

A VEBLENIAN MONETARY THEORY OF PRODUCTION, CONSUMPTION AND WASTE

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The aim of this paper is to provide a re-reading of Veblen's contribution on credit and consumption, within the theoretical framework of the monetary theory of production (MTP). The focus is on the spontaneous tendency of a deregulated market economy to generate waste. It will be shown that waste occurs on both the microeconomic and macroeconomic planes. In the first case, it derives from competition on consumption on the part of the leisure class, as well as on the price policies on the part of "businessmen". In the second case, waste is connected to unemployment, which ultimately derives from conspicuous consumption, which – in this schema – affect monetary policy.

JEL: B15, B31, D21, D30

1 - Introduction

Thorstein Veblen can be considered one of the authors who contributed to the formulation of the contemporary monetary theory of production (Dillard, 1987, Parker Foster and Ranson, 1987; Wray, 2007). The monetary theory of production (MTP) is based on the idea that money is endogenous, being driven by firms' demand for financing production – the so called initial finance – that contemporary economies are credit economies, and that they work according to a sequential process which starts with the payment of money wages and ends with the reimbursement of the money finance from firms to banks (see Graziani, 2003, Realfonzo 2006). A very similar description of these features of contemporary economies is provided by Veblen:

“the late-modern scheme of economic life is a ‘credit economy’ as contrasted with the ‘money economy’ that characterizes early-modern times” (Veblen, 1904, ch.6).

In line with the basic assumptions of the MTP, he also maintains that “Broadly speaking, banking is profitable chiefly because the banker lends more than that he has or borrows”, and “the banker [can] create a new volume of credit”¹. This occurs in cases where “in making a loan on collateral, which is not of the nature of a bill of sale, *the banker*, or any similar concern doing a credit business of this kind, *creates a new volume of credit*” (Veblen, 1905, p.470, italics added). Within this picture of the working of capitalist economies, Veblen maintains that they spontaneously tend to produce “waste”, and, with particular reference to consumption on the part of the “leisure class”, it is pointed out that:

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¹ Cutrona (2005, p.270, footnote n.18) stresses that – in Veblen's view – “credit consists in the creation of new purchasing power; that is, it is a pecuniary phenomenon”. Note also that Veblen (1906 [1901], p 310) maintains that the nature of the interest rate does not rest on clearly defined economic grounds, insofar as “productivity theories of interest should be as difficult to maintain as productivity theories of the gains of the pecuniary employments, the two resting on the same grounds”.

“It is here called <waste> because this expenditure does not serve human life or human well-being on the whole, not because it is waste or misdirection of effort or expenditure as viewed from the standpoint of the individual consumer who chooses it” (Veblen, 1899a, ch.4).

The aim of this paper is to integrate Veblen’s conception of waste, both on the microeconomic and the macroeconomic plane, within a basic model of the MTP. In particular, it will be argued that waste derives from competitive pressures in a conflictual environment, where power relationships play a crucial role and power is strictly linked to money management². In this context, it will be shown that waste ultimately depends on the behaviour of the Veblenian “leisure class”, conceived here in its broader sense (thus including the bankers and the “captains of finance”), assuming that the leisure class manages the credit market (see Mouhammed, 2003, Nayradaou, 2005, Forges Davanzati and Realfonzo, 2007). Accordingly, two questions are in order: what is the meaning of waste, in this theoretical approach? Which mechanisms produce it? The exercise proposed here is derived from the conviction that, both on the methodological and on the purely theoretical planes, some ‘old’ Institutional issues can be fruitfully grafted onto the Keynesian MTP approach, thus giving rise to a *Keynesian-Veblenian theoretical framework* (see O’Hara, 2007)³.

The paper is organized as follows. Section 2 deals with Veblen’s theory of consumption and of the firm, in order to analyse the microeconomic aspects of waste. Section 3 approaches Veblen’s macroeconomics, with particular reference to his view on the links between leisure class consumption, profits, wages and employment. Section 4 concludes.

2 – Veblen’s microeconomics of waste: competitive consumption and “industrial sabotage”

The main argument Veblen presented in the *Theory of the leisure class* is that – in contemporary economies – individuals tend to conceive consumption not as an end itself, but as a means in order to gain respect, reputation, esteem. Consumption is thus conspicuous and competitive. The *invidious comparison* is a phenomenon strictly linked to conspicuous consumption, establishing a ‘keep up with the Joneses’ effect. In *The theory of the leisure class*, Veblen refers to envy as a strong motive for striving to succeed: “The term [“invidious”] is used in a technical sense as describing a comparison of persons with a view to rating and grading them in respect of relative worth of value – in an aesthetic or moral sense – and so awarding and defining the relative degrees of complacency with which they may legitimately be contemplated by themselves and by others. *An invidious comparison is a process of valuation of persons in respect of worth*” (Veblen, 1975, p.34, italics added). Accordingly, the accumulation of wealth, and its consequent ostentation, is not the result of the purpose of satisfying needs, via consumption, but it is an intermediate goal in order to gain reputation, esteem and respect within a given social group. In

² In a similar vein, Dillard (1998, p.79) suggests that the Veblenian leisure class manages its predatory habit by accumulating “property deeds, stock certificates, corporate debentures”. He adds that exploitation on the part of this class rises as globalization emerges, insofar as globalization produces both an increase in the (international) competition on consumption and a rise in “pressure of predation”.

³ However, on purely historical grounds, it should be considered that Veblen criticised Keynes, with reference to his political ideas, in his review of Keynes’ *The economic consequence of the Peace* (Veblen, 1920). In so doing, he only dealt with Keynes’ *political* (not economic) view. In this essay, Veblen criticises Keynes’ analysis of the post-War scenario, by emphasising his lack of interest in the fact that “Bolscevism is a menace to absentee ownership”. The important political aspects of the problem, which, according to Veblen, are unclear in Keynes’ view make *The economic consequences of the Peace* a “too superficial review of the case”. The analogies between Veblen and Keynes in the analysis of financial markets are emphasised by Dimand (2004).

other words, consumption is not an end in itself, as in the standard neoclassical view: it is, above all, a *means to excel*⁴.

These goods (the so called ‘Veblen goods’) are not desired (only) for their intrinsic utility, insofar as they serve no other purpose apart from ostentation. They are desired *prima facie* because they are scarce, and, in the second place, because they fit the prevailing norms of taste⁵. Furthermore, a Veblen good is a good for which the quantity demanded rises when its price rises:

“The consumption of expensive goods is meritorious, and the goods which contain an appreciable element of cost in excess of what goes to give them serviceability for their ostensible mechanical purpose are honorific” (Veblen, 1975 [1899], pp.154-155).

It is worth noting that Veblen goods do not rest on the contemporary idea that a positive price-quantity ratio is likely to occur in cases of asymmetric information problems (see, among others, Akerlof, 1970). They do not presuppose that the quality of the product is unknown to the buyer. Accordingly, Veblen goods are such that a high price is *per se* a mark of *beauty* (see Edgell, 1999)⁶.

He adds that:

“the profits of those who contribute nothing substantial to the output is, of course, deducted from the income of the others, whose work tells substantially” (Veblen, 1904, ch.III).

Accordingly, consumption – in the form of conspicuous and competitive consumption of luxury goods (C) – is wasteful. Veblen defines waste in the following terms.

“The use of the term <waste> is in one respect an unfortunate one. As used in the speech of everyday life the word carries an undertone of deprecation ... It is here called <waste> because this expenditure does not serve human life or human well-being on the whole, not because it is waste or misdirection of effort or expenditure as viewed from the standpoint of the individual consumer who chooses it ... As seen from the point of view of the individual consumer, the question of wastefulness does not arise within the scope of economic theory proper. The use of the word <waste> as a technical term, therefore, implies no deprecation of the motives or of the ends sought by the consumer under this canon of conspicuous waste” (Veblen, 1899, ch.4).

⁴ As Roger Mason (1995, in Tilman 2003, vol.I, p.410) stresses “utility was often social, rather than individual”, so that “marginal utility [...] should be more properly described as ‘social marginal utility’ as a measure of value in society”.

⁵ Veblen notes that the “elegance” of a good is often connected to its “visible imperfections” and that “machine products” are generally regarded as vulgar (ibid., pp.160-161).

⁶ The Veblen effect (i.e. the existence of a positive relation between price and quantity) has been treated in the light of marginalist analytical tools, as an exceptional case (see Hardwick et al. 1990) deriving from “snobbery” (Leibenstein, 1976, p.51). However, as Tilman (in Tilman [eds], 2003, vol. I, p. xviii) clarifies, “Veblen contended that individual utility preferences could not be understood except in relation to the utility preferences of others. Individuals were emulating others to strengthen their own sense of self-worth by commanding more social esteem. The assumption of atomistic individualism and consumer sovereignty, deemed valid by microeconomists, were thus shown to be specious on social-psychological grounds alone”. In other words, Veblen always refers to a process of *competitive emulatory consumption*. In a different theoretical perspective, neo-Marxists (see, for instance, Davis, 1957) tried to approach the Veblen effect from a macroeconomic viewpoint. Although it is recognized that the “struggle to excel”, via ostentation, is a feature of contemporary capitalism, neo-Marxists criticize Veblen for not having seen that *the most important* feature of capitalism is the imperative to accumulate capital. In a similar way, Adorno (1967 [1941]) attributed to Veblen a “puritanical” account of culture (see Tilman, 1992).

Veblen's view can be translated in the following terms. Be A and B two individuals belonging to the leisure class, with approximately the same budget constraint ($Ra^*=Rb^*$), so that the aim of A is to reach $Ca>Cb$, and the aim of B is to obtain $Cb>Ca$. Starting from an initial condition where both individuals consume the same amount of luxury goods (i.e. $Ca/Cb=1$), by spending $R'>R^*$, as A starts consuming more – thus increasing the ratio Ca/Cb – B is forced to consume more. However, since they have the same budget constraints, at the end of the competitive process, the same result occurs ($Ca/Cb=1$), with more expenditure than the initial condition ($Ra^*=Rb^*$). Importantly, since the leisure class manages the money market, the waste deriving from competitive consumption on the microeconomic plane also has macroeconomic effects, since the income of the leisure class ultimately derives from the interest rates (see Forges Davanzati and Realfonzo, 2007).

The *Theory of business enterprise* is devoted to showing that the firm is a locus of conflict between two opposite habits of thought. On the one side, “technicians” – driven by the “instinct of workmanship” – aim at maximizing production. On the other side, “businessmen” – driven by the instinct of “rapacity” – aim at obtaining the maximum profits, via price increases, thus not exploiting the whole productive capacity. This gives rise to what Veblen calls “industrial sabotage”, i.e. a condition where capital is underutilized and waste derives from the difference between the maximum amount of production allowed by technical knowledge and the production realized for the sake of profits. Accordingly, “the captain of industry works against ... a new and more efficient organization” (Veblen, 1904, ch. 5).

Moreover, “The sublimation of business capital that has been going forward in recent times has grave consequences for the owners of property as for the conduct of industry. In so far as invested property is managed by the methods of modern corporation finance, it is evident that *the management is separated from the ownership of the property*” (Veblen, 1904, ch. VI, italics added). The main result is that firms are managed by “who have only a remote interest in the efficient working of this equipment” (ibid.), so that waste derives from the deliberate lack of efficiency in the production process, which, in turn, reflects capital underutilization.

3 – The social production of waste: endogenous money and unemployment

In the basic MTP schema, it is assumed that money is endogenous and that the interest rate is fixed by the banking system or by the central bank. In his influential book on *Horizontalists and verticalists*, Basil Moore (1998, p.265, italics added) maintains that “the nominal supply of credit is not an exogenous policy variable. Rather, *the nominal supply price at which credit money is issued is the key instrument of monetary policy*”. The argument proposed here is that the management of the interest rate – and thus monetary policy – serves, above all, to determine a path of income distribution favourable to the “leisure class”, and that this produces waste on the macroeconomic plane. The following assumptions are put forward.

- i) The economy is divided into two sectors. Sector 1 produces wage goods and sector 2 produces luxury goods⁷. Workers consume only wage goods, while the leisure class (including both financial and industrial capitalists) only consume luxury goods⁸.
- ii) Firms operate in non competitive markets and they are not homogeneous: A are the more efficient firms, and B the less efficient firms. For the sake of simplicity, it is assumed that firms are homogeneous in the sector producing luxury goods.

⁷ Veblen (1899a) conceives luxury goods as “trophies”, stressing their sociological nature. In this respect, the definition given by Sraffa (1960, p.8) can be conceived as a fundamental clarification on purely analytical grounds : “The criterion is whether a commodity enters (no matter whether directly or indirectly) into the production of *all* commodities. Those that do we shall call *basic*, and those that do not, *non-basic* products”.

⁸ It can be conceded that *part* of the profits are accumulated (and part are consumed), but this does not significantly modify the results of this model

iii) Rents, on the part of the leisure class, derive from the management of the money market and, thus, from the interest rate, so that $R=iF$, where i is the rate of interest and F the initial finance which equals the money wage bill wN .

iv) The unitary money wage is fixed, deriving from wage bargaining at the beginning of the circuit. Moreover, it will be assumed that the unitary wage is the same in both sectors, that workers' propensity to consume equals 1. The level of employment is settled with fixed technical coefficients (α), that is: $N=K/a$, with $K<K^*$ for capital is partially unemployed, and the degree of its utilization depends positively on the operation of the instinct of workmanship. For the sake of simplicity, it is assumed that fixed capital has an infinite duration and its cost has been entirely paid in the previous production processes.

v) Banks fix the rate of interest while the quantity of money supply is demand driven. Firms operating in the sector of consumption goods will demand an initial finance equal to $wN1$. Since the leisure class is composed of both bankers and capitalists, firms aim at obtaining profits in the form of luxury goods..

Given these assumptions, the relationship between rents and profits and between rents, employment and real wages will be explored.

A) *Rents and profits*. In view of assumption ii), one can assume that – at the beginning of the circuit – profits of type-B firms are equal to zero, while profits of type-A firms are higher than zero. The bankruptcy condition is given by $P<0$. Be $0<\theta<1$ the market share of type-B firms, so that $1-\theta$ is the market share of type-A firms. Therefore, the following conditions hold at the beginning of the circuit:

$$\begin{aligned}PI_b &= \theta[w(NI_a+N2)]-iF1_b=0, \text{ and} \\PI_a &= (1-\theta)[w(NI_b+N2)]-iF1_a>0\end{aligned}$$

Given F , the increase in the interest rate determines $PI_b<0$ and, as a result, the loss of the market share of type-B firms, i.e. $\theta=0$. As a result, profits of type-A firms become:

$$PI_a = wNI_b + wN2 - iF1_a \quad [1]$$

In view of assumption 3), and given the process of competitive consumption, rents are:

$$R = iF = p2(Co + \sum_{i=1}^n \gamma Ci) \quad [2]$$

where F is the initial finance, and the amount of desired consumption – which, in turn, depends on the number of individuals belonging to the leisure class (n) and on the intensity of competition on consumption (γ) - affects the interest rate. $p2$ is the unitary price of luxury goods. For a given level of C , as $p2$ increases, i increases too, and this also happens in the event F decreases.

For the leisure class as a whole, it is profitable to fix the interest rate at a level that guarantees the desired rents, also considering the effects of high interest rate on bankruptcies⁹. From

⁹ On the microeconomic plane, it is reasonable to assume that the individual bank attaches a probability to the firm it finances being profitable or failing. As the probability of success assigned to type-B firms increases, this determines higher profits for type-A firms, since the wage bill increases and so do money revenues for type-A firms. Anyway, as Messori and Zazzaro (2005, p.119) stress: “profits for some firms go along not only with the losses for other firms, but also with losses for banks that finance them”, so that “it will be necessary to rely on an interbank market and/or a last-resort lender to prevent these banks from failing”.

equation 2], the ‘equilibrium’ level of the interest rate – i.e. the level which assures the leisure class of its desired consumption – can be derived as follows:

$$i=(p2C)/wN \quad [2'].$$

Equation 2'] establishes that i increases if $p2$ and/or C increases. While the increase in $p2$ depends on pricing on the part of firms in sector 2, the increase in C depends on the increase in the number of individuals belonging to the leisure class and/or on the increase in competition on consumption. Equation 2'] also establishes that, insofar as the price of wage goods depends positively on the interest rate, the increase in the price of luxury goods ($p2$) – and/or the increase in C - determines an increase in the price of wage goods ($p1$). Moreover, equation 2'] establishes that i increases if wN falls. As shown below, this can derive from an autonomous increase in the interest rate, giving rise to bankruptcies and, hence, to a decline in the level of employment. Note that this is a long-run effect, insofar as workers employed by type-B in sector 1 firms (as all workers) are paid in advance and, under the assumption that the propensity to consume is equal to 1, at the end of the circuit – even if they are unemployed – they will entirely spend their wage bill. In the ensuing circuit, in the event they are not hired by type-A firms (for the reasons below) and without a State intervention devoted to paying unemployment benefits, wN will decline and i will increase.

By inserting equation 2] into equation 1], one obtains the profits equation of firms operating in sector 1, that is:

$$P1_a = wN1_b + wN2 - [p2(C_o + \sum_{i=1}^n \gamma C_i)_{1a}] \quad [3]$$

Equation 3 settles that profits in sector 1 (for type-A firms, under the assumption that type-B firms go bankrupt) are given by the difference between money revenues, which derive from workers' expenditure, and the cost of financing in that sector (i.e. $iF1$). They decrease as *i*) $p2$ increases; *ii*) the number of individuals belonging to the leisure class (n) increase, and so does the intensity of consumption (γ). Insofar as this is possible given the market structure in sector 2, firms react to the increase in the demand for luxury goods by raising prices, so that high levels of C do not generate high levels of $N2$. In this case, the growth in consumption of luxury goods does not affect either the level of employment in that sector, or profits in sector 1 - which would occur in the event firms in sector 2 reacted to the increase in demand by exploiting more capital and, hence, by expanding $N2$ – and consequently, neither does it affect employment in sector 1. Once the leisure class obtain $iF1$, it spends it on acquiring luxury goods, so that $iF1$ enter the demand to the advantage of firms in sector 2. Moreover, in view of assumption v), profits in sector 1 are spent on acquiring luxury goods. As a result, the profits function in sector 2 becomes:

$$P2 = iF1 + P1 - wN2 \quad [4].$$

Accordingly, $P2$ is higher *i*) the higher the interest rate in sector 1 increases with respect to the interest rate in sector 2¹⁰, *ii*) the higher profits in sector 1. Since the leisure class acquires goods for firms in sector 2 by spending the interest it receives from the firms in that sector, $iwN2$ is, at the same time, a cost and an item of demand for firms in sector 2 as a whole. The conclusion

¹⁰ In the event banks differentiate the interest rates, the more the interest rate in sector 1 increases compared to the interest rate in sector 2, and the higher the profits in sector 1, the higher $P2$ becomes. Of course, in the case $wN1 = wN2$ and with the same interest rate in both sectors, $P2 = P1 - wN2$.

that expenditure on the part of the leisure class is a source of profits is strictly derived from Veblen, who remarks that:

“the wasteful expenditures enhance demand [...] increase profits and raise capitalization”
(Veblen, 1904, p.252).

Since, by assumption, capitalists are part of the leisure class, P_2 in money terms is used to acquire luxury goods among firms operating in sector 2. Banks, in turn, receive $iwN_2 \equiv iF_2$ and spend it in order to acquire luxury goods, so that bankers' consumption is partly ensured by the payment of iF_1 on the part of firms in sector 1, and partly ensured by the payment of iF_2 on the part of firms in sector 2.

As a result, *increased rents reduce profits in sector 1, increase profits in sector 2, and – via bankruptcies – also determine the increase in the industrial concentration ratio in sector 1.* Note also that *increased rents produce waste*, due to bankruptcies and the consequent existence of unsold goods. The increase in profits in sector 2 compared to profits in sector 1 defines a specialization of the economy based on a low intensity of technological progress. Moreover, apart from a purely economic consideration, it is worth noting that – according to Veblen – an economy where a large amount of luxury goods devoted to competitive consumption is produced is an economy where ‘human potentiality’ is repressed (see Veblen, 1899a; 1899b).

B) Rents, wages and employment

In order to analyse the effects of the increase in rents on real wages and employment, let us consider that the quantity of wage goods produced (Q_1) equals the wage bill in real terms, and that it is ultimately determined by the number of firms in that sector (x), given the technology and the instinct of workmanship. Hence:

$$Q_1 \equiv (w/p)N = (w/p) \sum_{i=1}^x K_i/a \quad [5]$$

Otherwise, the production of wage goods is given by:

$$Q_1 = \pi N_1 = \pi \sum_{i=1}^y K_i/a \quad [6]$$

where $y < x$ is the number of firms in sector 1. Since, as shown above, the increase in the interest rate determines bankruptcies, a negative relation between i and x derives, i.e. $y = f(i)$, with $f' < 0$. As a result, equation 6 becomes:

$$Q_1 = \pi N_1 = \pi \sum_{i=1}^{y(i)} K_i/a \quad [7]$$

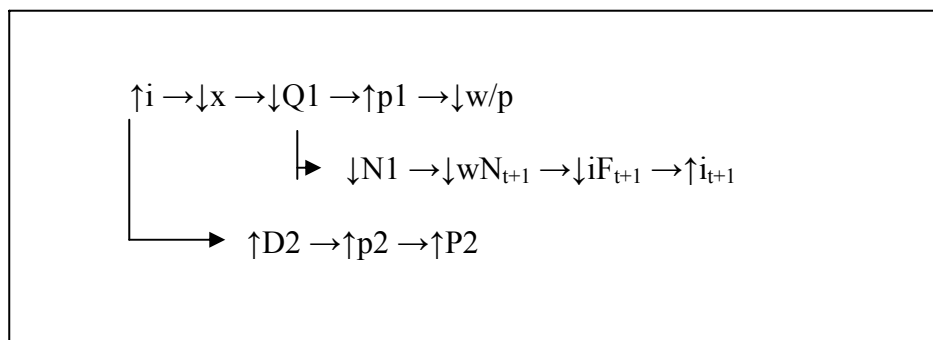
so that, as i increases, y decreases and so does Q_1 . In view of equation 5], the decline in Q_1 determines a decline in $(w/p)N$. In particular, N depends on technology (a), on the instinct of workmanship, and on the number of firms in sector 1 (y). Therefore, in view of equation 7], given a and the instinct of workmanship, N decreases as i increases, via the reduction of the number of firms (y), and the decrease in N also implies the decrease in K . Thus, the degree of

capital utilization decreases as the interest rate increases. Given the unitary money wage, the average real wage becomes:

$$w/p = \frac{\sum_{i=1}^y \pi N_i / N}{\sum_{i=1}^x \pi \Sigma K_i / a} \quad [8]$$

Accordingly, given labour productivity and the technical coefficient (a), w/p falls in proportion to the number of firms in sector 1 (y), the number of which depends on the interest rate (i), so that the higher the interest rate the lower the average real wage results. Moreover, as the total number of firms increase (x), this increases employment in sector 2 and – for a given number of firms in sector 1 – reduces the average real wage. Note also that the increase in capital stock (K) increases both the level of employment and real wages, given a and the instinct of workmanship. In so doing, technical progress favours economic growth; which is a result consistent with Veblen's view (see Veblen, 1921, 1923).

Equation 8] establishes that high financial rents are associated with low real wages and low levels of employment. As a result, the increase in rents – deriving from the increase in the desired consumption on the part of the leisure class – produces unemployment and price increases, thus giving rise to a stagflation process, described in sequence 1. Following Veblen (1905, p.460), this result confirms that “credit is a price-making factor of considerable importance”¹¹.



Sequence 1: interest rate, prices and employment

The reduction in the number of firms in sector 1 – by reducing the intensity of competition in that market – determines an increase in prices, due to the decrease in supply of wage goods¹². Accordingly, real wages decline. At the same time, bankruptcies on the part of type-B firms produce a decline in the level of employment. The consequent reduction in the money wage bill in sector 1 will reduce aggregate money profits in that sector, via the reduction of money

¹¹ In *Credit and prices*, Veblen stresses that the increase in the volume of credit determines an increase in “effective demand”, thus generating an increase in the price level, under the simplifying assumption that the price level is determined in competitive markets. The exercise provided here is derived from Veblen's more general view that markets are non-competitive (see, among the others, Arrow [1975], in Tilman, 2003, vol.II). Veblen (1905, p.471) also suggests a multiplier effect: “When the funds so secured by unmarked collateral have been spent in the purchase of goods, the goods so purchased may in their turn be hypothecated in the negotiation of a further loan, with the result that there is a further augmentation of the volume of credit, a further increase of the effective demand for goods, and a further effect on prices”.

¹² Forges Davanzati and Realfonzo (2007) reach a similar result, by considering that the increase in the interest rate, determining the increase in profits in sector 2 with respect to sector 1, pushes firms to move to sector 2, thus reducing the supply of wage goods.

revenues. Note that prices increase both in sector 1, due to the decrease in supply and in sector 2 due to the increase in demand, and – above all – that these outcomes are spontaneously produced in a deregulated market economy. They can be stopped only insofar as external interventions designed to impede complete wage flexibility are in operation. Note that the unemployed cannot be hired in sector 2 because profits are not aimed at increasing production, but are devoted to the consumption of luxury goods. Note also that *a feedback effect between the labour market and the money market is in operation*: bankruptcies produce unemployment, thus a reduction in the money wage bill, thus a reduction in the money interest bill in the ensuing production process. Banks can react to the decrease of their profits by increasing the interest rate (given the level of desired consumptions), thus generating a vicious circle of *stagflation driven by restrictive monetary policy*, involving a further decrease of employment, via bankruptcies and/or the increase in the industrial concentration ratio and the consequent increase in the price level. Moreover, the initial increase in the interest rate allows the leisure class to increase its demand for luxury goods (D_2), thus determining an increase in their prices and in profits in that sector¹³. Note also that, even if one admits – following Veblen (1899a) – that workers tend to imitate the leisure class by acquiring luxury goods, this amplifies the negative effects of rents on real wages. In fact, in the event workers can and want to spend part of their wages on acquiring luxury goods, this generates an increase in the demand for luxury goods, thus a decline in the production of wage goods and, in the ensuing production process, a decline of real wages. Moreover, while for the individual worker the decision to acquire luxury goods may be profitable for the purpose of obtaining a better reputation, for workers as a whole this strategy is counterproductive, insofar as it produces a long-term decline of real wages¹⁴.

It can be observed that the results obtained here contrast with the mainstream view that the increase in the interest rate produces a decline in price level, and hence that an expansionary monetary policy would be counterproductive for workers insofar as – by increasing prices – it would reduce real wages (see, among others, Braumann, 2004). Moreover, one can argue that the more heterogeneous firms are, and hence the smaller the number of firms with high monopoly power, the higher the level of unemployment will be, and also of real wages.

As a result, the higher the level of consumption on the part of the leisure class, the lower the level of employment and of real wages^{15,16}. This is to say that *unemployment derives from a high degree of inequality of income distribution*. Note also that capitalists who go bankrupt will enlarge the labour supply, so that the reduction in the number of firms also determines unemployment because of social mobility¹⁷.

Moreover, the higher the level of consumption on the part of the leisure class, the higher the industrial concentration ratio and the higher the interest rate.

¹³ In a similar vein, Zalewski (2007, pp.514-515) stresses that – with reference to the monetary policy of the FED – the “strike against inflation ... disproportionately benefited *rentiers*”. His argument is aimed at showing that, assuming the validity of the moral criteria that “All agents have sufficient information to rationally choose” and “No agent coerces others into disadvantageous deals”, this policy results “morally indefensible” insofar as it is ultimately devoted to guaranteeing banks’ profits at the expense of wages and, hence, at the expense of the most *ex-ante* disadvantaged individuals.

¹⁴ Bowles and Park (2002) show that – assuming that emulative processes are in operation also *between* classes (i.e. the working class emulates the leisure class) – working hours increase in proportion to the inequality of income distribution, so that workers react to the increase in conspicuous consumption by trying to increase their wages via a higher supply of labour.

¹⁵ Palley (1999), among others, finds a positive relation between the interest rate and the unemployment rate, with particular reference to Canada, France, Germany, the U.K. and the U.S.A. over the period 1981-1996.

¹⁶ In interpreting Veblen’s thought, Bowles and Park (2002) reach a different conclusion. They show that – assuming that emulative processes are in operation also *between* classes (i.e. the working class emulates the leisure class) – working hours increase in proportion to the inequality of income distribution, so that workers react to the increase in conspicuous consumption by trying to increase their wages via a higher supply of labour

¹⁷ As known, a similar argument is put forward by Marx, with reference to the dynamics of the “reserve army”.

The result is disequilibrium dynamics, with increasing pressure to raise interest rates and with declining real wages and employment, and hence with increasing instability¹⁸. This gives rise to social waste, i.e. lower levels of employment and production with respect to low levels of rents. On the macroeconomic plane, waste is thus generated by the control of the production process on the part of the leisure class, in a deregulated market economy, and it is connected with underemployment of both labour and capital.

(INSERT FIGURE 1)

Panel a) describes the relationship between interest and prices. The slope of the $p(i)$ curve reflects the incentive to collude on the part of firms as the interest rate increases (see Forges Davanzati and Realfonzo, 2004), which, in turn, may be connected with the number of bankruptcies in sector 1 when the interest rate increases. Panel b) shows the market for goods, where the money wage bill (MWB) is a rectangular hyperbola resulting from wN . The increase in the interest rate, from i_0 to i' , insofar as determines an increase in prices from p_0 to p' , generates a reduction in production from Q^0 to Q_1 , for a given level of employment. However, since, as shown in panel c), the level of employment decreases (from N^0 to N_1), thus determining a shift downwards of the MWB curve and, due to the reaction of the banking system to the decrease in F , there is a shift upwards of the $p(i)$ curve.

4 – Concluding remarks

This paper dealt with the issue of waste in a Veblenian MTP theoretical framework. It has been shown that a capitalist economy with deregulated markets tends to spontaneously produce waste both on the microeconomic and on the macroeconomic plane. In the first case, this occurs both because of the competitive nature of consumption and because of the conflict within the firm between technicians and businessmen, which gives rise to capital underutilization. In the second case, waste is associated with low levels of employment and production derived from high financial rents. In this theoretical context, unemployment ultimately depends on a high level of inequality of income distribution.

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¹⁸ Instability is a pivotal concept within so-called institutional economics, which is largely inspired by Veblen's works. See, among others, O'Hara (2007).

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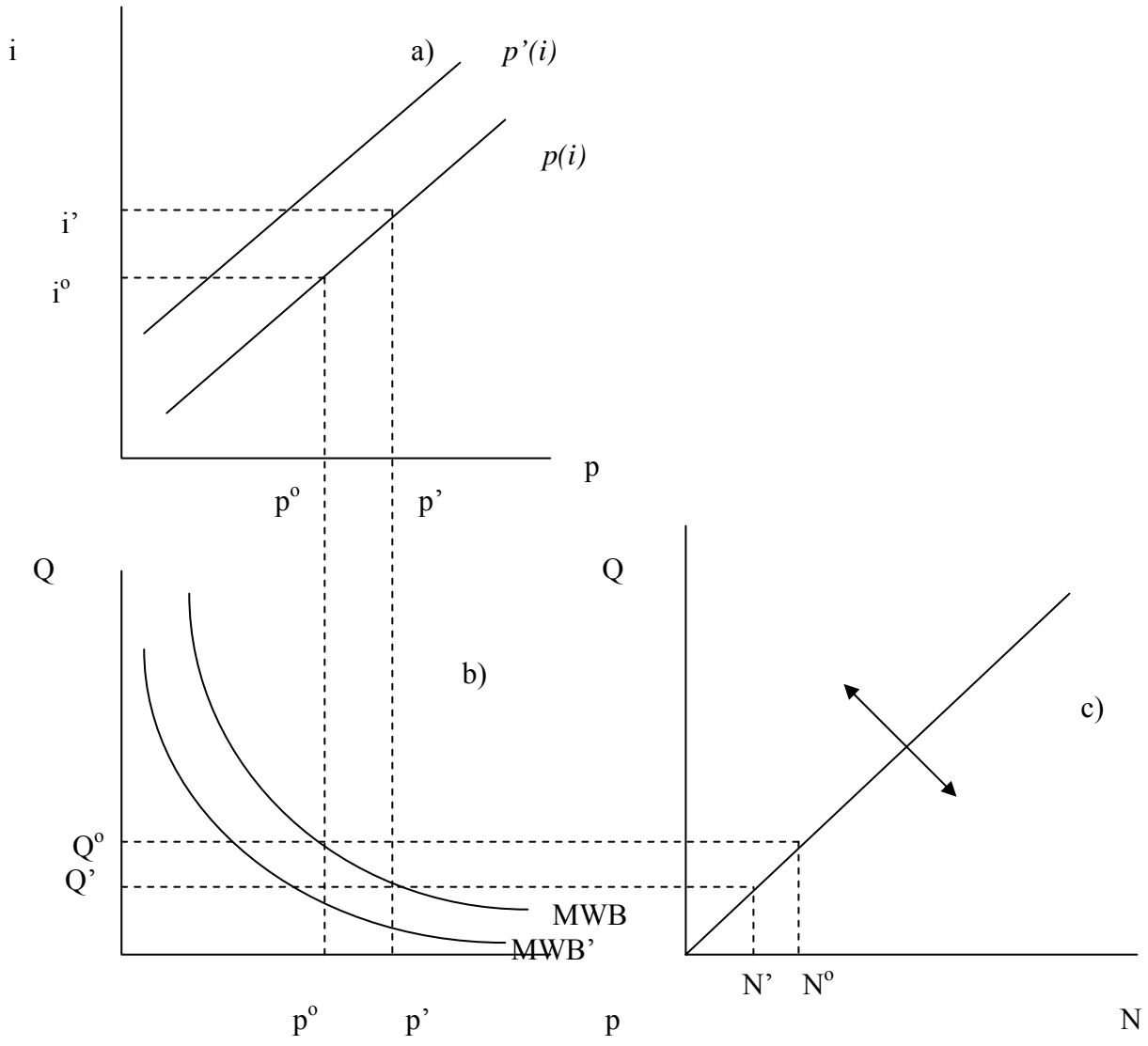


Figure 1: interest rate, prices and unemployment