (Veblen 1908I: 537). For their productive contribution workers receive wages determined by bargaining between them and the employers, a bargaining that always favors the latter. Normally, workers produce output worth more than the value of their labor power, which is called surplus value by Marx. Veblen rejects the idea of the surplus value and replaces it with the concept of surplus product, or economic surplus. Veblen does this because he feels that under the corporate economy (oligopoly and monopoly) prices of commodities are higher than the prices determined by the perfect competitive market that Marx used in his analysis of capitalism. He feels that these markup prices are inflated by various elements of sabotage and market power such as cutting production, tariffs, trade protection, patents, trade monopolies, and other business privileges, or sabotage. Therefore, these high markup prices generate higher monetary surplus value compared to its money value determined by the free (un-sabotaged) competitive market prices. Imperialist adventures which Marx did not include in his analysis also provide free resources and income to the vested interests. In other words, Veblen’s unearned (or free) income which is obtained by the capitalists is larger than Marx’s surplus value; consequently, Veblen uses the concept of surplus product which is on the rise under the higher plane capitalism: “The output of this industrial system yields a wider margin of net product over cost than has ever been obtainable by any other or earlier known method of work” (Veblen 1919: 51).

The third element is the aggregate demand. This variable has four sources: wasteful government spending on military, offices, security, embassies, some public works, and so on. The second source is consumption spending which consists of expenditures for serviceable goods, services, and conspicuous consumption, and income and credits are significant variables for determining this type of spending. The third source is investment spending which increases the productive capacity of the higher plane capitalism. Banks can indirectly affect this capacity by increasing and decreasing interest rates. Expectations of high demand also increase investments. The fourth source is related to all foreign transactions, including imperialism. Financiers’ extra funds have to find investment opportunities in foreign countries in order to increase rates of returns. This is because as domestic investments become very crowded, their rates of return decline. The country can also receive cheaper goods and raw materials from abroad as well as national savings. In addition, exports of commodities to foreign countries increase the market share of capitals. In short, imperialism is “to get anything in the way of dominion by seizure, threat, or chicanery” (Veblen 1917: 235), and “The imperial aim is not a passing act of pillage, but a perpetual usufruct” (Veblen 1917: 152). Imperialism also creates independence for powerful countries or “a self-contained economic whole” (Veblen 1917: 264).

As the aggregate demand increases, prices of commodities will rise, and business enterprises will extend their production by using their reserve productive capacity. As capacity utilization increases, firms will have to invest to expand their operations. For Veblen, the aggregate demand reflects all sources of the world market: “[the market] is the value of effective demand for things to be bought at the current level of prices, and it may be taken to mean the national or international market” (Veblen 1923: 392n). Also, “Increased demand and enhanced prices...increase the prospective earnings of the several concerns engaged....The expectations ...lead the business men to bid high for equipment and supplies” (Veblen 1904: 197).

The contention of the aggregate demand and mark-up pricing suggests that employment is related to economic power and the aggregate demand. As the aggregate demand rises,

employment increases. The opposite of this is also true. As sabotage practices, which reflect economic power, are used, unemployment continues to be the central feature of the corporate economy. Similarly, inflation is related to the growth rate of money supply, the degree of output restriction by all corporations, and the corporate power of setting high mark-up prices. If output is restricted, corporations can determine higher mark-up prices which will increase the general price level in the economy. If the cost of materials and wages rise, capitalists can increase prices, which in turn augment the general price level. Protective tariffs generate higher prices and inflation as well. If the money supply increases compared to the growth rate of output, inflation will rise. If the use of technology augments output, and the supply of money decreases, then deflation will occur.

The theory of the business cycle is connected to prices, earnings, and the aggregate demand. If the aggregate demand and prices increase, firms make high profit margins. They use their net profits to obtain loans and sell shares to expand their operations: capitalization. They can manipulate their profitability and obtain more funds and sell more shares. On the one hand, as prices and demand rise, investments will increase, after the reserve productive capacity declines. Demand for labor will rise, and wages will have to increase to attract labor to the expanding industries. At the same time, demand for money increases, and interest rates will rise. On the other hand, as corporate demands rise on materials, prices of these materials will rise, and so will the cost of production. In case of new labor-saving technological innovations, production will rise further, putting pressure on the prices to decline. When prices cannot increase, and cost of labor and materials rises, the profit margins decrease. Some companies will go bankrupt as they cannot secure sufficient liquidity (or cash) to continue their operations. Others will have to pay their debts whose real value increases when prices decline. Usually, at this phase of the business cycle, interest rates will rise further in order to defend the interest of the financiers. (For more analysis of the effects of increased interest rates, see Veblen 1915: 341-43). Thus, rising labor cost and financial cost as well as fragility of many firms will create emotional panic and will reduce firms' capitalization and force the economy into a crisis.

Veblen has a very advanced theory of economic growth and development. His starting point was the industrial system, which is a cohesive whole of interdependent parts and sectors. All economic sectors interact, and technology and productive disciplined labor including technicians are the most essential forces necessary to increase production and generate net economic surplus. This system requires investments to operate, which have to start with funds and interests. Natural resources are also needed to be processed by the industrial system in order to convert them into intermediate and final commodities. Besides these supply-side factors, all sources of the aggregate demand are used to keep the industrial system operating to create the net economic surplus necessary for further expansion and accumulation.

The process of growth and development generates benefits that are not equally distributed among people. Absentee owners receive the largest share of the income, while working people receive the lowest. Given racism and discrimination, business sabotage and other factors including religious codes and regulations will generate inequality in income distribution. For Veblen, inequality is a very complex issue which cannot be explained by productivity differentials.

Veblen analyzes the hindrance of the process of development, and thinks it is hindered by the capitalist sabotage, when the capitalists decide to cut production and employment. Protective

tariffs cripple the industrial system for the benefits of business interests: “A protective tariff is only one means of crippling the country’s industrial forces for the good of business” (Veblen 1919: 135-36). It is a way of preventing foreign competition in order to increase prices and profits. Market structure such as monopoly and oligopoly do create a lower volume of production compared to the potential productive capacity of these firms which “have ability to restrain trade, limit the output of goods or services, and so maintain prices” (Veblen 1919: 73).

Restriction of the diffusion of technologies and national frontiers do not allow other countries to grow or to make rapid structural changes. Large corporations prevent the flow of technologies, not only to keep other countries backward but to reduce competition. These corporations know that the free export of technology to these countries, whose workers are educated and inexpensive, would weaken their international economic power and comparative advantages. This implies that technological restrictions will create uneven economic development among countries: developed (the center) and underdeveloped countries (the peripheries), a dualistic condition that is compatible with Veblen’s intellectual system. Underdevelopment generates disintegrated and divided countries, which make them easy targets for imperialist expansion. Colonies, mostly from underdeveloped nations, are needed, because “it is reasonably believed that traders and investors in foreign parts are able to derive a large profit from their business when they have the backing of a powerful and aggressive national government; particularly in their dealings with helpless and backward peoples” (Veblen 1919: 131).

3. AN ANALYSIS OF SWEEZY’S CRITIQUE OF VEBLEN

Sweezy (1952, 1953, 1957, 1958a, and 1958b) provides various critical points on Veblen’s work, some which are fruitful and others are misleading. Sweezy (1952: 473) summarizes the similar points between Veblen and Marx such as the interpretation of history, the abolition of private property, the inevitability of the transformation of capitalism, and the class conflict. He thinks that Veblen emphasizes conspicuous consumption, but Marx stresses the process of capital accumulation. Sweezy also thinks that Veblen does not mention the theory of surplus value and the theory of industrial reserve army. For Veblen’s honesty and commitment to socialist ideas over his entire career, Huberman and Sweezy (1957: 75) point out, “[Veblen] never wavered from the path of the truth and principle, even when it led...farther and farther to the left. Those of us who are trying to rebuild a viable American socialist movement ...can ask no better than that it be given to us to follow in his footsteps along that honorable path.”

On the weaknesses of Veblen’s work, Sweezy (1953: 299) argues, “It must be said that his economic analysis is usually weak and often misleading.” For example, “In Veblen’s view, the capitalist operates purely in the realm of finance, and his only relation to production is one of sabotage and obstruction; his object is to mulct the underlying population to the maximum possible degree and to waste the proceeds in ostentatious display” (Sweezy 1953: 299). Because Veblen “ignored the accumulation process he was debarred from developing an adequate theory of employment and of business fluctuations in general” (Sweezy 1953: 301).

Sweezy (1953: 301) contends that Veblen “was a great man, and he attracted followers because of it. But he was greater than his own theories; and unfortunately greatness cannot be passed, while theories can.” Sweezy (1957: 107) thinks that Veblen “thought monopoly would indeed provide a cure of sorts for chronic depression, and there are other passages which appear

to lend support to this interpretation.” Sweezy (1958a: 28) argues that Veblen took it “for granted that the phenomenon of chronic depression would disappear along with free competition.” Also, Sweezy (1958a: 27 and 1958b:197) thinks that Veblen “habitually and naively assumed the operation of Say’s Law in the extreme form in which total income is automatically spent and remains constant over time.” In addition, both Huberman and Sweezy (1957: 72) contend that Veblen suffered from “Strong elements of racism and technocracy, a specially fervent hostility to finance capital—these and other characteristic petty bourgeois ideas and attitudes can certainly be found in Veblen.”

A logical response to Sweezy’s critique has to start after providing a clear understanding of his explanation of the process of capital accumulation. Sweezy thinks that the process of capital accumulation explains the whole dynamic of the capitalist system. This process starts from the capitalist production of the output to its realization, or from M to C, and then to M’, where M, C, and M’ are money, commodities, and money that includes the surplus value, respectively (Sweezy 1942: 57-74). Capitalists who own the means of production convert the owned and borrowed money capital into machines, equipment, tools, and materials, and hire labor who only own labor power to produce products during what is called the production and the labor processes. Labor receives wages equal to the value of labor power but generates absolute and relative surplus value for the capitalists. Once the output is sold, the capitalists convert the output, including the surplus value, into money larger than the amount of money they started the production process with: M’. Usually, the capitalists use their profits for consumption (necessary and luxurious) and investments. As the capitalists earn profits they will expand the production process by investing in order to make more profits, or surplus value, and the capitalists who use more efficient technology will generate higher surplus value relative to the other capitalists (Sweezy 1942: 80). As capital becomes bigger, the production of the product will be concentrated in a few large firms that become even bigger through merger and acquisition of smaller firms. That is, the centralization of capital creates very powerful firms that are able to set high rates of profits and prices. As Sweezy (1994: 3-4) points out, “In tense process of concentration and centralization of capital stronger companies gobbled up weaker ones and joined together in various forms of combination (cartels, trusts, holding companies, giant corporations) aimed at eliminating cut-throat competition and getting control of their prices and output policies”.

Naturally, the process of concentration and centralization enables capital to penetrate further for expanding the reproduction process. During this process the capitalists will become wealthier and powerful, and the labor force will become poorer as their wages and benefits are squeezed by the process of capital accumulation. Poverty and misery will come into existence domestically, and so will the reserve army of the unemployed, created by the labor-saving technical innovations introduced by the capitalists. Hence, stagnation, domestic polarization, and uneven development are always inevitable outcomes of the capitalist development. Crises, which interrupt the process of capital accumulation, are generated by the decline in the rate of profit due to higher wages: “It seems quite clear that it was this process of declining reserve army, rising wages, and reduced profitability as a cause of crises which Marx had in mind” (Sweezy 1942: 150). After a crisis is transformed into prosperity, the expansionary process of capital accumulation continues and becomes global by colonizing small countries and by enlarging investments. This has to happen because the huge surplus of capital has to be invested globally

for countering the decline in the rate of profit, which has made markets for the products of the capitalist industries. Colonizing nations require a strong army and huge military spending as well as nationalism (Sweezy 1942: 307-328). In addition, and after the collapse of the colonial system, imperialism was evolved to create investment opportunities for the capitalists to invest their money capital for more profits, a way that will ensure reasonable increases in the rate of profit and the aggregate demand in order to continue the accumulation process. Sweezy (1994: 4) explains, "The capitalist of the core countries, eagerly seeking new markets and cheaper resources of raw materials, reached out to colonize or otherwise gain control of the weaker countries of Africa, Asia, and Latin America" This global expansion will create development for some countries and underdevelopment for others. The underdevelopment is created because the capitalists generate economic surpluses in these countries, but they will be reinvested elsewhere. Indeed, the process of development and underdevelopment is an image to the domestic polarization process of capital accumulation.

In explaining the process of capital accumulation, Sweezy believes that he and Baran have overlooked the role of finance and the financiers, and made the process one sided and incomplete (Foster 2006: 5). Sweezy thinks that the powerful financiers need to invest their profits in financial, not productive, assets, particularly when the capitalist economy is stagnating. "Financiers were therefore looking for new business. Capital migrated out of the real economy was happily received in the financial sector. Thus began the process which during the next two decades resulted in the triumph of financial capital" (Sweezy 1994: 9). It follows that the process of capital accumulation has two-sides, the real and financial sides, and the theory should incorporate the two sides. In fact, Sweezy even thinks that the financial capital is stronger than democracy. As can be readily realized from Sweezy's own writings when he criticizes Veblen because he does not have a theory of capital accumulation, and later he admits that he had a one-sided theory of capital accumulation. But the fact is that Veblen, a long time before Sweezy, has presented a two-sided theory of capital accumulation in which he emphasizes the real capital and the role of corporate finance and the financiers in the development of the higher plane capitalism (Veblen 1908:134). Veblen (1921: 91) also states that under the higher plane capitalism, there is "the industrial dictatorship of the captain of finance".

On Sweezy's critique of Veblen, Tilman (1992: 209-212) and Simich and Tilman (1982) have already provided a critical evaluation, contending that among the basic issues of Sweezy's dissatisfaction with Veblen's work are Veblen's theory of chronic depression and Veblen's underestimation of war and imperialism. For the purpose of this paper, it is unclear whether Sweezy has really read Veblen's work or has heavily depended on Dr. Dorfman's summaries: "The gist of his thought on this whole question [of the transformation of capitalism] can best be indicated by quoting short passages from Dorfman's entirely reliable summaries of *The Theory of Business Enterprise* (1904) and *Absentee Ownership* (1923)" (Sweezy 1952: 475). This dependence led Sweezy to an incorrect understanding of Veblen's theory of the business cycle.

As shown previously, the core of Veblen's business cycle is grounded in the continued decline of profit margins which result in a lower capitalization leading to liquidation and a financial collapse. This theory has not been mastered by any contemporary economists, because it incorporates both rising labor cost and financial fragility. Sweezy is unable to understand it, and thinks that the causative factor of depression was "the progressive lowering of costs, and hence undermining of capital values through technological advance" (1958a: 22 and 28). In

addition, Veblen does provide various remedial measures to prolong prosperity, but he concludes that the crisis is inevitable no matter what types of remedy the vested interests use. That is to say, Veblen does not try to provide cures to eliminate business cycles, as Sweezy argues; rather, Veblen demonstrates the various remedies capitalists utilize to prolong recoveries.

Another important error is Sweezy's assertion that Veblen assumes the operations of Say's Law. There is no indication in Veblen's writings that he believes in Say's Law. If he had believed in Say's Law, he would not have written entire books (Veblen 1904, 1915, 1917, 1919, 1921, and 1923) to analyze sabotage and the business cycle which is incompatible with Say's Law: if supply creates its own demand, there is no problem of insufficient effective demand and overproduction; hence, no crisis. Veblen has stated several statements emphasizing the importance of effective demand, prices, and investments, which make clear his total rejection of the Say's Law, and here are some of these statements. Veblen (1904: 195) points out, "In part by actual increase of demand and in part through a lively anticipation of an advanced demand, aggressive business enterprise extends its venture". He (1904: 216-17) states, "There is an excess of goods, or of the means of producing them above what is expedient on pecuniary grounds—above what there is an effective demand for at prices that will repay the cost of production of the goods and leave something appreciable over as a profit." He (1905: 470-71) argues that the creation of a new volume of credit by a banker such as in making a loan on collateral "adds to the borrower's funds available for purchase, and therefore increases the effective demand for goods, and by so doing helps to enhance prices." He (1919: 153) contends, "Wasteful consumption must be provided for, on pain of a falling market. And all this may as well be taken care of by use of a princely court, an otiose church, a picturesque army, a well-fed diplomatic and consular service, and a customs frontier." He (1919: 55) writes, "The actual production...will then be determined ...in greater part by market conditions which decide how large a product it will be profitable for the business men to turn out." He (1921: 42-43) suggests, "Overproduction means production in excess of what the market will carry off a sufficiently profitable price....In no such a community can the industrial system be allowed to work at full capacity for any appreciable interval of time, on pain of business stagnation and consequent privation for all classes and conditions of men."

Veblen (1904: 199-200) does indeed have a theory of investment, but it is stated in a different way. He explains how a price increase due to a change in effective demand can bring on an expansion and more productive capacity to the production process after the unused (reserve) capacity approaches its limit. In other words, a price increase brings investments and stimulates productive capacity, which in turn increases the demand for labor and wages. Regarding this issue an irony can be found in Sweezy's critique of Veblen, because Veblen's approach to investment (through a price change) is suggested by Sweezy (1958a: 28) as a way to fix Veblen's income-expenditure theory.

For the entire process of capital accumulation, whose methods of acquiring wealth are force, fraud, inheritance, looting, and bargaining (Veblen 1908a: 534), it is not true to argue that Veblen does not explain surplus value. Veblen does explain how capitalists make profits (surplus or free income) by restricting output in order to increase prices and profit margins by the means of sabotage (Veblen 1908b: 107). By the same token, in the hiring of workers Veblen (1908a: 536-38) thinks that wages are determined by bargaining. If workers are not fully needed by the capitalists and if latter's assets are consolidated by business management, then wages are

“reduced to the most economical footing” (Veblen 1908a: 538). Accordingly, more economic surplus or free income is obtained by the capitalists.

In addition, Veblen contends that economic growth and technological progress have a significant impact on increasing profits: “The unearned increment...is produced by the growth of the community in numbers and in the industrial arts” (1908a:530). Within this environment, the landlords and the owners of capital goods, the capitalists, obtain unearned increment due to their legal property rights (Veblen 1908a: 530). Moreover, Veblen (1908b:108-114) suggests various means by which the vested interests generate higher prices and profits such as tariffs, freezing-out rival concerns, trade protection, patent, trade monopolies, manipulation, imperialism, and other business privileges. Without these means prices would decline, as would the money value of the economic surplus. Furthermore, the vested interests obtain economic resources such as farm land freely from capitalist governments, and then sell it to farmers at higher prices, as happened to new immigrants in America after 1800. Once profits and other forms of free income are obtained, they are partly used for necessary and conspicuous consumption and partly for investments.

Accumulation in Veblen’s economic theory takes other forms such as merger, which Marx calls centralization of capital, and an expansion of firms through concentration of production. Without the concentration and centralization processes of capital, Veblen would not have started his economic analysis by emphasizing large corporations. In addition, merger, holding companies, cartels, and trusts allow the banking community to control the strategic regulations of leading industries. The financial community invariably attempts to buy firms from leading industries or to establish more control through credits (debts) by using groups of investment bankers, the custodian of absentee owners, who control a country’s credits. Veblen (1908b:130 and 134-36) calls the financiers “financial magnates” and calls their business system the “business enterprise on the higher plane” or “a new phase of business enterprises.” Veblen (1908b: 134) states, “This inchoate new phase of capitalism, this business enterprise on the higher plane, is in fact viewed with the most lively apprehension.” Usually, capitalists gain profits at the expense of the community, and consequently their business enterprises generate higher aggregate capitalization (equities and debts) without corresponding increase of the community’s material wealth. This higher value is distributed as gains or extra wealth to the great financiers, and these gains are considered by Veblen (1908b: 131-132) a tax on the business enterprise.

In fact, Veblen extends the accumulation process of capital to the rest of the world through the institution of imperialism. For him, “Imperialism is dynastic politics...carried on for the benefits of absentee owners....It is the foremost aim of the imperialistic statesmen to extend and enlarge the advantages of such of the nation’s business men as are interested in gainful traffic in foreign parts; that is to say, it is designed to extend and enlarge the dominion of the nation’s absentee owners beyond the national frontiers” (1923: 35). These global goals require military power and wars, because the vested interests of other nations have different goals. Of course, these imperialist schemes are “masked as schemes for the aggrandizement of the nation” (Veblen 1923: 35), and must be supported by the loyal citizens. Veblen (1923: 36) explains, “And by a curious twist of patriotic emotion the loyal citizens are enabled to believe that these extra territorial gains of the country’s business men will somehow benefit the community at large.” Accordingly, it is very difficult to state, as Sweezy does, that Veblen does not understand the

economic reasoning of imperialism. Hunt (1979b:132) correctly concludes, “Veblen’s treatment of imperialism is in most respects as insightful as that of John Hobson, Rosa Luxemburg, and Lenin....In one respect, however, Veblen’s treatment is decidedly superior—he clearly saw the socializing influence of imperialism.”

As far as the issue of racism is concerned, Sweezy’s critique is baseless and misleading. Veblen thinks that racism, which is related to the process of capital accumulation, started with the slaughter of Native Americans and the importation of African slaves. The destruction of Native Americans was aimed at controlling natural resources, including fur-bearing animals. He (1923: 168-69) points out, “Bound up with the enterprise there is also a written chapter on the debauchery and manslaughter entailed on the Indian population of the country by the same businesslike Fur trade.” Similarly, when the slave trade as a profitable enterprise declined in the North, this trade emerged as an embedded institution in the South. The South needed slaves to work the soil for private gain. He (1923: 170) points out, “In the South the private usufruct of the soil injected into American life the ‘peculiar institution’ of Negro slavery,” and he (1934: 433) clearly states, “The Ku-Klux-Klan has been reanimated and reorganized for extra-intimidation of citizens.” Hubert Harrison, a great black scholar and activist, was quoted in Perry (2001: 325) to have written the following about Veblen:

No preliminary study of sociology and economics can be said to be complete without the work of Veblen. Besides these two books his work on *The Instinct of Workmanship*, *The Theory of Business Enterprise* and *The Higher Learning in America* are especially to be recommended. And we feel sure that whoever may get acquainted with any of Prof. Veblen’s books through our recommendation will live to thank us for it.

In short, this evidence discredits Huberman’s and Sweezy’s misleading and depressing contention that Veblen has strong elements of racism.

4. AN ANALYSIS OF BARAN’S CRITIQUE OF VEBLEN

Baran provides a very harsh critique of Veblen’s *Leisure Class* without taking into consideration Veblen’s entire intellectual system. However, most of the elements of Baran’s critique are misleading, and they demonstrate Baran’s ignorance of Veblen’s writings. Baran (1969: 212) states:

Veblen remains actually a stranger to the historical method, never truly committed to placing a thorough morphology of the historical process at the center of his analytical effort....Veblen... ignores the far-reaching changes and transformations that set a part century from century. For this failing he had to pay with a vengeance: it not only prevented him from adequately comprehending the mechanism of historical development, it robbed him even of the chance to visualize clearly some of the most important real similarities of consecutive historical periods.

It is true that Veblen does not use the historical method because he thinks it did not generate economic theories; consequently, he employs the sequence of cumulative causation, an evolutionary method demonstrating how and why a phenomenon has genetically developed. That is to say, Veblen was not a stranger to the historical method, he simply rejects it.

Veblen never ignores the basic changes in his work. As shown previously, he divides the history of humanity into savage, barbarism, capitalism, and socialism, and then divides capitalism into four historical eras. He differentiates between the savage and barbarian stages according to ownership. The first stage had no private property, but the second stage did, and he thereupon explains the phenomena of exploitation, warlike attitudes, emulation, status, and the power of money and ownership. These phenomena have been associated with humanity ever since. Ownership was the dividing line. However, it was not a principle of periodization, because Veblen was not a chronologist. Veblen does provide an excellent genetic analysis (1915, 1914, 1917, 1919, 1921, and 1923) of these evolutionary stages whether in terms of characters, essence, or forms. In fact, this explains why he understands the era of large corporations better than Marx, who uses competitive small firms in his analysis of capitalism.

Baran (1969: 213) accuses Veblen of being similar to an idealist historian but one who possesses a “crudely conceived historical materialism”. This is an unfair attack on Veblen, who is a historic materialist using the method of the sequence of cumulative change. Veblen thinks that production forces, ownership, and the superstructure are all coherent parts affecting each other. That is to say, all these parts (the superstructure in Marx’s terminologies) together do indeed affect the economic base and the productive forces. Similarly, Marx’s revolutionary idea and consciousness do create changes and transformations as well.

Baran (1969: 213-14) thinks that Veblen’s “concept of institutions ...turns out upon examination to be a slippery psychological notion of ‘habits of thought’ no more profound than Weber’s attitude of ‘rationality and calculation’ and Sombart’s ‘spirit of capitalism’”. Still, and according to Marx, these institutions are part of the superstructure, and they do affect the entire system. For Veblen, institutions are reactionary and impeding the development of the forces of development and technology, but for Weber the idea of protestant ethics was the force of transformation from early to modern capitalism; hence, the spirit was a very progressive institution. Sombart’s spirit of capitalism was the Jew’s fundamental force in the emergence of capitalism. It follows that Baran’s comparison of Veblen’s view of institutions as reactionary, with Weber’s and Sombart’s views of institutions as progressive, is misplaced and confused. In addition, Veblen never believes that people are rational calculators of benefits and cost–no hedonism.

Baran (1969: 214) continues his attack on Veblen as follows: “Like other bourgeois theorists who are unable to comprehend aspects of reality in their concrete interdependence with all the other components of the continually changing socioeconomic reality, Veblen has recourse to invoke *dei ex machina* as ultimate means of interpretation”. Veblen was not a bourgeois theorist, nor does he support and defend bourgeois ideology. He believes in revolution and the transformation of capitalism by abolishing private property. He takes seriously the interdependence of all aspects of reality: economic, sociology, politics, and psychology, and he does consider the serious effects of ancient institutions (parts of the superstructure) on the current social system. This view was even valid for Marx who thought that some old institutions would exist in modern systems. Most Marxists, including Baran (1969), introduced psychology into

their Marxian analysis only after Veblen's pioneer work. The utilization of psychology in scientific analysis does not make the scientist a bourgeoisie.

Baran (1969: 213) accuses Veblen of being "still untouched by the pervasive mechanism of alienation that was to dominate all of the subsequent capitalist development". It is amazing that Veblen's theory of *The Leisure Class* contains many discussions about alienation such as conspicuous consumption and emulation. The origin of these phenomena was related to private ownership. Veblen's work on *Dementia Praecox* is a splendid analysis of alienation. In it Veblen demonstrates how people fall sick under capitalism, thinking that evil people are somehow going to get them. In his book on the *Theory of the Business Enterprise* Veblen demonstrates how people hurt each other for private gain. All of these are illustrations of alienation. Baran's critical point provides proof that he was not aware of Veblen's writings.

When Veblen uses the concepts of productivity and frugality, Baran (1969: 216) accuses him of making "a means of asserting the preponderance of a social class whose rise to affluence and power was inseparably bound up with austerity and hard work—at first of itself and its hired help, before too long of the hired help alone" This critical point is not accurate, because Veblen never believes that capitalists established capitalism. He thinks that the Masterless Men, the intelligent workers, established the system, and the capitalists bought with their money what the Masterless Men accomplished. In other words, Veblen never thinks that the capitalists were productive and knowledgeable in technologies. Instead, he regards the financiers as individuals who seized the achievements of the community and used them for their own pecuniary goals. Veblen has respected the captains of industry (the entrepreneurs), not the captain of finance, but he does not think that industrial capitalists are morally superior to financiers. He thinks that the latter exploit the former, when they charge them interest and control their finance. That is to say, Veblen believes that the financiers, the few, exploit the underlying population and the industrial capitalists.

Regarding conspicuous consumption Baran (1969: 219) thinks "What matters ...is not the conspicuousness of consumption but the kind of society in which it takes place." Baran seems to think that conspicuous consumption is accepted behavior for some societies. Veblen disagrees, because conspicuous consumption under any type of society is used to create emulation of those who have power and status. Hence, it perpetuates their imbecile institutions. Conspicuous consumption is also wasteful and creates alienation. Veblen is against power and status and consequently thinks that capitalism and the leisure class can be weakened by transforming these capitalist features.

Baran (1969: 221) states, "[Veblen] was incapable nevertheless of grasping the totality of the social order that he so profoundly and uncompromisingly abhorred. Like a member of social critics..., he saw the exiting misery without fully realizing at the same time that it is that very misery that carries itself the objective chance of its abolition". This is another error. In fact, Veblen analyzes the misery of the underlying population in many different aspects: economic problems such as unemployment and exploitation; social problems such as gambling and sports; and psychological problem such as the sickness of people under capitalism. Veblen suggests three methods for transforming the system of private ownership. So, human misery for Veblen does create its own causes to change itself cumulatively.

Baran (1969: 221-22) sums up his critique of Veblen by stating: "Although he did not manage to attain a full understanding of the process of historical change, he frequently came close to it.

Had he gone further, he would have transcended himself and taken the decisive step to materialism and to dialectic.” The words ‘full’ and ‘close to’ are ambiguous, because even Marx did not achieve a full understanding of the capitalist development. For example, he uses small firms for his analysis of capitalism instead of large corporations. Baran seems to use these words as a safeguard to make an attack on Veblen. As a matter of fact, Veblen does show his understanding of historical changes when he divides the evolution of capitalism into various stages.

Regarding the dialectic, Veblen would agree with the law of unity of opposites. Opposites coexist but do not negate each other, as is the case in Marx’s analysis. Moreover, opposites can dominate each other. For example, at a certain period of time the instinct (or tendency) of exploit dominates the instinct of workmanship, and at another period the latter instinct dominates the former. Similarly, monopolies do not always swallow up small firms, which means that both can coexist. Another problem with this dialectical law is that at some point the opposites are at rest, and equilibrium occurs. Veblen never truly believes in equilibrium. For this point, Marx in *Capital* does emphasize the tendency toward a certain point rather than equilibrium. Given these problems with the dialectic, Veblen (1898, 1906, and 1907) rejects it and instead employs the sequence of cumulative causation, a method that is similar to the dialectical method but does not include equilibrium and a complete negation.

With respect to materialism, Veblen (1898 and 1906) was indeed a materialist but never was a dialectical materialist. His theory of the *Leisure Class* provides many examples of his materialist viewpoint. His entire work demonstrates that he was a materialist rather a historical idealist. Some Marxists in Veblen’s time such as Kautsky ignored the role of consciousness in transforming capitalism, and concentrated on the objective factors. In contrast, Veblen does incorporate human action for changing material conditions. This is not idealism; rather, it is the spirit of Marx’s materialism. Indeed, Marx’s teaching was overlooked, because it emphasized the fact that when the productive forces and relations of production change, parts of the superstructure may lag behind for a long time: a cultural lag. Veblen uses this line of thinking when he contends that institutions are reactionary and lag behind, and do impede progress and technological changes.

5. AN ANALYSIS OF DOWD’S AND HUNT’S CRITIQUES OF VEBLEN

Dowd (1966) provides an analysis of Veblen’s writings, starting from the man himself to his critique of the higher education in America. In defense of Veblen, Dowd explains the historical movement from competitive firms to large corporations through merger and collusion, arguing that when corporations became the principle institutions, corporation finance became important. Another crucial element Dowd (1966: 43) examines is the fact that “prices were set by corporations, not established in an impersonal, competitive market,” and these prices are based on restriction of production and collusion among large firms. More importantly, Dowd (1966: 46) emphasizes the idea that there is a relationship between overproduction and unreasonable prices due to inadequate effective demand, but he does not provide an analysis of the determination of prices and effective demand. Dowd does credit Veblen for bringing clarity to the ideas of profit expectations and of the integration of the business system (microeconomics)

and the cyclical and growth performance of the economy (macroeconomics).

Similar to Sweezy's critique of Veblen, Dowd (1966: 47) criticizes Veblen by arguing that he does not furnish an adequate theory of consumption and investment, which is an essential part of the theory of employment. Dowd (1966: 48) also thinks that Veblen develops an incomplete theory of depression or economic crisis. Moreover, regarding Veblen's economic theory, Dowd (1966: 31) states:

Veblen's contribution suffers both because of Veblen's personality and temperament, and because of factors outside and beyond him. Pessimism and caution interacted to deprive Veblen of both the morale and the courage required to develop a forthright, systematic body of theory.

Contrary to this misleading view whose foundation has already been discredited, it has been shown that Veblen does have a complete theory of the business cycle and that he develops a systematic economic theory explaining many economic problems of the higher plane capitalism, problems such as consumption, investment, inflation, unemployment, crisis and depression, income distribution, and development.

There is no doubt that one of the best studies of Veblen's work is that of E. K. Hunt (1979a and 1979b). This study was very penetrating and provided an honest presentation and analysis of many issues explored by Veblen, including social evolutionary philosophy, human nature and culture, the critique of the neoclassical economics, the conflict between workmanship (industry) and exploit (business), the sources of private property, and the conflict between the vested interests and the common man. Using nationalism as a pretext for the domination of other countries, Hunt (1979a) provides an honest analysis of Veblen's theory of imperialism, and correctly argues that the true justification for imperialism is capitalist profits, seizure of economic resources of poor countries, and markets for the output of the capitalist industrial system.

Hunt analyzes Veblen's basic contention that workers promote capitalist's interests, as they embraced capitalists' socializing influences such as patriotic fervor and emulative consumption: "[Veblen's] analysis of the emotional and intellectual effects of patriotic fervor and of emulative consumption remain, to this day, the most powerful and accurate explanations of why workers not only endure exploitation and alienation, but also frequently and repeatedly support the very institutions, laws, governments, and general social mores that create and perpetuate their own exploitation and degradation" (Hunt:1979b: 132). Consequently, "Many Marxists...continue to lack an understanding of why workers' class consciousness remains so undeveloped. It is for Veblen's discussion of this socialization process ...that Marxists can learn the most" (Hunt 1979b: 132).

Hunt criticizes Veblen on the same issues raised by Sweezy and Dowd. He contends that Veblen has no theory of value and consequently cannot explain the determination of wages and profits (or surplus value), as Marx did: "Marx's notion of surplus value is much more general and conceptually richer than Veblen's notion of the 'free income' of capitalist, which is for Marx is deleterious to the general social welfare" (Hunt 1979b:117). As analyzed previously, wages depend on the bargaining power between capitalists and workers, and generally the capitalists obtain the best deal of the bargaining process, as they determine low wages to workers. Veblen's

analysis of the unearned income also turns out to be more general than Marx's surplus value, because it brings into account external factors such as protective tariffs, sabotage, patents, government regulations, and imperialism. All these factors contribute significantly for the generation of free income, factors that Marx does not take into consideration, because he uses a small competitive firm as the basic unit of his analysis.

Moreover, Hunt (1979a: 326 and 1979b: 129) thinks, "Marx's theory of crises and depressions was somewhat more comprehensive than Veblen's." This proposition is actually incorrect, because Veblen's theory of the business cycle is more general than Marx's theory, because it emphasizes the rising cost of labor, financial fragility and debts, technology, and other psychological causes that create panic in businessmen's minds. Marx also does not have a unique theory of crisis as Veblen does, but instead has several explanations such as the rising labor cost, sectoral proportionalities, and the tendency of the rate of profit to fall. These explanations reflect short and long run incomplete and fragmented theories of crises without including financial variables and psychology. In common with Sweezy and Dowd, Hunt does not use Veblen's critique of Marx's work to develop Veblen's economic theory. Nor does he demonstrate Veblen's alternative to the materialistic dialectic and its relationship to economic theory.

In addition, Hunt (1979a: 449-451) explains Baran's and Sweezy's view of American capitalism on the issues of rising economic surplus, stagnation, overcapacity of resources, and chronic depression including its counteracting forces of sales effort and wasteful expenditures on militarism and imperialism. Hunt also stresses their view that imperialism will become more costly and less profitable chapter in human history, and yet he never acknowledges that these views were clearly developed and analyzed by Veblen (1904, 1915, 1917, 1919, 1921, and 1923) rather than Baran and Sweezy.

6. SUMMARY AND CONCLUSIONS

The most vital economic theory developed by Veblen to explain the higher plane capitalism was criticized and downgraded by Sweezy, Baran, and Dowd. They accused Veblen of having an incomplete economic theory and charged that he had no theory of the business cycle, nor did he have a theory of imperialism. Furthermore, they criticized him for being bourgeois and passing elements of racism. That is to say, they destroyed Veblen's personality and his intellectual integrity.

This paper has examined these Marxist critiques and has clearly shown that they are unfruitful and misleading, as they reflect unawareness of Veblen's writings. In addition, this paper establishes the conclusion that Baran and Sweezy have extensively used significant elements of Veblen's economic theory in their works without acknowledgment. For example, their essential ideas of monopoly capitalism, rising economic surplus, the process of capital accumulation, stagnation, unused productive capacity, mark-up pricing, credits and finance, imperialism and patriotism, and the capitalist government's response to a crisis by using military and other wasteful expenditures are all ideas originated in Veblen's work.

Another significant conclusion is that Baran and Sweezy have borrowed some of Veblen's ideas that they initially criticize. For example, in explaining the process of capital accumulation, Sweezy criticizes Veblen's emphasis on finance and the financiers in the evolution of large corporations, but then incorporates the same idea in his later work on the process of capital

accumulation. Sweezy also criticizes Veblen of not having a theory of surplus value, but he and Baran borrow and use Veblen's idea of rising economic surplus in their work on monopoly capitalism. Sweezy criticizes Veblen's work on the chronic depression of capitalism, and yet he and Baran emphasize the idea of stagnation (the margin of unemployed workers and unused productive capacity) as the essential characteristic of monopoly capitalism. Lastly, Sweezy criticizes Veblen as a believer in Say's Law, and yet he and Baran use Veblen's idea of the wasteful expenditures on militarism and salesmanship (advertising) as a source of effective demand required for the operation of monopoly capitalism.

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CONTACT INFORMATION:

Adil Mouhammed
 Associate Professor of Economics
 University of Illinois, Springfield
 (217) 206-7914
 E-mail: amouh1@uis.edu

