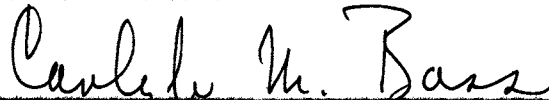


A CONTRAST OF THE CLASSICAL AND INSTITUTIONAL  
THEORIES OF PRODUCTION AND WASTE

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A CONTRAST OF THE CLASSICAL AND INSTITUTIONAL  
THEORIES OF PRODUCTION AND WASTE

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## CHAPTER I

### INTRODUCTION

In recent years the economists have become extremely skeptical concerning the ability of the economic system to effectually utilize the resources of the nation in production. Evidence of this skepticism is found in the increasing amount of writings inquiring into the problem of "full employment." Although "full employment" is concerned mostly with unemployment of labor, some writers also concern themselves with land and capital.

The results of the study made by the Brookings Institution during the 1930's showed that

in a word, the conclusions arrived at in the analyses of the several branches of industry mean that our productive system as a whole was operating at about 80 percent of capacity in 1929 and slightly less than that if we take the average of the five years 1925-29.<sup>1</sup>

In a period of booming prosperity such as 1929, the economic system was only able to operate at four-fifths of capacity. Concerning the utilization of labor in industry, Brookings found that ". . . there was nearly 20 percent of reasonably available labor which was not turned into the productive stream."<sup>2</sup>

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<sup>1</sup>Edwin G. Nourse and associates, America's Capacity to Produce, Vol. I of The Distribution of Income in Relation to Economic Progress, Brookings Institution, p. 416.

<sup>2</sup>Ibid., p. 425.



In the depths of depression, 1933-34, "approximately 61 percent" of total plant capacity was used.<sup>3</sup>

The belief that another depression is inevitable has led economists to explore the possibilities of making it as "mild" as possible. There is also the widespread belief that "full employment" of the "factors of production" would serve to eliminate depressions.

By assuming unused plant capacity and non-use of resources (the factors of production) as wasteful, the economists have attempted to document waste. But, as yet, there is no theory of waste to supply a foundation to an exhaustive study. The reason for the non-existence of a theory of waste may be traced to the fact that there is no theory of resources from which a theory of waste may be drawn.

The purpose of this thesis is to study the writings of two schools of economic thought to bring out the theories of production, resources, and waste of resources involved and compare and contrast them. It is felt that such a study would contribute a basis for further study concerning the problem of resources and waste.

There is no set definition as to what constitutes a resource in economic theory. By presenting the two theories of production, what the writers termed resources may be determined.

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<sup>3</sup>Harold G. Moulton, Income and Economic Progress, Vol. IV of The Distribution of Income in Relation to Economic Progress, textbook edition, Brookings Institution, p. 22.

In presenting this thesis, the ideas that are pertinent in the two lines of thought are developed in their entirety. First to be considered is the thought of the Classical School. This school represents the dominant line of thought in contemporary times. In Chapter II the Classical Theory of Production is presented. Chapter III is concerned with the Classical Theory of Waste.

The second theory to be examined is that of the Institutional School. This school of thought has come to influence much contemporary thinking. The Institutional Theories here presented are those of Thorstein Veblen who developed Institutional Theory.

Chapter IV is devoted to Veblen's theory of production wherein is found his theory of resources. In Chapter V his theory of waste of resources is examined.

Chapter VI presents a contrast of the two theories.

## CHAPTER II

### THE CLASSICAL THEORY OF PRODUCTION

Production, according to the Classical Economists, Adam Smith, J. B. Say, David Ricardo, Nassau Senior, and John Stuart Mill, was the beginning of all economic activity. Consumption was the end. It was Smith that first stated the proposition in this manner, "Consumption is the sole end and purpose of all production."<sup>1</sup>

In writing of the nature of production, each of the Classical Economists subscribed to the belief that certain requisites must be present. Without these necessities, there could be no production.

Adam Smith, who is generally acknowledged to be the founder of the Classical School of Economic Thought, advanced the proposition that private property, stock (capital), labor, and land were necessary before production could occur:

As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labor adds to the value of the materials.<sup>2</sup>

In demonstrating Smith's idea, Say compared the welfare

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<sup>1</sup>Adam Smith, The Wealth of Nations, Cannan edition, p. 625.

<sup>2</sup>Ibid., p. 115.

of a group who had no conception of private property with that of Europe, "where the appropriation is complete."<sup>3</sup>

The savage tribes of New Zealand, and of the north-western coast of America, where the land is unappropriated, have the greatest difficulty in procuring a precarious subsistence upon fish and game, and are often reduced to devour worms, caterpillars, and the most nauseous vermin; not infrequently even to wage war on one another, from absolute want, and to devour their prisoners as food: whereas, in Europe, where the appropriation is complete, the meanest individual, with bodily health, and inclination to work, is sure of shelter, clothing, and subsistence, at the least.<sup>4</sup>

The Classicists, from the first, were willing to admit the Physiocratic "factors of production," labor and land. But in doing this, they were not as enthusiastic in expounding upon the benefits to be derived from them. Instead, they, the Classicists, added a third "factor," capital.

Capital, or stock, according to Smith, was

the portion reserved for immediate consumption (sustenance), useful machines . . . profitable buildings . . . improvements of land . . . acquired and useful abilities . . . money . . . the stock of provisions in the possession of the sellers, the materials of clothes, furniture, and buildings . . . the completed work in the hands of the merchant or manufacturer (i.e. inventories) . . . .<sup>5</sup>

Capital comes into being through industry; but unless industry is accompanied with parsimony, capital cannot arise:

Parsimony, and not industry, is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates. But whatever industry might acquire, if parsimony did not save and store up the capital would never be the greater.<sup>6</sup>

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<sup>3</sup>Jean Baptiste Say, A Treatise on Political Economy, fourth American edition, p. 377.

<sup>4</sup>Ibid. <sup>5</sup>Smith, op. cit., pp. 264-66.

<sup>6</sup>Ibid., p. 321.

In this same section, Smith demonstrates this theory:

Capitals are increased by parsimony, and diminished by prodigality and misconduct.

Whatever a person saves from his revenues he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest, that is, for a share of the profits. As the capitals of an individual can be increased only by what he saves from his annual revenue or his annual gains, so the capital of the society, which is the same with that of all the individuals who compose it, can be increased only in the same manner.<sup>7</sup>

Capital, along with land and labor, were necessary for Production. However, the role given land and labor was not nearly so important in the productive process as that of capital. Smith accepted the Physiocratic belief as to the productivity of land, but disagreed with the proposition concerning the sterility of capital and labor:

The capital error of this system (i.e. Physiocratic), however, seems to lie in its representing the class of artificers, manufacturers, and merchants, as altogether barren and unproductive.<sup>8</sup>

Smith did not deny the productivity of land and labor, but he disallowed the emphasis placed upon them by saying:

Even the latter class (merchants) reproduces annually the value of its own annual consumption, and continues, at least, the existence of the stock or capital which maintains and employs it . . . . But upon this account alone the denomination of barren and unproductive should seem to be very improperly applied to it. We should not call a marriage barren or unproductive, though it produced only a son and a daughter, to replace the father and mother, and though it did not increase the number of human species, but only continued it as it was before. Farmers and country labourers, indeed, over and above the stock which maintains and employs them, reproduce

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<sup>7</sup>Ibid., p. 321.      <sup>8</sup>Ibid., pp. 638-39.

annually a neat produce, a free rent to the landlord. As a marriage which affords three children is certainly more productive than one which affords only two; so the labour of farmers and country labourers is certainly more productive than that of merchants, artificers, manufacturers, and merchants.<sup>9</sup>

In the above statement, Smith seems to have reached a compromise with the Physiocrats. However, he went on to develop his own idea as to productivity. Productivity of labor was judged as to whether it "fixed or realized itself in a vendible commodity."

With this criteria of productiveness, Smith reversed his more or less compromising position to state that

farmers and country labourers can no more augment, without parsimony, the real revenue, the annual produce of the land and labour of their society, than artificers, manufacturers, and merchants.<sup>10</sup>

As a final statement on the subject, later on Smith decided upon a completely opposite stand than that taken from his two and three family comparison to say, "In this respect, therefore, the class of cultivators can have no sort of advantage over that of artificers and manufacturers."<sup>11</sup>

The conclusion to be drawn from the last two statements is that the employments which utilize capital are more productive than those which do not. There is also the implication that the division of labor was, in part, a determinant. This is especially true in respect to the contention that capital made possible the division of labor.

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<sup>9</sup>Ibid., p. 639.    <sup>10</sup>Ibid., p. 640.    <sup>11</sup>Ibid., p. 641.

Wherever the division of labor could be applied, the benefits were much greater. The employments that allowed an extensive division of labor were more productive than those where the division of labor was limited:

In every other art and manufacture, the effects of the division of labour are similar to what they are in this very trifling one: though in many of them, the labour can neither be so much subdivided, nor reduced to so great a simplicity of operation. The division of labour however, so far as it can be introduced, occasions, in every art, a proportionable increase of the productive powers of labour.<sup>12</sup>

In demonstrating the increased production attributable to the division of labor, Smith described the production of pins.

He reached the conclusion that

. . . if they had all wrought separately and independently and without any of them having been educated to this particular business, they certainly could not each of them have made twenty, perhaps not one pin in a day.<sup>13</sup>

Although capital made possible the division of labor, the division of labor seemed to be an instinct peculiar to man:

The division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another. Whether this propensity be one of those original principles in human nature, of which no further account can be given; or whether, as seems more probable, to be the necessary consequences of the faculties of reason and speech, it belongs not to our present subject to inquire. It is common to all men,

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<sup>12</sup>Ibid., p. 5.    <sup>13</sup>Ibid., p. 4.

and to be found in no other race of animals, which seem to know neither this nor any other species of contacts.<sup>14</sup>

Wherever the division of labor is applicable, capital is necessarily employed in the form of subsistence to the laborer. But, in order to realize a gain from this division of labor, this labor had to be productive. As to what constitutes productive labor, Smith defines and compares the two, productive and unproductive labor.

There is one sort of labour which adds to the value of the subject upon which it is bestowed: there is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing . . . . A man grows rich by employing a multitude of manufacturers; he grows poor, by maintaining a multitude of menial servants. The labour of the latter, however, has its value, and deserves its reward as well as that of the former. But the labour of the manufacturer fixes and realizes itself in some particular subject or vendable commodity, which lasts for some time at least after that labour has past. It is, as it were a certain quantity of labour stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or what is the same thing, the price of that substance, can afterward, if necessary, put into motion a quantity of labour equal to that which had originally produced it. The labour of the menial servant on the contrary, does not fix and realize itself in any particular subject or vendable commodity. His services could afterward be procured. The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realize itself in any permanent subject, or vendable commodity, which endours after that labor has past, and for which an equal quantity of labour could afterward be procured.<sup>15</sup>

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<sup>14</sup>Ibid., p. 13.

<sup>15</sup>Ibid., pp. 314-15.



It now follows that those persons who have accumulated capital will set about employing productive labor in instituting the division of labor in industry, as an effort to profit by such activity. In doing so, he employs land, labor, and capital in such a way to secure his own private gain:

The consideration of his own private profit, is the sole motive which determines the owner of any capital to employ it either in agriculture, in manufactures, or in some particular branch of the wholesale or retail trade.<sup>16</sup>

The employment of capital, therefore--the undertaking of industry, could only come about under the favorable conditions of a peaceful country:

In all countries where there is tolerable security, every man of common understanding will endeavour to employ whatever stock he can command, in procuring either present enjoyment or future profit.<sup>17</sup>

In those countries where there is tolerable security, there should be no interference with the actions of the businessman, the capitalist, in his pursuit for profit. It is Natural for man to seek his own private gain and advantage above all others. As Smith says,

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of society which he has in view.<sup>18</sup>

Such activity on the part of the capitalist does not constitute a threat to the welfare of society, however, but quite to the contrary,

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<sup>16</sup>Ibid., p. 355.    <sup>17</sup>Ibid., p. 268.    <sup>18</sup>Ibid., p. 421.

he (the capitalist) intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.<sup>19</sup>

The Natural desire of man to seek his own private gain leads to the Natural phenomenon of competition. With capitalists competing for profit, society becomes the benefactor. The "Invisible Hand" operates to turn the interests of the capitalists toward the interest of the society. Competition between all producers in the market serves the society to a greater extent than if the welfare of society were the primary purpose of the businessman. It should be evident that the competition between sellers would force prices toward the lowest possible price, the cost of production price, the Natural Price, or

the central price to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this centre of repose and continuance, they are constantly tending towards it.<sup>20</sup>

The Natural Price is the controller of the market wherein all commodities exchange under the Natural Law of Competition. The Natural Price allocates the "factors of production" to

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<sup>19</sup>Ibid., p. 423.    <sup>20</sup>Ibid., p. 58.

industry where they are utilized to the maximum efficiency according to the "effectual" demand:

The quantity of every commodity brought to market naturally suits itself to effectual demand. It is the interest of all those who employ their land, labour, or stock (capital), in bringing any commodity to market, that the quantity never should exceed the effectual demand; and it never should fall short of that demand. If at any time it exceeds the effectual demand, some of the component parts of its price must be paid below their natural rate. If it is rent, the interest of the landlords will immediately prompt them to withdraw a part of their land; and if it is wages or profit, the interest of the labourers in the one case, and of their employers in the other, will prompt them to withdraw a part of their labour or stock from this employment. The quantity brought to market will soon be no more than sufficient to supply the effectual demand. All the different parts of its price will rise to their natural rate, and the whole price to its natural price. If, on the contrary, the quantity brought to market should at any time fall short of the effectual demand, some of the component parts of its price must rise above their natural rate. If it is rent, the interest of all other landlords will naturally prompt them to prepare more land for the raising of this commodity; if it is wages or profit, the interest of all other labourers and dealers will soon prompt them to employ more labour and stock in preparing and bringing to the market. The quantity brought thither will soon be sufficient to supply the effectual demand. All the different parts of its price will soon sink to its natural price.<sup>21</sup>

The Classical theory of production, according to Smith, involved the use of land, labor, and capital. But, before production could take place this capital had to be accumulated. Private property in capital allowed the capitalist to employ productive labor in the process of creating a commodity, through which he (the capitalist) gained a profit. It was a Natural Law that man was selfish and greedy, and

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<sup>21</sup>Ibid., p. 56.

sought only his own private gain. But, this in itself was not bad for society. The owners of capital were led by an Invisible Hand to promote the interest of society. Through the Natural Law of Competition, producers kept the prices of their commodities near the cost of production price, or the Natural Price. This Natural Price was the lowest possible price which could allow the continuance of production. All commodities offered on the market; and that includes also, land, labor, and capital, were taken off by purchasers at or near this Natural Price. This price system allocated land, labor, and capital to production therefore, in the most efficient manner.

Jean Baptiste Say, the French follower of Adam Smith, shared essentially the same views as to the theory of production. On some points, it will be shown, Say differs somewhat from the writings of Smith. But, all things considered, Say presented no conflict with Smith. The opinions of Say and Smith are in such close accord that it has been said that Say, in reality, synthesized Smith's writings. It is true that Say was the first to write in the standard economics textbook form; and in doing this, he simplified the study of economics enormously. In addition, it might well be stated that Say's statements on the various subjects of interest within his writings are more direct, more definite, more concise, and more ascertainable than those of Smith's, and most assuredly, those of David Ricardo's.

That Say's and Smith's thoughts coincided in general, there can be no doubt, for, when writing of the origin of capital, Say states that

capital of this class, like all other capital without exception, is formed by the partial accumulations of annual products. There is no other way of acquiring capital, but by personal accumulation, or by succession to accumulation of others.<sup>22</sup>

Previously, Say had said of capital:

The increase of capital is naturally slow of progress: for it can never take place without actual production of value, and the creation of value is the work of time and labour, besides other ingredients. Since the producers are compelled to consume values all the while they are engaged in the creation of fresh ones, the utmost they can accumulate, that is to say, add to the reproductive capital, is the value they produce beyond what they consume; and the sum of this surplus is all the additional wealth that the public or individuals can acquire. The more values are saved and reproductively employed in the year, the more rapid is the national progress towards prosperity. Its capital is swelled, a larger quantity of industry is set in motion, and saving becomes more and more practicable, because the additional capital and industry are additional means of production.<sup>23</sup>

In this statement, Say associates the creation of value with that of capital. Unless the term "besides other ingredients" includes land, then accordingly, land is eliminated from the process of production. This is true in Say's last sentence. The passage is a clear statement of the productivity of capital. Man, using capital, labors to increase the capital of the nation. This increase of capital is re-employed, and the whole process starts over. A few pages

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<sup>22</sup>Say, op. cit., p. 69.    <sup>23</sup>Ibid., p. 56.

later this statement is found where Say takes a more definite stand:

The faculty of amassing capital, or, in other words, value, I apprehend to be the one cause of the vast superiority of man over brute creation. Capital, taken in the aggregate, is a powerful engine consigned to the use of man alone. He can direct towards any one channel of employment the successive accumulations of many generations . . . . Moreover, it may be remarked, that the powers of man, resulting from the faculty of amassing capital, are absolutely indefinable; because there is no limit to the capital he may accumulate, with the aid of time, industry, and frugality.<sup>24</sup>

Here, Say's enthusiasm over the possibilities of the increase of wealth by the use of capital and labor led him to minimize the productivity of land. To emphasize this point more directly, a later statement should make things clear as to what he included as "the elements of production:"

Perhaps it is scarcely necessary to remark, that property in that class of productive means, which has been called human industry, and in that distinguished by the general name of capital, is far more sacred and indisputable, than in the remaining class of natural powers and agents. The industrious faculties of man, his intelligence, muscular strength, and dexterity, are peculiar to himself and inherent in his nature. And capital, or accumulated produce, is the mere result of human frugality and forbearance to exercise the faculty of consuming, which, if fully exerted, would have destroyed products as fast as they were created, and these never could have been the existing property of anyone; wherefore, no one else, but he who has practised this self-denial, can claim the result of it with any show of justice. Frugality is next of kin to the actual creation of products, which confers the most unquestionable of all titles to the property in them.<sup>25</sup>

Clearly, frugality is the most important element in the make-up of all men. Without it there can be no production,

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<sup>24</sup>Ibid., p. 61.      <sup>25</sup>Ibid., p. 245.

no capital, and no value. The next most important is the industrious faculties of man. With these two elements, production takes place in turning the "natural powers and agents" to account in the creation of a product; but in the words of Say,

the human agent of industry must, besides, be provided with preexisting products; without which his agency, however skillful and intelligent, would never be put in motion.<sup>26</sup>

These pre-existing products that Say has in mind are capital--which is unexceptionally necessary for production:

These pre-existing requisites are . . .

1. The tools and implements of the several arts . . . . .
2. The products necessary for the subsistence of the industrious agents . . . . .
3. The raw materials which are to be converted into finished products by the means of his industry . . . . .

The value of all these items constitutes what is denominated productive capital . . . . . Another item of productive capital is money, whenever it is employed to facilitate the interchange of products, without which, production could never make any progress.<sup>27</sup>

Another necessary to be considered as contributing to the productive effort is nature, or to be more exact, the laws of nature. After giving an example of their operation, Say concludes that

thus nature is commonly the fellow labourer of man and his instruments: a fellowship advantageous to him in proportion as he succeeds in dispensing with his personal agency, and that of his capital, and in throwing upon nature a larger part of the burthen of production.<sup>28</sup>

In discussing the benefits to be realized from the use

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<sup>26</sup>Ibid., p. 11.

<sup>27</sup>Ibid., pp. 11-12.

<sup>28</sup>Ibid., p. 15.

of capital, Say does not go along with Smith and include the division of labor. The division of labor, so important in Smith's appraisal, is not viewed nearly so exigent in Say's estimation. Say's chief contributor to the increase of production were "the Laws of Nature." He is in complete agreement with Smith's hypothesis; but he disagrees with Smith's conclusions:

Smith has taken infinite pains to explain, how it happens that civilized communities enjoy so great an abundance of products, in comparison with nations less polished, and in spite of the swarm of idlers and unproductive labourers that is to be met with in society. He has traced the source of that abundance to the division of labour; and it cannot be doubted, that the productive power of industry is wonderfully enhanced by that division, as we shall hereafter see by following his steps; but this circumstance alone is not sufficient to explain a phenomenon, that will no longer surprise, if we consider the power of the natural agents that industry and civilization set at work for our advantage.

Smith admits that human intelligence, and the knowledge of the laws of nature, enable mankind to turn the resources she offers to better account: but he goes on to attribute to the division of labour this very degree of intelligence and knowledge; and he is right to a certain degree; for a man, by the exclusive pursuit of a single art or science, has ampler means of accelerating its progress towards perfection. But, when once the system of nature is discovered, the production resulting from the discovery, is no longer the product of the inventor's industry.<sup>29</sup>

In short, according to Say, increased production is due to human intelligence and knowledge of the laws of nature.

At this point, Say, as well as Smith, recognize two types of labor: productive, and unproductive. In denoting whether labor was productive or not, Smith's formula was, whether

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<sup>29</sup> Ibid., p. 17.



the labor "fixed or realized itself in a product of commodity." Say used another criteria. To be productive, says Say, it must "contribute to the raising of the products":

Labour, upon whichever of those operations it be bestowed, is productive, because it concurs in the creation of a product. Thus the labour of the philosopher, whether experimental or literary, is productive; the labour of the adventurer or master-manufacturer is productive, although he perform no actual manual work; the labour of every operative workman is productive, from the common day-labourer in agriculture to the pilot that governs the motion of a ship.

Labour of an unproductive kind, that is to say, such as does not contribute to the raising of the products of some branch of industry or other, is seldom undertaken voluntarily; for labour, under the definition above given, implies trouble, and trouble so bestowed could yield no compensation or resulting benefit; wherefore, it would be mere folly or waste in the person bestowing it. When trouble is directed to the stripping another person of his goods in his possession by means of fraud or violence, what was before mere extravagance and folly, degenerates to absolute criminality; and there results no production, but only a forcible transfer of wealth from one individual to another.<sup>30</sup>

Thus, it is possible that unproductive labor may lead to criminality if this "trouble" enters the picture. Say recognized that waste of a large magnitude could arise through the employment of unproductive labor.

His concern over unproductive labor is the result of the importance he attached to capital. He believed that unproductive labor impeded the natural growth of capital, the most important of the "factors of production."

Through this analysis, Say made his observation concerning the theory of production, taking a step by step procedure in the development.

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<sup>30</sup>Ibid., pp. 26-27.

The first step towards the attainment of any specific product, is the study of the laws and course of nature regarding that product. A lock could never have been constructed without a previous knowledge of the properties of iron, the method of extracting from the mines and refining the ore, as well as of mollifying and fashioning the metal.

The next step is the application of this knowledge to an useful purpose: for instance, the conclusion, or conviction, that a particular form, communicated to the metal, will furnish the means of closing a door to all wards, except to the possessor of the key.

The last step is the execution of the manual labour, suggested and pointed out by the two former operations; as, for instance, the forging, filing, and putting together of the different component parts of the lock.

These three operations are seldom performed by one and the same person. It commonly happens, that one man studies the laws and conduct of nature; that is to say, the philosopher, or man of science, of whose knowledge another avails himself to create useful products; being either agriculturalist, manufacturer, or trader; while the third supplies the executive exertion, under the direction of the former two: which third person is the operative workman or labourer.

All products whatever will be found on analysis, to derive existence from these three operations . . . . Industry is, in all cases, divisible into theory, application, and exertion. Nor can it approximate to perfection in any nation, till that nation excel in all three branches. A people, that is deficient in one or other of them, can not acquire products, which are and must be the result of all three. And thus we may learn to appreciate the vast utility of many sciences, which, at first sight, appear to be objects of mere curiosity and speculation.<sup>31</sup>

Say was not content to rest upon this analysis, for he added a very significant footnote regarding the development of science and technology:

Besides the direct impulse, given by science to progressive industry, and which indeed is indispensable to its success, it affords an indirect assistance, by the gradual removal of prejudice; and by the teaching mankind to rely more upon their own exertions than on the aid

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<sup>31</sup>Ibid., pp. 20-21.

of superhuman power. Ignorance is the inseparable concomitant of practical habits, of that slavery to custom which stands in the way of all improvement; it is ignorance that imputes to a supernatural cause the ravages of an epidemical disease, which might perhaps be easily prevented or eradicated, and makes mankind recur to superstitious observances, when precaution, or the application of the remedy, is all that is wanted. Science, like facts, are linked together by a chain of general connexion, and yield one another mutual support and corroboration.<sup>32</sup>

In this statement, Say was not a Classicist. Here is implied an evolutionary theory of science, no "Inborn Tendencies" or "Natural Laws." But, after such a remarkable display of insight, he proceeds in the Classical tradition. He, himself being an unknowing victim of the "aid of superhuman power," did not recognize the effects of this observation as regards economic theory. He subscribes to the Classical persuasion hereafter, and goes on to develop his "Law of Markets." His Law of Markets demonstrates his position quite clearly as regards Natural Law and the superhuman element within it;

A man who applies his labour to the investing of objects with value by the creation of utility of some sort, can not expect such a value to be appreciated and paid for, unless where other men have the means of purchasing it. Now, of what do these means consist? Of the values, of other products, likewise the fruit of industry, capital, and land. Which leads us to the conclusion that may at first sight appear paradoxical, namely, that it is production which opens a demand for products

Thus, to say that sales are dull, owing to the scarcity of money, is to mistake the means for the cause; an error that proceeds from the circumstance, that almost all produce is in the first instance exchanged for money,

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<sup>32</sup>Ibid., pp. 21-22.

before it is ultimately converted into other produce . . . . Sales can not be said to be dull because money is scarce, but because other products are so . . . . It is worth while to remark, that a product is no sooner created, than it, from that instant, affords a market for other products to the full extent of its own value. When the producer has put the finishing hand to his product, he is most anxious to sell it immediately, lest its value should diminish in his hands. Nor is he less anxious to dispose of the money he may get for it; for the value of money is also perishable. But the only way of getting rid of money is in the purchase of some product or other. Thus the mere circumstance of the creation of one product immediately opens a vent for other products.<sup>33</sup>

In summarizing the theory of Say's, it may be stated that land, labor, capital, and technology are the requisites necessary for production. These elements are applied in accordance with the natural laws.

It can be stated that, in general, Say did not allow land a place in the productive process although he speaks of its productivity from time to time. He was of the opinion that rent was a monopoly return.

Labor is productive only when capital is used simultaneously in application, and when it participates in the creation of a product. He states that there is an abundance of unproductive labor also, which contributes nothing to the wealth of nations; in fact, unproductive labor contributes to the practice of waste.

Once a product is produced, it is immediately taken off the market. That is to say, the production of a good necessarily creates a demand for it; such a demand being

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<sup>33</sup>Ibid., pp. 76-79.

automatically brought into existence. Smith implies the same. All prices of commodities are determined by the Natural Law of Competition, Supply and Demand, within this Automatic Market.<sup>34</sup>

It seems appropriate here to note Say's distribution analysis. The fact that he devotes a long chapter concerning the distribution of the wealth of nations to the man of science, and what should be his share in this distribution, indicates a possible lack of faith in the Natural Laws:

Thus, according to the natural laws, whereby the price of things is determined, this superior class of knowledge will be very ill paid: that is to say, it will receive a very inadequate portion of the value of the product, to which it has contributed. It is from a sense of this injustice, that every nation, sufficiently enlightened to conceive the immense benefit of scientific pursuits, has endeavored, by special favours and flattering distinctions, to indemnify the man of science, for the very trifling profit derivable from the exertion of his natural and acquired faculties.<sup>35</sup>

The question arises as to the validity of the ability of the Natural Laws to adequately and justly distribute the wealth of nations. If the Natural Laws are unable to offer the man of science his just reward, then there is the possibility that these Laws might be unjust to the other participants in the productive process. But such a point is again overlooked or ignored; and Say proceeds to make a distinction between useful and non-useful machines (capital) as he did with productive and unproductive labor:

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<sup>34</sup>Ibid., p. 283.    <sup>35</sup>Ibid.

Well contrived and useful machinery produces more than the interest of its prime cost, and besides affording additional profit to the proprietor, benefits the consumer and the community at large, to the full extent of the savings affected by its means; for everything saved is so much gain.<sup>36</sup>

Say's ability to organize his thoughts and writings was far superior to that of Smith's. The divisions of his book, Production, Distribution, and Consumption, representing the three phases of economic activity, is still the standard form used by writers of today. He believed that the Natural Laws of Production were automatic and should be left alone. He also accepted the Natural Laws of Distribution as being automatic although he raised questions as to their equitability as regards the man of science.

From his study of consumption, he reached the conclusion that there was waste associated to a great extent with this phase of economics. In the end, waste occurred whenever there was interference with the Natural Law's operation. It can be said that there was no basic disagreement between Smith and Say, generally speaking, over their theories.

Both Smith and Say included land in the productive process. However, they argued that the return to land, or rent to the landlord, was a monopoly return; and, therefore, it was unjust.

David Ricardo used a more highly developed theory of rent than had Smith and Say. The rent theory that he utilized had

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<sup>36</sup>Ibid., p. 314.

been stated before, in 1817, by T. R. Malthus in a pamphlet entitled, An Inquiry into the Nature of Rent.

In demonstrating the thesis of his rent theory, Ricardo takes the case of a new unsettled country with complete freedom of entry on the part of those desiring to settle there.

When a country was first settled, there was an abundance of fertile land to be had without payment. In this situation there was no necessity for the cultivators to pay rent. As the population grew, this better land was not enough to feed the people and it was necessary to put lower quality land into production. When this happens, rent "immediately commences" on land of the first quality, and "the amount of that rent will depend on the difference in the quality of these two portions of land."<sup>37</sup>

If population still increased, rent would start on the second quality land and "regulated as before" by the difference between the productive capacities of the land.

Rent arose, therefore, out of two situations: first, on land which was better than the poorest in cultivation, and, second, in the case of the earlier and less expensive increments of expenditure on good soil.<sup>38</sup>

Thus, Ricardo was in a position to state that the reason, then, why raw produce rises in comparative values (as population increases), is because more labour

<sup>37</sup>David Ricardo, The Works of David Ricardo, edited by J. R. McCulloch, p. 36.

<sup>38</sup>Ibid., pp. 36-37.

is employed in the production of the last portion obtained, and not because a rent is paid to the landlord. The value of corn is regulated by the quantity of labour bestowed on its production on that quantity of land, or with that portion of capital which he pays no rent. Corn is not high because rent is paid, but a rent is paid because corn is high; and it has been justly observed, that no reduction would take place in the price of corn, although landlords should forego the whole of their rent. Such a measure would only enable some farmers to live like gentlemen, but would not diminish the quantity of labour necessary to raise raw produce on the least productive land in cultivation.<sup>39</sup>

As production increased, rent was raised, goods were higher, and the productivity of labour would fall because of diminishing returns; but wages would remain the same (Iron Law of Wages). Therefore, something had to give way. This was profits. With this in mind, Ricardo came to the conclusion that

it follows, then, that the interest of the landlord is always opposed to the interests of every other class in the community. His situation is never so prosperous, as when food is scarce and dear: whereas, all other persons are greatly benefitted by procuring food cheap.<sup>40</sup>

With such a situation existing, according to Ricardo, it is no surprise that John Stuart Mill, and other followers, advocated the levying of special taxes on rent.

By disposing of rent in such a manner, and defining capital as stored up labor, Ricardo went on to state his theory of production. He began by observing the action of an industrial society:

If we look to a state of society in which greater improvements have been made, and in which arts and commerce flourish, we shall still find that commodities

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<sup>39</sup>Ibid., pp. 38-39.      <sup>40</sup>Ibid., p. 368.



vary in value conformably with this principle: in estimating the exchangeable value of stockings, for example, we shall find that their value, comparatively with other things, depends on the total quantity of labour necessary to manufacture them, and bring them to market. First, there is the labour necessary to cultivate the land on which raw cotton is grown; secondly, the labour of conveying the cotton to the country where the stockings are to be manufactured, which includes a portion of the labour bestowed in building the ship in which it is conveyed, and which is charged in the freight of the goods; thirdly, the labour of the spinner and weaver; fourthly, a portion of the labour of the engineer, smith, and carpenter, who erected the buildings and machinery, by the help of which they are made; fifthly, the labour of the retail dealer, and of many others, whom it is unnecessary further to particularize. The aggregate sum of these various kinds of labour, determines the quantity of other things for which stockings will exchange, while the same consideration of the various quantities of labour which have been bestowed on those other things, will equally govern the portion of them which will be given for the stockings.<sup>41</sup>

This observation substantuates the statement at the beginning of the section that

the value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production.<sup>42</sup>

However, such a broad statement seemed to be subject to qualifications as to the types of goods on the market. First of all, goods must possess utility:

Possessing utility, commodities derive their exchangeable value from two sources; from their scarcity, and from the quantity of labour required to obtain them. There are some commodities, the value of which is determined by their scarcity alone. No labour can increase the quantity of such goods, and therefore, their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of a peculiar quality, which can be made only from grapes grown on a

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<sup>41</sup>Ibid., p. 17.      <sup>42</sup>Ibid., p. 9.

particular soil, of which there is a very limited quantity, are all of this description. Their value is wholly independent of the quantity of labour originally necessary to produce them, and varies with the varying wealth and inclinations of those who are desirous to possess them . . . . In speaking, then, of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.<sup>43</sup>

It therefore follows that goods produced under competition which possess utility are valued by the quantity of labor necessary for the production of them. This situation is the general case, all others being exceptions. But here, another question arises as to the various skills necessary and types of labor involved in the production of goods. Ricardo answers it in this manner:

In speaking, however, of labour, as being the foundation of all value, and the relative quantity of labour as almost exclusively determining the relative value of commodities, I must not be supposed to be inattentive to the different qualities of labour, and the difficulty of comparing an hour's or a day's labour, in one employment, with the same duration of labour in another. The estimation in which different qualities of labour are held, comes soon to be adjusted in the market with sufficient precision for all practical purposes and depends much on the comparative skill of the labourer, and intensity of the labour performed. The scale, when once formed, is liable to little variation. If a day's labour of a working jeweller be more valuable than a day's labour of a common labourer, it has long ago been adjusted, and placed in its proper position in the scale of value.<sup>44</sup>

There is no specific theory of production within the writings of Ricardo. However, such a theory is implied, as can be seen above. It is labor that produces the goods of

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<sup>43</sup>Ibid., pp. 9-10.      <sup>44</sup>Ibid., pp. 14-15.

the society. But, capital also enters the productive process in the form of stored up labor. Land does play a part in production, but has no effect upon price, rather rent on land is determined by the price of goods. So, in the final analysis, land, labor and capital are the "factors" of production, according to Ricardo. The price of goods is determined by scarcity, and the relative amounts of labor involved in the production of the goods under free competition.

In turning to Nassau William Senior, there is found a continuation of the Ricardian labor theory, with the addition of another element, abstinence. Senior, in accepting the Ricardian hypothesis, acknowledges the productivity of land, but completely ignores it as entering into the productive effort.

In accepting labor as entering into the productive effort, he applies also abstinence:

The obstacle to the supply of those commodities which are produced by labour and abstinence, with that assistance only from nature which everyone can command, consists solely in the difficulty of finding persons ready to submit to the labour and abstinence necessary to their production. In other words, their supply is limited by the cost of production.<sup>45</sup>

There is no mention of land as a "factor of production."

Also, in this, Senior accepts the diminishing returns idea in connection with the cost of production argument.

As to the method of determining the employment of

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<sup>45</sup>Nassau William Senior, Political Economy, pp. 23-24.

abstinence and labor in competitively produced goods, he uses the automatic market concept of Smith, Say, and Ricardo:

With respect to those commodities, or, to speak more accurately, with respect to the value of those parts or attributes of commodities, which are the subjects of equal competition, which may be produced by all persons with equal advantages, the cost of production to the consumer are the same. Their price, therefore, represents the aggregate amount of the labour and abstinence to continue their production. If their price should fall lower, the wages or the profits of those employed in their production must fall below the average remuneration of the labour and abstinence that must be undergone if their production is to be continued. In time, therefore, it is discontinued or diminished, until the value of the product has been raised by the diminution of the supply. If the price should rise beyond the cost of their production, the producers must receive more than an average remuneration for their sacrifices. As soon as this has been discovered, capital and industry flow towards the employment which, by this supposition, offers extraordinary advantages. Those who formerly were purchasers, or persons on their behalf, turn producers themselves, until the increased supply has equalized the price with the cost of production.<sup>46</sup>

This is as it should be, according to Senior; but he was writing of a special case. In analysing all cases, in the short run, Senior sometimes disagreed with the other Classical Economist:

But though, under free competition, cost of production is the regulator of price, its influence is subject to much occasional interruption. Its operation can be supposed to be perfect only if we suppose that there are no disturbing causes, that capital and labour can be at once transferred, and without loss, from one employment to another, and that every producer has full information of the profit to be derived from every mode of production. But it is obvious that these suppositions have no resemblance to the truth. A large portion of the capital essential to production consists of buildings, machinery, and other implements, the results of much time and

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<sup>46</sup>Ibid., p. 101.

labour, and of little service for any except their existing purposes. A still larger portion consists of knowledge and of intellectual and bodily dexterity, applicable only to the processes in which those qualities were originally acquired. Again, the advantage derived from any given business depends so much upon the dexterity and the judgment with which it is managed, that few capitalists can estimate, except upon an average of some years, the amount of their own profit, and still fewer can estimate those of their neighbours. Established businesses, therefore may survive the causes in which they originated, and become gradually extinguished as their comparative unprofitableness is discovered, and the labourers and capital engaged in them wear away without being replaced; and, on the other hand, other employments are inadequately supplied with the capital and industry which they could profitably absorb.<sup>47</sup>

Competition was not free and it had little or no influence upon the actual situation. The rigidities involved in production prevented the application of competition and freedom of entry. Senior came to the conclusion that the principle of competition represented a long run proposition or tendency. As a final effort, he sought consolation in this statement:

Political economy does not deal with particular facts, but with general tendencies, and when we assign to cost of production the power of regulating price in cases of equal competition, we mean to describe it not as a point to which price is attached, but as a centre of oscillation which it is always endeavouring to approach.<sup>48</sup>

In the final analysis, Senior was skeptical as to the predominance of competition, but went on to accept it as a regulator of price, production, and distribution. Labor and capital were responsible for production along with the natural elements (which man was free to utilize). All three of

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<sup>47</sup>Ibid., p. 102.

<sup>48</sup>Ibid.

these "factors" were subject to the Law of Diminishing Returns, and, according to Senior, affected by the Law of Diminishing Returns more so because of the rigidities associated with production.

John Stuart Mill, in emphasizing the distinction between the Laws of Production and the Laws of Distribution, accepts the beliefs of his predecessors without question: "The laws and conditions of the Production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them."<sup>49</sup> The Laws of Distribution were subject to the customs and beliefs of the society. Mill also accepted Senior's addition of abstinence as entering into production. And like Senior, he accepted the contention that price must be adequate to cover the cost of production as representing only a long run tendency:

Persons whose capital is already embarked, and cannot be easily extricated, will persevere for a considerable time without profit, and have been known to persevere even at a loss, in hope of better times. But they will not do so indefinitely, or when there is nothing to indicate that times are likely to improve. No new capital will be invested in an employment, unless there be an expectation not only of some profit, but of a profit as great (regard being had to the degree of eligibility of the employment in other respects) as can be hoped for in any other occupation at that time and place. When such profit is evidently not to be had, if people do not actually withdraw their capital, they at least abstain from replacing it when consumed. The cost of production, together with the ordinary profit, may therefore be called the necessary price, or value, of all things made by labour and capital. Nobody willingly produces in the prospect of a loss.

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<sup>49</sup>John Stuart Mill, Principles of Political Economy, People's Edition, p. 199.

Whoever does so, does it under a miscalculation, which he corrects as fast as he is able . . . . As a general rule, then, things tend to exchange for one another as such values as will enable each producer to be repaid the cost of production with the ordinary profit; in other words, such as will give to all producers the same rate of profit on their outlay.<sup>50</sup>

In this, and the rest of his book, Mill seeks to bring together the major theories of the Classical Economists. In the above statement Mill accepts Senior's argument on the restriction of competition, but he goes on to state that the cost of production is the regulator of price, value, and production. There is quite an element of inconsistency here. However, it is well that Mill's writings be enumerated as to the theory of production and the nature of production. For within Mill is the whole of Classical theory up to his time. The attacke made upon Classical Economics during Mill's lifetime, by the Socialists and others, led him to attempt to re-study some points of Classical theory.

Mill's predecessors had tried to show that the reason the capitalist engaged in the productive process was the prospect for profit. As man is selfish and self-seeking, those capitalists will all try to better themselves financially. However, in doing this, they benefit the community. They apply the resources of the community in such a way as to gain a profit. With several capitalists operating thus, they enter into competition; this is a Natural Law. In competing for the money of the community, they necessarily force the price of

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<sup>50</sup>Ibid., pp. 374-75.

goods downward toward the cost of production price, the lowest possible price. This is especially true when there is plenty of goods to be had as production is stepped up. The community benefits from the actions of the capitalist in the form of increased wealth and lower prices. In referring to production, Mills definition is "Production of Wealth: the extraction of the instruments of human subsistence and enjoyment from the materials of the globe."<sup>51</sup> Throughout his first book he gives no further definition of it. However, in a later passage, he brings in transport as a species of production:

Improvements in production; understanding the last expression in its widest sense to include the process of procuring commodities from a distance, as well as that of producing them.<sup>52</sup>

Of the several elements entering into production, Mill speaks of labor. Defining productive labor as "only those kinds of exertion which produce utilities embodied in material objects,"<sup>53</sup> he is in strict accord with Smith. However, Mill was forced to admit other elements to determine productiveness. Although labor does not yield a material product as a direct result, it may be productive, says Mill, "provided that an increase of material products is its ultimate consequence."<sup>54</sup> Under this classification falls labor spent in acquiring a skill, "the labour of officers of

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<sup>51</sup>Ibid., preliminary remarks.      <sup>52</sup>Ibid., p. 421.

<sup>53</sup>Ibid., p. 30.      <sup>54</sup>Ibid.



government in affording protection"<sup>55</sup> to private property, and the labor of the capitalist, as they "increase, or tend to increase, material wealth."<sup>56</sup>

In defining unproductive labor, Mill adopts again the thoughts of Smith:

By unproductive labour, on the contrary, will be understood labour which does not terminate in material wealth, which, however largely or successfully practised, does not render the community and the world at large richer in material products, but poorer by all that is consumed by the labourers while so employed.<sup>57</sup>

From this statement, Mill develops and enumerates the various forms of unproductive labor:

All labour is, in the language of Political Economy, unproductive which ends in immediate enjoyment . . . or . . . which terminates in a permanent benefit . . . providing that an increase of material products form no part of the benefit.<sup>58</sup>

As illustrations, he includes missionaries and clergymen, and states that they are supported at the expense of the country which neglects its productive laborers as a consequence.

It follows that productive labor and capital are applied to production in accordance with the Natural Laws, which are fixed and unchangeable. And, so long as the capitalist receives a profit he will see that production is carried out. When the profit is not forthcoming, he will not encourage production. This will result in the consumption of the capital of the community in a non-productive manner. There are times when competition will force the price below the cost of

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<sup>55</sup> Ibid.    <sup>56</sup> Ibid.    <sup>57</sup> Ibid., p. 31.    <sup>58</sup> Ibid.

production; however, this is an exception. Usually this happens when the Natural Laws have been interfered with on the part of the government, monopoly, or any other actions. Such activity will certainly end in disaster.

There is very little difference, if any, in the central theories of Mill and Smith. In analysing the Classical Theory of Land and the Classical Theory of Rent, there is found very close correlation among the contributions of Smith, Say, Ricardo, Senior, and Mill.

Smith attacked the Physiocratic justification of rent in an effort to render Physiocracy a death blow. His followers completed the job.

All of the Classicists admitted the productivity of land to the extent that some of them thought it self evident and needed no explanation or demonstration; yet they refused to grant the landlords a return of a share in distribution on the same basis with labor and capital, arguing that the landlords were a monopoly group, and rent an unjust return.

Running through the theories of production of these various writers is a theory of waste and what they thought should be termed waste. Each of them asserted his belief in the Natural Laws of Production, and with the exception of Mill, in the Natural Laws of Distribution. They also were of the belief that nature was not wasteful; therefore, the Laws of Nature could not be wasteful. They were led to the conclusion that any interference with the operation of the Natural

Laws constituted an interruption of the Natural Order, which led to waste and to a decline in the amount of the wealth of a nation. If left to itself, the Classical System would cause goods to be produced in greater and greater quantities; which necessarily resulted, under the Natural Law of Competition, in lower and lower prices. The profit gained by the sale of goods was automatically invested, thus keeping in motion the productive process indefinitely. There could be no failure in demand, which was brought forth automatically by production.

What is more significant in connection with the thesis of this study is that if the Classical System was allowed to operate freely, there could be no waste.

### CHAPTER III

#### THE CLASSICAL THEORY OF WASTE

In Chapter II, the development of the Classical Theory of Production has been shown to rest primarily on belief in Natural Law. A theory of waste is contained in this theory of production. Such waste took the form of interference with the Natural Order and the Natural Laws which govern production. Any attempt to influence the operation of the Natural Law of Competition, Laissez faire policy, and the Automatic Market, would result in the creation of waste.

The Classicists were especially worried about waste in connection with the development and growth of capital. If the natural growth of capital was interfered with, then there could be no production. A statement by Adam Smith which is representative of the general Classical contentions along these lines is as follows:

But though the market price of every particular commodity is in this manner continually gravitating, if you may say so, towards the natural price, yet sometimes particular accidents, sometimes natural causes, and sometimes regulations of police, may, in many commodities, keep up the market price for a long time together, a good deal above the natural price.<sup>1</sup>

Thus, Smith implies within this observation, monopoly, government regulations, and human action as being antagonistic

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<sup>1</sup>Adam Smith, The Wealth of Nations, edited by Edwin Cannan, The Modern Library Edition, p. 59.

toward the Natural Laws that would expand the wealth of a nation.

### Government Interference

Expanding upon these negative influences, Smith makes a definite stand concerning the conflict between commerce and government, thus beginning his theory of waste. He says that "no two characters seem more inconsistent than those of trader and sovereign . . . ."<sup>2</sup>

Along theoretical lines, this attitude concerning the conflict of these two institutions is almost universal among the Classical Economists. Each of these institutions had certain duties to perform, and these duties should not overlap. On the subject of duties, Smith set up what he thought should be those of the sovereign:

According to the system of natural liberty, the sovereign has only three duties to attend to . . . . First, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting, and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual, or small number of individuals, though it may frequently do much more than repay it to a great society.<sup>3</sup>

These are the sovereign's duties. By assuming other duties, the sovereign impairs the system of Natural Liberty, upon

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<sup>2</sup>Ibid., p. 771.    <sup>3</sup>Ibid., p. 651.

which Classical Economics is based. Natural Liberty is the regulator of human action and establishes itself of its own accord. As an example, says Smith:

It is thus that every system which endeavours, either by extraordinary encouragements, to draw towards a particular species of industry a greater share of capital of the society than what would naturally go to it; or by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it; is in reality subversive of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes, instead of increasing, the real value of the annual produce of its land and labour. All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society.<sup>4</sup>

Thus, it is easy to understand why Smith was so violently opposed to government interference with the productive process. Any tampering with the delicate Natural Laws had its repercussions in the form of restricting Natural Liberty and industry, and in wasting the wealth which might have been used to increase capital, and the wealth of society.

A field of government action that was especially

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<sup>4</sup>Ibid., pp. 650-51.

distasteful to Smith was the tariff system. Along these lines, he offers his often-quoted illustration:

It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The tailor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a tailor . . . . All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.

What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.<sup>5</sup>

In support of his argument, Smith offers the wine industry as representative of his proposition and arrives at the conclusion that

whether the advantages which one country has over another be natural or acquired, is in this respect of no consequence. As long as the one country has those advantages and the other wants them, it will always be more advantageous for the latter, rather to buy of the former, than to make.<sup>6</sup>

Having completed his argument in favor of free trade, Smith endeavors to present a program whereby tariffs may be abolished:

Humanity may in this case require that the freedom of trade should be restored only by slow gradations, and with a great deal of reserve and circumspection. Were those high duties and prohibitions taken away all at once, cheaper market goods of the same kind might be poured so fast into the home market, as to deprive all at once many thousands of our people of their ordinary

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<sup>5</sup> Ibid., p. 424.

<sup>6</sup> Ibid., p. 425.

employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable.<sup>7</sup>

The reasoning here is that if profits are not forthcoming, there will be no future production. There would be an increase of wealth surely; but in the long run there would be a decline in wealth. As the goods flooded the markets, profits would decline, established enterprises would decline to a position that would block production in the future.

After offering a means of procuring free trade, Smith was very pessimistic as to the future of free trade:

To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interest of many individuals, irresistably oppose it.<sup>8</sup>

This statement constitutes a limitation of Smith's Theory of Laissez faire. Under that policy man should be allowed to pursue his own private interest in accordance with his rationality, and the nation would benefit through the Unseen Hand's operation. However, here the businessman, in pursuing his own private interest opposes the welfare of the nation, with Smith admitting the impossibility of correcting this undesirable situation.

Another action of government which Smith was opposed to was the regulation of the rate of interest, on which he wrote:

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<sup>7</sup>Ibid., p. 434.      <sup>8</sup>Ibid., pp. 437-38.



This regulation, instead of preventing, has been found from experience, to increase the evil of usury; the debtor being obliged to pay not only for the use of the money, but for the risk which his creditor runs by accepting a compensation for that use. He is obliged, if one may say so, to insure his creditor from the penalties of usury.<sup>9</sup>

Smith held a definite opinion that government regulation of any sort was not conducive to a workable economy. All government regulation should be eliminated. Laissez faire is the best possible policy to follow to increase the wealth of nations.

J. B. Say stated at the beginning of his book, Political Economy, "It is not nature, but ignorance and bad government, [my italics, T. E. Burns] that limits the productive powers of industry."<sup>10</sup>

Two pages further, Say, at first, seemingly contradicts himself, for he writes:

Whence this conclusion may be drawn, that national industry is limited, not by territorial extent, but by extent of capital.<sup>11</sup>

However, he hastens to explain that

the extent and fertility of a nation's territory depend a good deal upon its fortunate position. Whereas the power of its industry and capital depends upon its own good management; for it is always competent to improve the one and augment the other.<sup>12</sup>

Good government management, Say would argue, means that government should leave the conduct of industry to the businessman.

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<sup>9</sup> Ibid., p. 339.      <sup>10</sup> Say, op. cit., p. 17.

<sup>11</sup> Ibid., p. 19.      <sup>12</sup> Ibid.

A typical blast at government interference from the pen of the outspoken Say is the following passage which refers to Mercantilism as a form of government regulation:

Though governments have too often presumed upon their power to benefit the general wealth, by prescribing to agriculture and manufacture the raising of particular products, they have interfered much more particularly in the concerns of commerce, especially of external commerce. These bad consequences have resulted from a general system, distinguished by the name of exclusive or commercial system, which attributes the profits of a nation to what is technically called a favourable balance of trade.<sup>13</sup>

From this point he exposes the Mercantile system to violent criticism, which reaches its climax with a prophecy:

The day will come, sooner or later, when people will wonder at the necessity of taking all this trouble to expose the folly of a system, so childish and absurd, and yet often enforced at the point of a bayonet.<sup>14</sup>

All points considered, Say was much more critical of government tampering than Smith. He wrote of these injustices when it was not healthy to criticise his government. So one may conclude that he earnestly believed in his theories.

Smith had implied the automatic market concept that was later stated by Say, and referred to as "Say's Law of Markets." The "Law of Markets" asserted the belief that production financed consumption or that supply created its own demand.

Say's almost fanatical belief in the ability of the

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<sup>13</sup>Ibid., p. 93.    <sup>14</sup>Ibid., p. 105.

Market to establish an equilibrium and maintain it led him to ridicule any measure to bolster demand:

The same principle leads to the conclusion, that the encouragement of mere consumption is no benefit to commerce; for the difficulty lies in supplying the means, not in stimulating the desire of consumption; and we have seen, that production alone, furnishes those means. This is the aim of good government to stimulate production, of bad government to encourage consumption.<sup>15</sup>

This same opinion is held by Say on the supply side of the analysis:

. . . by reasons of the blunders of the nation or its government, production is stationary, or does not keep pace with consumption, the demand gradually declines; the value of the products is less than the charges of their production; no productive exertion is properly rewarded; profits and wages decrease; the employment of capital becomes less advantageous and more hazardous; it is consumed piecemeal, not through extravagance, but through necessity, and because the sources of profit are dried up. The labouring class experience want of work; families before in tolerable circumstances, are more cramped and confined; and those before in difficulties, are left altogether destitute. Depopulation, misery, and returning barbarism, occupy the place of abundance and happiness.

Such are the concomitants of declining production, which are only remedied by frugality, intelligence, activity, and freedom.<sup>16</sup>

Such are the penalties that are to be suffered if a government should attempt to meddle with the productive process, and interfere with the operation of the Natural Laws.

Finally, Say concludes the argument concerning Laissez faire with a "what's the use" attitude toward the creating of equilibrium through government policy by saying,

"Strictly speaking, there is no act of government but what

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<sup>15</sup>Ibid., p. 84.      <sup>16</sup>Ibid., pp. 84-85.

has some influence upon production."<sup>17</sup> As an afterthought, he blasts the arguments of writers who disagreed with him in this manner:

The grand mischiefs of authoritative interference proceed not from occasional exceptions to established maxims, but from false ideas of the nature of things, and the false maxims built upon them. It is then that mischief is done by wholesale, and evil pursuit upon system; for it is well to beware, that no set of men are more bigoted to system, than those who boast that they go upon none.<sup>18</sup>

The next form of government interference that Say sets his sights upon is that of taxation. From the beginning, Say is unalterably opposed to more than the minimum necessary:

Taxation is, doubtless, an evil, and one which should be reduced to the lowest possible degree; but, when once a given amount of taxation is admitted to be necessary, it is but common justice, to lay it equally on all three branches of industry.<sup>19</sup>

In other words, there is no justification for progressive taxation; it would hurt the development of capital (savings).

Further, he says:

Taxes and restrictive measures never can be a benefit; they are at best a necessary evil; to suppose them useful to the subjects at large, is to mistake the foundation of national prosperity, and to set at naught the principles of political economy.<sup>20</sup>

And still further,

But there is no branch of industry, that has suffered so much from the officious interference of authority in its details, as that of manufacture.<sup>21</sup>

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<sup>17</sup>Ibid., p. 87.    <sup>18</sup>Ibid., p. 88.    <sup>19</sup>Ibid., p. 114.

<sup>20</sup>Ibid.    <sup>21</sup>Ibid., p. 121.

The manufacturing industry, according to Say, is the most important cog in the economy and should not be tampered with. As a summary of his defense of low taxation, or no taxation, he offers an example of what has come to be known as the "shifting and incidence of taxation."

Hence, we may form an opinion of the extent to which government may carry its interference with benefit. The correspondence with the sample of conditions, expressed or implied, must be rigidly enforced, and government should meddle with production no further. I would wish to impress upon my readers, that the mere interference is itself an evil, even where it is of use: first, because it harasses and distresses individuals; and, secondly, because it costs money, either to the nation, if it be defrayed by government, that is to say, charged upon the public purse, or to the consumer, if it be charged upon the specific article; in the latter case, the charge must of course, enhance the price, thereby laying an additional tax upon the home consumer, and pro tanto discouraging the foreign demand.<sup>22</sup>

However, Say is forced to take the position that government policy can be a boon to production, as he had stated before.<sup>23</sup> And, what a government should do along this line of endeavor is enumerated in a later chapter:

But, although the public can not be itself a successful producer; it can at any rate give a powerful stimulus to individual productive energy, by well planned, well conducted, and well supported public works, particularly roads, canals, and harbours.<sup>24</sup>

But, if these institutions contribute to the "creation of wealth," then they are aiding in the production of capital; therefore, they are entitled to a return it seems, if consistency is in order. This is an argument for government aid to business enterprise.

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<sup>22</sup>Ibid., p. 127.

<sup>23</sup>Ibid., p. 84.

<sup>24</sup>Ibid., p. 146.

Say ends his remarks on the subject with a plea for a government program of this type:

. . . that the sacrifices made for the enlargement of human knowledge, or merely for its conservation, should not be reprobated, though directed to objects of no immediate or apparent utility. The sciences have an universal chain of connexion. One which seems purely speculative must advance a step, before another of great and obvious practical utility can be promoted. Besides it is impossible to say what useful properties may lie dormant in an object of mere curiosity. When the Dutchman Otto Guericke struck out the first sparks of electricity, who would have supposed they would have enabled Franklin to direct the lightning, and divert it from our edifices, an exploit apparently so far beyond the powers of man?<sup>25</sup>

The government should construct libraries so that science could be fostered. This in turn would benefit production by the development of new scientific processes. With the Natural Law of Competition operating, business enterprise would adapt these new processes to industry in the effort to stay in business. This would result in lowered prices and increased production; therefore, the public would benefit. These benefits would also take the form of profit gained by the investment in new industries.

Of the duties of government, Say thought that the protective duty was the most beneficial to business, and therefore, the consumer:

But of all the means, by which a government can stimulate production, there is none so powerful as the perfect security of person and property from the aggressions of arbitrary power.<sup>26</sup>

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<sup>25</sup>Ibid., p. 147.      <sup>26</sup>Ibid., p. 217.

The most harmful "assumed duty" of government was the tampering with the free flow of specie:

In the eyes of political economy, nothing is more absurd than to see governments prohibit the export of the national specie, as a means of checking the emigration of wealth.<sup>27</sup>

Say was so much concerned with the subject of government policy that he scattered his ideas throughout the book. And the ideas appear in almost every chapter. In the last paragraph of his book, Say ends with a warning--"The command of a large sum is a dangerous temptation to a national administration."<sup>28</sup>

Nassau Senior attempted to present both sides of the question of government intervention. Some of his writings are in favor of Laissez faire; but, other writings and actions tend to show that he was not oblivious to the possibility of benefits from government policy.

He was of the opinion that there was a possibility that distress and misery might exist in a country, in spite of output and distribution, strictly in accordance with the necessary exertion and foresight. Poverty thus caused is a matter for government action; it was "the imperious duty of Government" to alleviate it. But an overriding consideration for all social services was the maintenance of "Industry, forethought, and charity."<sup>29</sup> He went to the extent of

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<sup>27</sup>Ibid., p. 328.    <sup>28</sup>Ibid., p. 453.

<sup>29</sup>Erich Roll, A History of Economic Thought, p. 349.

advocating the advance of public money "to facilitate emigration and for the formation of roads, canals, and harbours" together with certain measures to aid Ireland.<sup>30</sup>

Senior was an exponent of Laissez faire, but he was not so unswervingly so, as were Smith and Say. Indeed, he was not accepting their ideas when he advocated government expenditures for social service.

In respect to government activity, John Stuart Mill applied the question: Will this increase or decrease human happiness? He concluded that happiness was best promoted by leaving men to follow their own inclinations, rather than by government action:

To be prevented from doing what one is inclined to, or from acting according to one's own judgement of what is desirable, is not only always irksome, but always tends pro tanto, to starve the development of some portion of the bodily or mental faculties, either sensitive or active; and unless the conscience of the individual goes freely with the legal restraints, it partakes, either in a great or in a small degree, of the degradation of slavery.<sup>31</sup>

A second objection to government action was

that every increase of the functions devolving on the government is an increase of its power, both in the form of authority, and still more, in the indirect form of influence.<sup>32</sup>

A third was the cause of administrative difficulties:

Every additional function undertaken by the government is a fresh occupation imposed upon a body already overcharged with duties.<sup>33</sup>

<sup>30</sup>Ibid. <sup>31</sup>Mill, op. cit., p. 569. <sup>32</sup>Ibid., p. 570.

<sup>33</sup>Ibid., p. 570.



What Mill regarded as "one of the strongest reasons against the extension of government agency" was that it sabotaged the development of the faculties of man:

A people among whom there is no habit of spontaneous action for a collective interest--who look habitually to their government to command or prompt them in all matters of joint concern--who expect to have everything done for them, except what can be made an affair of mere habit of routine--have their faculties only half developed; their education is defective in one of its most important branches.<sup>34</sup>

His final conclusion was apparently a compromise. Laissez faire was the rule, but it was subjected to "large exceptions." Mill admitted a rather long list of permissible government functions such as elementary education, colonization, regulation of hours of labor, the support of the poor, contracts in perpetuity, and inheritance, along with

. . . a variety of cases, in which important public services are to be performed, while yet there is no individual specially interested in performing them, nor would any adequate remuneration naturally or spontaneously attend their performance (such as a voyage or geographical or scientific exploration).<sup>35</sup>

On the subject of tariffs, Mill was in favor of free trade; however, in one particular instance protection was justifiable:

The only case in which, on mere principles of political economy, protecting duties can be defensible, is when they are imposed temporarily (especially in a young and rising nation) in hopes of naturalizing a foreign industry, in itself perfectly suitable to the circumstances of the country. The superiority of one country over another in a branch of production, often arises only from having begun it sooner. There may be no inherent advantage on

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<sup>34</sup>Ibid., p. 572.

<sup>35</sup>Ibid., p. 589.

one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire, may in other respects be better adapted to the production than those which were earlier in the field; and besides, it is a just remark of Mr. Rae, that nothing has a greater tendency to promote improvements in any branch of production, than its trial under a new set of conditions. But it cannot be expected that individuals should, at their own risk, or rather to their certain loss, introduce a new manufacture, and bear the burthen of carrying it on until the producers have been educated up to the level of those with whom the processes are traditional. A protecting duty, continued for a reasonable time, might sometimes be the least inconvenient mode in which a nation can tax itself for the support of such an experiment. But it is essential that the protection should be confined to cases in which there is good ground for assurance that the industry which it fosters will after a time be able to dispense with it; nor should the domestic producers ever be allowed to expect that it will be continued to them beyond the time necessary for a fair trial of what they are capable of accomplishing.<sup>36</sup>

Here, Mill allows government to interfere with "business as usual." He states that a country should put up with waste in the form of higher prices for a while so that the new industry will have time to learn the skill necessary to compete with the established industry. But, as Mill has said before,<sup>37</sup> the mere government interference will hinder the development of the skill through the stifling of education and the desire to become educated.

One of the leaders of the protectionist group, Henry Carey, took Mill to task, pointing out that the exportation of agricultural commodities diminished the stock of fertilizing ingredients of the soil. Mill admitted this, but replied

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<sup>36</sup>Ibid., p. 556.      <sup>37</sup>Ibid., p. 572.

that, when it ceased to pay better to break up new land than to manure the old, America would either become an importer of fertilizer or, "without protecting duties, grow corn for himself only and, manufacturing for himself, will make her manure, as Mr. Carey desires, at home."<sup>38</sup>

Mill's conclusion was that Carey's arguments were "totally invalid."

While Mill remained in the Classical camp on the subject of free trade, he departed from the usual advocacy of Laissez faire, at the expense of contradiction. In later life he considered Socialism as a cure for the ills of the world.

### Monopoly

From the start of Classical Theory, monopoly was constantly criticised by these writers. Monopoly was the main source of trouble and should be abolished.

Early in his book, Smith recognizes the influence of monopoly on price and production. His reference to black cloth during a public mourning has become a classic example:

Such fluctuations affect both the value and the rate either of wages or of profit, according as the market happens to be either over-stocked or under-stocked with commodities or with labour; with work done, or with work to be done. A public mourning raises the price of black cloth (with which the market is almost always under-stocked upon such occasions), and augments the profits of the merchants who possess any considerable quantity of it. It has no effect upon wages of the weavers. The market is under-stocked with commodities, not with labour; with work done, not with work to be done. It raises the wages of

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<sup>38</sup>Ibid., p. 557.

journeymen tailors. The market is here under-stocked with labour. There is an effectual demand for more labour, for more work to be done than can be had. It sinks the price of coloured silks and cloths, and thereby reduces the profits of the merchants who have any considerable quantity of them upon hand. It sinks too the wages of the workmen employed in preparing such commodities, for which all demand is stopped for six months, perhaps for a twelve-month. The market is here over-stocked both with commodities and with labour.<sup>39</sup>

The reasoning here is that any type of a monopoly interferes with the operation of the automatic market. When this happens, a considerable time must elapse before a readjustment may come about. However, Smith's opinion was that, in general, the market price was continually gravitating towards the cost of production in spite of this interruption. Under another monopoly arrangement, some capitalists would make excessive profits and would be able to conceal them for some time. This had the effect of preventing a large number of producers from entering that field of industry. As examples of this sort, Smith offers two such situations:

If the market is at a great distance from the residence of those who supply it, they may sometimes be able to keep the secret for several years together, and may so long enjoy their extraordinary profits without any new rivals.<sup>40</sup>

and,

A dyer who has found the means of producing a particular colour with materials which cost only half the price of those commonly made use of, may with good management, enjoy the advantage of his discovery as long as he lives, and even leave it as a legacy to his posterity.<sup>41</sup>

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<sup>39</sup>Smith, op. cit., p. 59.      <sup>40</sup>Ibid., p. 60.

<sup>41</sup>Ibid., p. 60.

But, under competition, these advantages are not supposed to last very long, and the producers soon come to find out his method by studying the laws of nature.

Smith concerns himself with another monopolistic condition where, in the case of some products of the land, the commodities may "continue for centuries" to be sold above the cost of production price. He states:

Such enhancements of the market price are evidently the effect of particular causes . . . which may hinder the effectual demand from ever being fully supplied, and which may continue, therefore, to operate for ever.<sup>42</sup>

Smith saw that natural restriction of supply, and artificial scarcity, caused the price to remain high.

Smith gave examples of other conditions where monopoly existed:

We rarely hear, it has been said, of the combinations of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit, but constant and uniform, combination, not to raise the wages of labour above their actual rate. To violate this combination is everywhere a most unpopular action, and a sort of reproach to a master among his neighbours and equals. We seldom, indeed, hear of this combination, because it is the usual, and one may say, the natural state of things which nobody ever hears of. Masters too sometimes enter into particular combinations to sink the wages of labour even below this rate. These are always conducted with the utmost silence and secrecy, till the moment of execution, and when the workmen yield, as they sometimes do without resistance, though severely felt by them, they are never heard of by other people. Such combinations, however, are frequently resisted by a contrary defensive combination of the workmen, who sometimes too, without any provocation of this kind, combine of

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<sup>42</sup>Ibid., p. 60.

their own accord to raise the price of their labour. Their usual pretences are, sometimes the high price of provisions; sometimes the great profit which their masters make by their work. But whether their combinations be offensive or defensive, they are always abundantly heard of.<sup>43</sup>

In Smith's own words, there is the admission that the Automatic Market often does not operate in the case of labor-management relations. This, Smith would say, is the result of tampering with the Natural Laws, or to be specific, the natural law of competition.

To emphasize the above observation, he later states that people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public; or in some contrivance to raise prices.<sup>44</sup>

Smith also spoke of land as a monopoly, and that its price was determined along monopoly principles:

The rent of land . . . is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but on what the farmer can afford to give.<sup>45</sup>

This discussion leads to the conclusion that Smith reached earlier in the book regarding monopoly price:

A monopoly granted either to an individual or to a trading company has the same effect as a secret in trade or manufacture. The monopolists, by keeping the market constantly under-stocked, by never fully supplying the effectual demand, sell their commodities much above their natural price, and raise their emoluments, whether they consist in wages or profit, greatly above their natural rate. The price of a monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, on the contrary, is the lowest

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<sup>43</sup>Ibid., pp. 66-67.

<sup>44</sup>Ibid., p. 126.

<sup>45</sup>Ibid., p. 145.

which can be taken, not upon every occasion indeed, but for any considerable time together. The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give: the other is the lowest which the sellers can commonly afford to take, and at the same time continue their business.<sup>46</sup>

Such restriction of supply and charging "what the traffic will bear" interferes with the operation of Natural Laws. However, in accordance with Classical Thought, profits are supposed to be saved and automatically invested. The high profits of the monopolist should produce increased savings and increased production.

The conclusion is reached, therefore, that the monopolist does not save his profits. The extractors of high profits do not practice frugality; rather, they waste their money chiefly through the financing of unproductive labor.

Wasteful conduct of the monopolists sacrifices the welfare of the society. Capital wasted by the monopolists should be invested and cause an increase of production with the resulting increase of wealth of the society.

Towards the end of his book, Smith discusses the practices of monopolists seeking favors from government:

This monopoly has so much increased the number of some particular tribes of them (manufactures), that, like an overgrown standing army, they have become formidable to the government, and upon many occasions, intimidate the legislature. The members of parliament who support every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men

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<sup>46</sup>Ibid., p. 61.

whose numbers and wealth render them of great importance. If he opposes them, on the contrary, and still more if he has authority enough to be able to thwart them, neither the most acknowledged probity, nor the highest rank, nor the greatest public services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.<sup>47</sup>

This statement is as applicable today as it was in the eighteenth century. Scarce any will doubt that there has been, and is at present, pressure brought to bear upon the lawmakers of countries by groups seeking special attention. And, according to Smith, legislation of this sort, favoring the monopolist, conflicts with the operation of the Natural Laws, causing waste.

"Monopoly" and "monopoly price" received extremely rough treatment from Say.

This analysis brings us to the point in question: are the gains of the privileged company, national gains? Undoubtedly not; for they are wholly taken from the pockets of the nation itself. The whole excess of value, paid by the consumer, beyond the rate at which free trade could afford the article, is not a value produced, but so much existing value presented by the government to the trader at the consumer's expense. It will probably be urged, that it must at least be admitted, that this profit remains and is spent at home. Granted: but by whom is it spent? that is the point. Should one member of a family possess himself of the whole family income; dress himself in fine clothes, and devour the best of everything; what consolation would it be to the rest of the family were he to say, what signifies it whether you or I spend the money? the income spent is the same, so it can make no difference.

The exclusive as well as usurious profits of monopoly would soon glut the privileged companies with wealth, could they depend upon the good management of their

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<sup>47</sup>Ibid., p. 438.



concerns; but the cupidity of the agents, the long pendency of distant adventures, the difficulty of bringing factors abroad to account, and the incapacity of those interested, are causes of ruin in constant activity. Long and delicate operations of commerce require superior exertion and intelligence in the parties interested. And how can such qualities be expected in shareholders amounting sometimes to several hundreds, all of them having other matters of more personal importance to look after.<sup>48</sup>

Within this passage, Say classifies monopoly and stock companies (forerunners of the corporations of today) as being the same. He was optimistic as to the outcome of the development of these institutions in saying that they would destroy themselves by their own mismanagement.

On the subject of the monopoly of land, Say agrees with Smith by saying:

Landed proprietors, therefore, at least in those countries which have been long peopled and cultivated, are enabled to force a kind of monopoly against the farmers. The demand for their commodity, land, may go on continually increasing; but the quantity of it can never be extended.<sup>49</sup>

Say's and Smith's theories of capital and land embody a theory of monopoly. A monopoly position is created by an artificial or a natural limitation of supply. Those who gain a monopoly position are able to extract high profits as a result of scarcity. If the monopolist saved his return and invested it, there would be no cause for alarm. However, the monopolist does not save his income. Action of this sort results in a restriction of the supply of capital and a decline in production and wealth.

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<sup>48</sup>Say, op. cit., p. 132.    <sup>49</sup>Ibid., p. 218.

The monopolist is not to be condemned so much for his fortunate position, but rather for the waste he creates.

At the end of the book, Say made a final observation regarding foreign trade of his period and the consequences of it:

Nothing, but the bait of exclusive privilege and monopoly profit, or the violent derangement of internal industry, can induce an European nation, not possessed of a large surplus capital, to engage in the colonial or East India trade.<sup>50</sup>

His former optimism seemingly fades with the completion of his study. Say's indictment of the monopolist on the score of denying purchasing power to the lower economic groups has remained true, and is subject to revival now and then by the writers of various periods on the subject. But, beyond this is the implication that the effectual demand of the lower economic group is in jeopardy; the very thing that Say said could not happen because of his Law of Markets. But Say's real interest, as well as Smith's, was the effect of monopoly upon capital growth. The conclusion they drew was that monopoly interfered with the Natural Order and inhibited the formation of capital by blocking the savings of the community.

Ricardo's theories were limited to conditions of free competition in industry. However, he admitted certain exceptions mentioned earlier in his determinants of price. These were the "rare statues and pictures," et cetera, whose

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<sup>50</sup> Ibid., p. 315.

value was independent of the labor required to produce them. These exceptions were in fixed supply, and their value depended upon "the varying wealth and inclinations of those who are desirous to possess them." But, in Ricardo's opinion, such cases were exceptions and could be overlooked. This was not the case of land, however. From his analysis of rent, also mentioned previously, the conclusion is reached that it is a monopoly return.

In Senior's Political Economy, there are passages that might lead one to the conclusion that he was not a very orthodox Classical Economist. This is true, for example, of his theorizing on monopoly. How he handled this subject has been elaborated upon, to some extent, in connection with his theory of production mentioned above. Of the five different ways in which production could take place, only one of them has the element of competition in it; this was the case "with all persons being capable of producing with equal advantage." Only under this condition could price equal the cost of production, that is, the cost of labor and abstinence. Having developed the theory thus far, Senior did not go forward with the details and implications involved, which he must have seen. Possibly, he thought that such a writing would go against the climate of opinion, and that it meant the coup de grace to Classical Thought.

The Classicists that preceded Senior had condemned monopoly as wasteful. These writers, however, considered

monopoly an exception to the generally prevailing condition of competition. Senior's examination produced five conditions of production wherein only one of these conditions included competition. The other four conditions were ruled by monopoly principles. This is tantamount to saying that production is carried on generally under conditions of monopoly; therefore, following Senior, production, which the Classicists assumed as competitive was a wasteful procedure.

In his Principles of Political Economy, Mill mentioned cases in which abnormal profits were reaped by patentees and others. He elaborates upon the monopoly possessed by the skilled laborer as compared to the unskilled worker. But, he says that the unskilled worker need only to learn the skill and he is then in a position to compete. If such reasoning were applied to industry, and Mill infers this, monopoly would have little or no effect on the functioning of the economy.<sup>50</sup>

All things considered, Mill was almost as oblivious to the importance of monopoly as Ricardo.

The Classical Economists were concerned, chiefly, with the effect of monopoly upon the Natural Laws and the expansion of capital. They also saw that monopoly restricted the freedom of entry so essential to the concept of competition. Once a monopoly condition developed in a field of industry,

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<sup>50</sup>Mill, op. cit., see Bk. II, ch. 14, sec. 2.

those left in the industry, and finally the general public, felt an immediate decline in the circulation and distribution of wealth. Monopoly limited savings and inhibited the desire to save. Thus, business enterprise was hampered by the anestheticization of the Natural Laws necessarily causing waste.

### The Division of Labor

While the advantages of the division of labor are great, Smith early realized that there were consequences involved:

In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of people, comes to be confined to a few very simple operations; frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties that never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgement concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard with abhorrence the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body; and renders him incapable of exerting his strength with vigour and perseverance, in any other employment than that to which he has been bred. His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society this is the state into which the labouring poor, that is, the

great body of people, must necessarily fall, unless government takes some pains to prevent it.<sup>51</sup>

This is not a pleasing picture of the development of an industrial nation.

Say also was of the opinion that the division of labor has an undesirable effect upon the worker:

On the whole, we may conclude that division of labour is a skillful mode of employing human agency, that it consequently multiplies the productions of society, in other words, the powers and enjoyments of mankind, but that it in some degree degrades the faculties of man in his individual capacities.<sup>52</sup>

However, Say was of the opinion that the benefits outweighed the losses incurred. He, in fact, along with Smith, seemingly advocated this "degradation" so that society would benefit. But, according to Smith, this class, the workers, constituted the majority of society.

Be this as it may, it is not at all consistent with the statement by Mill that the productivity of labor has risen over six hundred thousand times.<sup>53</sup> Mill was of the opinion that the division of labor did not cause such a breakdown. He thought that the laborer necessarily became educated because competition demanded it.

Mill went to the extent of advocating elementary education at the expense of government--at the expense also of contradiction of the Classical line of thought.

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<sup>51</sup>Smith, op. cit., pp. 734-35.      <sup>52</sup>Say, op. cit., p. 40.

<sup>53</sup>Mill, op. cit., p. 183.

### Waste in Regard to Distribution

Smith recognized that waste took place in the society outside of the productive area, narrowly defined. He charged the monopolists (the owners of the great mercantile capitals) as being the root of this waste:

Besides all the bad effects to the country in general, which have already been mentioned as necessarily resulting . . . there is one more fatal, perhaps, than all these put together, but which, if we may judge from experience, is inseparably connected with it. The high rate of profit seems every where to destroy that parsimony which in other circumstances is natural to the character of the merchant. When profits are high, that sober virtue seems to be superfluous, and expensive luxury to suit better the affluence of his situation. But the owners of the great mercantile capitals are necessarily the leaders and conductors of the whole industry of every nation, and their example has a much greater influence upon the manners of the whole industrious part of it than that of any other order of men. If his employer is attentive and parsimonious, the workman is very likely to be so too; but if the master is dissolute and disorderly, the servant who shapes his work according to the pattern which his master prescribes to him, will shape his life too according to the example which he sets him. Accumulation is thus prevented in the hands of all those who are naturally the most disposed to accumulate; and the funds destined for the maintenance of productive labour receive no augmentation from the revenue of those who ought naturally to augment them the most. The capital of the country instead of increasing, gradually dwindles away.<sup>54</sup>

The monopolist, in his desire to impress, sets off a chain reaction among the lower economic groups. The waste from this sort of activity, even practiced by the workers, results in the destruction of the capital of a nation. The monopolist has, in effect, disturbed the Natural flow of the produce of a society (distribution).

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<sup>54</sup>Smith, op. cit., p. 578.

As the originator of wasteful activity such as mentioned by Smith, government action is indicted by Say, who states:

The government has, in all countries, a vast influence in determining the character of the national consumption; not only because it absolutely directs the consumption of the state itself, but because a great proportion of the consumption of individuals is guided by its will and example. If the government indulge a taste for splendour and ostentation, splendour and ostentation will be the order of the day, with the host of imitators; and even those of better judgement and discretion must, in some measure yield to the torrent. For, how seldom are they independent of that consideration and good opinion, which, under such circumstances, are to be earned, not by personal qualities, but by a course of extravagance they cannot approve.<sup>55</sup>

Still another source of waste is expounded upon by Mill who traces it to customs and laws of society, and concludes that

the distribution of wealth, therefore, depends on the laws and customs of society. The rules by which it is determined, are what the opinions and feelings of the ruling portion of the community make them, and are very different in different ages and countries; and might be still more different, if mankind so chose.<sup>56</sup>

In this statement, Mill tries to reconcile Smith and Say along with his own theory on the subject. As can readily be seen, the final conclusion as to the determinants of the distribution of wealth are at complete variance with the original hypothesis, that distribution is determined by the Natural Laws. This type of distribution could not be explained as a Divine Phenomenon. Under the Natural Law concept, those who got the higher incomes were supposed to automatically reinvest them. But, obviously this was not the case. Capital

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<sup>55</sup> Smith, op. cit., p. 361.

<sup>56</sup> Mill, op. cit., pp.123-24.



was being destroyed without explanation which would fit into the Natural Law concept. Therefore, Smith and Say thought that possible interference with these Laws was the cause. They rationalized that the Mercantilist (the monopolist) or government was the answer--after all they were the cause of most all other interference.

Mill's explanation is significant because he recognized that the Natural Laws did not govern the distribution of a society, but he stuck with the idea that Natural Laws did govern production. The question arises: if custom determines the distribution of income, then this same custom affects production, and interferes with the Natural Laws, does it not? The Classicists made the distribution analysis a part of their production theory to the effect that distribution determined future production under the Natural Law of Competition. Production, therefore, is at least partially determined by distribution. If custom determines distribution, then it also determines production as a result. But, this is not general Classical Theory. In general, the Classicists would argue that the Laws of Distribution and the Laws of Production are Laws of Nature and complementary to one another.

#### Waste in Consumption

In connection with wasteful consumption, Smith demonstrates his theories at the expense of his favorite example of all that is bad; the landlord:

It is to no purpose, that the proud and unfeeling landlord views his extensive fields, and without a thought for the wants of his bretheren, in imagination consumes himself the whole harvest that grows upon them. The homely and vulgar proverb, that the eye is larger than the belly, never was more fully verified than with regard to him. The capacity of his stomach bears no proportion to the immensity of his desires, and will receive no more than that of the meanest peasant. The rest he is obliged to distribute among those who fit up the palace in which this little is to be consumed, among those who provide and keep in order all the different babbles and trinkets, which are employed in the economy of greatness; all of whom thus derive from his luxury and caprice, that share of the necessities of life, which they would in vain have expected from his humanity or his justice . . . . The rich only select from the heap what is most precious.<sup>57</sup>

Smith, once again, is the optimist in believing that things will be all right, for the faithful Natural Laws finally come into play after a while to rescue the unfortunate laborer:

They (the landlords) are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants; and thus, without intending it, without knowing it, advanced the interest of society, and afford means to the multiplication of the species.<sup>58</sup>

To this he adds a thought which is clearly a carryover from the Canonists:

When Providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seem to have been left out in the partition. These last, too, enjoy their share of all it produces.<sup>59</sup>

As is true of most all of Smith's theories, God was the cause of all phenomena. Yet, here is the statement that God made

<sup>57</sup>Adam Smith, The Theory of Moral Sentiments, seventh edition, I, 465-66.

<sup>58</sup>Ibid., p. 467.

<sup>59</sup>Ibid.

possible, even participated in, the appropriation so necessary for the existence of production, distribution, consumption, and waste.

In discussing waste through consumption, Say was very prolific. He devoted a considerable amount of his book to it. There is no section or chapter in the book devoted to the subject exclusively; his ideas are to be found scattered throughout it. This is especially true in the part devoted to consumption. However, before taking up that part of the book, it is well to notice some of the statements found elsewhere.

The accumulation and method of accumulation of wealth receives attention early in his writings:

. . . the growing wealth of an individual, when honestly acquired and reproductively employed, far from being viewed with jealous eyes, ought to be hailed as a source of general prosperity. I say honestly acquired, because a fortune amassed by rapine or extortion is no addition to the national stock, it is rather a portion of capital transferred from the hands of one man, where it already existed, to those of another, who has exerted no productive industry. On the contrary, it is but too common, that wealth ill gotten is ill spent also.<sup>60</sup>

This is an extension of Smith's landlord argument to all phases of society. Smith had said that the landlord did not reinvest his savings, rather, he squandered them. Say recognizes the possibility that others in the society might be addicted to the same behavior.

What Say called "immaterial production" was wasteful as

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<sup>60</sup>Say, op. cit., p. 61.

it led to wasteful consumption, or rather, wasteful consumption required immaterial production:

The nature of Immaterial products makes it impossible ever to accumulate them, so as to render them a part of the national capital. A people containing a host of musicians, priests, and public functionaries, might be abundantly amused, well versed in religious doctrines, and admirably governed; but that is all. Its capital would receive no direct accession from the total labour of all these individuals, though industrious enough in their respective vocations, because their products would be consumed as fast as produced.<sup>61</sup>

This led to the conclusion that

consequently, nothing is gained on the score of public prosperity, by ingeniously creating an unnatural demand for the labour of any of these professions: the labour diverted into that channel of production can not be increased, without increasing the consumption also. If this consumption yield a gratification, then indeed we may console ourselves for the sacrifice; but when that consumption is itself an evil, it must be confessed, the system which causes it is deplorable enough.<sup>62</sup>

In this connection, the capital of a nation is destroyed, both in the training of these immaterial producers and the necessary subsistence (consumption) partaken by them. There was also the case of the immaterial producer who did not employ much capital in training:

Of this description is the service of a menial domestic. Their service is little or nothing, and the application of that art is made by the employer; so that nothing is left to the servant, but the executive business of service which is the lowest of industrious operations.

It necessarily follows that, of this class of industry, and some few others practised by the lowest ranks of society, that of the porter for instance, or of the prostitute, etc. etc.: the charge of training being little or nothing, the products may be looked upon not only as the fruits of very coarse and primitive industry, but

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<sup>61</sup>Say, op. cit., pp. 64-65.      <sup>62</sup>Ibid., p. 65.

likewise as products, to the creation of which capital has contributed nothing.<sup>63</sup>

These people were wasters from the point of view of the destruction of capital through consumption.

Another form of waste takes place where an item of capital producing bare utility is "liable to wear and tear . . . ; and if that wear and tear be not made good out of the savings of annual revenue, there is a gradual dissipation and reduction of capital."<sup>64</sup>

In indicting the stockholder as a waster, Say concludes with this observation:

The man that lives upon the productions of other people originates no demand for those productions; he merely puts himself in the place of the producer, to the great injury of production.<sup>65</sup>

Thus, the stockholder places himself in a position which he knows nothing about, with the result that the efficiency of the workers is lessened. He also draws his share of the profits which he wastes.

Consumption should follow the rules of economy to be beneficial to mankind for "all, who do not learn to economize like their neighbour, must necessarily lose, while others are gaining."<sup>66</sup> This applies to all activity. As an illustration, Say mentions that

a merchant that spends 50,000 fr. in the acquisition of 30,000 fr. stands, in respect to his private concerns and to the general wealth of the community, upon exactly the

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<sup>63</sup>Ibid., pp. 66-67.      <sup>64</sup>Ibid., p. 68.      <sup>65</sup>Ibid., p. 81.

<sup>66</sup>Ibid., p. 356.

same footing, as a man of fashion, who spends 20,000 fr. in horses, mistresses, gluttony, or ostentation, except, perhaps that the latter has more pleasure and personal gratification for his money.<sup>67</sup>

No matter what occupation or profession a man pursues, if he does not economize in his operations, he falls into the all catching category of a waster of the capital of the community.

Next to be considered of Say's theories, are those concerning the consumption of immaterial products, of which he lists: "the pleasures of the table, of play, of pyrotechnic exhibitions, and the like" as being the most wasteful, for they are of the shortest duration.<sup>68</sup> An example of these forms of waste is offered in a demonstration of one of his observations:

I have seen villages, that, although in want of good water, yet do not hesitate to spend in a wake or festival, that lasts but one day, as much money as would suffice to construct a conduit for the supply of that necessary of life, and a fountain or public cistern on the village green; the inhabitants preferring to get once drunk in honour of the squire or saint; and to go day after day with the greatest inconvenience, and bring muddy water from a league distance. The filth and discomfort prevalent in rustic habitations are attributable, partly to poverty, and partly to injudicious consumption.<sup>69</sup>

He concludes this observation by saying:

These conclusions of theory have been confirmed by experience. Misery is the inseparable companion of luxury. The man of wealth and ostentation squanders upon costly trinkets, sumptuous repasts, magnificent mansions, dogs, horses, and mistresses, a portion of value, which, vested in productive occupations, would enable a multitude of willing labourers, whom his extravagance now consigns to idleness and misery, to provide themselves with warm clothing, nourishing food, and household conveniences.

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<sup>67</sup>Ibid., p. 356.

<sup>68</sup>Ibid., p. 360.

<sup>69</sup>Ibid., p. 360.

The gold buckles of the rich man leave the poor one without shoes to his feet; and the labourer will want a shirt to his back, while his rich neighbour glitters in velvet.<sup>70</sup>

Here, Say reaches the conclusion that a concentration of wealth results in waste, to the extent that there is unemployment and poverty among the masses. After reaching such a conclusion, Say attacks the rich with all the vigor of a reformer:

The apologists of luxury have sometimes gone so far as to cry up the advantages of misery and indigence; on the ground, that, without the stimulus of want, the lower classes of mankind could never be impelled to labour, so that neither the upper classes, nor society at large, could have the benefit of their exertions.

Happily, this position is as false in principle as it would be cruel in practice.<sup>71</sup>

Say goes on to recommend a more equal distribution of income and warns that

it is time for the rich to abandon the puerile apprehension of losing the objects of their sensuality, if the poor man's comforts be promoted. On the contrary reason and experience concur in teaching, that the greatest variety, abundance, and refinement of enjoyment are to be found in those countries, where wealth abounds most, and is the most widely diffused.<sup>72</sup>

Another form of waste that a country undertakes, is that of religion. And Say does not hesitate to chastise the people and the church for such activity. During his time, the French government supported the Catholic Church.

The saints and madonnas of superstitious nations, the splendid pagentry and richly decorated idols of Asiatic worship, gave life to no agricultural or manufacturing enterprise. The riches of the fane and the time lost in adoration would really purchase the blessings, that

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<sup>70</sup>Ibid., p. 370.

<sup>71</sup>Ibid., p. 372.

<sup>72</sup>Ibid., p. 373.

barren prayers can never extort from the object of idolatry. There is a great deal of inert capital in countries, where the national habits lead to the extended use of the precious metals in furniture, clothes, and decorations. The silly admiration bestowed by the lower orders on the display of such idle and unproductive finery, is hostile to their own interests.<sup>73</sup>

After consideration of these activities of a society that Say recognizes as waste, the question arises as to what should be the rules or guides to follow in establishing the correct forms of consumption. Say's opinion was as follows:

In this point of view; the most judicious kinds of consumption seem to be:

1. Such as to conduce to the satisfaction of positive wants; by which term I mean those, upon the satisfaction of which depends the existence, the health, and the contentment of the generality of mankind; being the very reverse of such, as are generated by refined sensuality, pride, and caprice. Thus, the national consumption will, on the whole, be judicious; if it absorb articles rather of convenience than of display.
2. Such as are the most gradual, and absorb products of the best quality. A nation or an individual, will do wisely to direct consumption chiefly to those articles, that are the longest time in wearing out, and the most frequently in use. Good houses, and furniture are, therefore, objects of judicious preference; for there are few products that take longer time to consume than a house, or that are of more frequent utility; in fact, the best part of one's life is passed in it. Frequent changes of fashion are unwise; for fashion takes upon itself to throw things away long before they have lost their utility; and sometimes before they have lost even the freshness of novelty, thus multiplying consumption exceedingly, and rejecting as good for nothing what is perhaps still useful, convenient, or even elegant. So that a rapid succession of fashions impoverishes a state, as well by the consumption it occasions, as by that which it arrests.
3. The collective consumption of many labourers.
4. Those kinds of consumption are judicious, which are consistent with moral rectitude.<sup>74</sup>

There is almost complete agreement with the theories of

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<sup>73</sup>Ibid., p. 62.      <sup>74</sup>Ibid., pp. 358-61.



Say and Mill on waste in consumption. It has been said that Mill was a disciple of Say's, and such might be correct, one could infer from his passage on productive and unproductive labour:

The services of the labourers, if useful, were obtained at a sacrifice to the world of a portion of material wealth; if useless, all that these labourers consumed was, to the world, waste.<sup>75</sup>

Mill made a direct attack upon the society that existed in his time. Unlike Ricardo, Mill recognized the fact that great inequalities and enormous waste existed in the world. He read and knew of Marx and Communism; he was also aware of its possibilities. So aware was he that he went so far as to consider its adoption:

If, therefore, the choice were to be made between Communism with all its chances, and the present state of society with all its sufferings and injustices, if the institution of private property necessarily carried with it as a consequence, that the produce of labour should be apportioned as we now see it, almost in an inverse ratio to the labour--the largest portions to those who have never worked at all, the next largest to those whose work is almost nominal, and so on in a descending scale, the remuneration dwindling as the work grows harder and more disagreeable, until the most fatiguing and exhausting bodily labour cannot count with certainty on being able to earn even the necessaries of life; if this, or Communism were the alternative, all the difficulties, great or small, of Communism would be as dust in the balance.<sup>76</sup>

Mill implies in this passage the theory that the low income received by the workers was a cause of inefficiency in production. Mill deplored the distribution which allowed idlers to waste the capital of a nation, while the actual producers of

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<sup>75</sup>Mill, op. cit., p. 31.      <sup>76</sup>Ibid., p. 128.

this wealth suffered as a consequence. They suffered to the extent that they were not interested in their work and were inefficient. Thus, the whole of society suffered as a result. Mill was driven to considering Communism as a means to cure this problem.

#### Summary

It was assumed, by the Classical Economists, that the Natural Laws operated in production subject to only minor interruptions which would smooth themselves out over the long run. But in distribution, the Natural Laws were also supposed to operate to give the participants their just share of the production, according to Smith and Say. Although Say raised serious questions as to the ability of the Natural Laws to justly reward certain of those employed in industry, he never did refute the Natural Laws of Distribution. Mill accepted the Natural Law concept in production, but refuted it as applied to distribution. In fact he was accurate in stating that distribution was decided by the customs and habits of a society. He was so disgusted with the then present system of distribution that he went so far as to suggest Communism as an alternative.

Monopoly interfered with the operation of the Natural Laws by stifling competition. This caused prices to rise. As prices rose, savings were diminished. The large profits derived by the monopolist were squandered, and they destroyed

parsimony. When parsimony is destroyed, capital cannot accumulate. If there is no accumulation of capital, then there is no future industry and production.

Monopolies also influenced governments to interfere with the Natural Laws. If a monopoly gained a favored position through government action, the Natural Law of competition was crippled along with the functioning of the automatic market.

Waste occurring in the final phase of economic activity, consumption, received quite a large amount of attention. For, it is here, in the consumptive operation, that the fate of the Classical System lies.

If consumption is carried on wisely, within those limits set by the Natural Laws, then wealth will expand. The inherent selfishness and self seeking of man will cause him to save some of the wealth he receives. The wealth that is saved is automatically invested, causing more production, and more wealth.

However, if consumption is carried on unwisely, contrary to the Natural Laws, then there is a decline in the amount of saving. Unwise consumption takes the form of display on the part of individuals and nations alike. With demonstrations of wealth there is waste such as fireworks, ornate buildings and furnishings, changing fashions, drunken celebrations, elaborate observances, et cetera. All this activity costs money and results in handicap to the material advancement of a nation. When money is spent in such a manner, it causes a

decline in saving and consumption. Savings, the more important, are sacrificed. There then results the repercussions in the productive effort. Future production is torpedoed through the decline in saving. Waste occurs when capital is destroyed. Waste also occurs with a decline in consumption of a population, for they become poorer and less able to produce.

The Classical Economists were aware of the fact that waste occurred in the economy. It was their opinion that the major cause of such activity was monopoly. Government interference was the next most important cause of waste. Monopoly and government interference destroyed capital. The economy could not operate without an expansion of capital, for there would be no production as a consequence. Production was impossible without capital. And, according to the Classical definitions of capital, the most important element of capital was money. Therefore, the destruction of money, and the prevention of the accumulation of money, was waste.

Although the Classical Economists concerned themselves with other forms of waste, they considered them incidental to the main culprit, monopoly.

## CHAPTER IV

### THE VEBLENIAN THEORY OF PRODUCTION

#### Part 1--Introduction

Substratively, there is no argument between the Classical, Austrian, and Neo-Classical theories of production and waste. Production, operating under the God-created Natural Laws employed land, labor, and capital to produce wealth. Production would take place as long as the prospects for profit were favorable, that is, so long as profits were large enough to allow the capitalist an "adequate" return. Thus, the capitalist and his profits became the hub of the orthodox system.

Alfred Marshall's homely comparison of the peasant woman with the capitalist attested to the belief that the practice of the capitalist, in his eternal quest for profits by gathering the resources of the community at his disposal and investing or manipulating them accordingly, was the most efficient procedure. It is here that the continuity of the Divine Unseen Hand can be ascertained. The community places its resources at the disposal of the capitalist for use in production. The capitalist takes the resources and applies them to production. Such action on the part of the capitalist is the result of an instinct that makes him selfish and self-seeking.

But, in pursuing his own interest, the capitalist is led once again by the Unseen Hand to promote the interest of the community. The Natural Law of Competition causes the community to benefit through higher production and lower prices.

The orthodox economists expressed complete assiduity in the Natural, or Normal Laws. As long as the process of production, distribution, and consumption operated within the limits set by the Natural Laws there could be no waste. But, the orthodox economists were driven to recognize the phenomena of waste. Therefore, they argued, waste was the result of interference with the Natural Laws. Although some attention was expressed concerning the various forms of waste, attention was especially focused upon monopoly. Monopoly interfered with the Natural or Normal operation of business enterprise; therefore, waste was the consequence of monopoly. The most destructive consequence of monopoly procedure was the annihilation of capital.

Since the beginning of Classical Economic Thought, it had been subject to criticism from several points of view. But during the latter half of the nineteenth century the attacks became more numerous and more violent. With the socialists leading the attack, the principles of the Classical School came to be questioned at every turn.

Depressions had come to be a common condition of business. Unemployment was continually in evidence. War and the threat of war occupied the minds of men constantly.

At the same time, during the last half of the 1800's, there was a tremendous increase in the growth of scientific knowledge and thought.

Many came to feel that Classical Economic Thought no longer held the answers to the problem of improving the lot of the world. The Classicists had no theory of unemployment, depressions, or waste that explained the prevailing conditions. The rest of their theories did not present solutions to the problems. In fact, the Classical theories did not seem to apply to the actual conditions that prevailed.

Among those who questioned Classical Thought was Thorstein Bunde Veblen who founded the Institutional School of Economic Thought. His theories are seemingly the most destructive to Classical Economics, and also are more or less antagonistic to all other systems of thought of the late 1800's. The views of Veblen represent an entirely different approach concerning the theory of production and waste. The theory of production of this "underworld" economist may be said to be completely contradictory to the orthodox suasion.

Production, according to Veblen, had its foundation in what he referred to as the "instincts" of mankind:

For mankind as far as the other higher animals, the life of the species is conditioned by the complement of instinctive proclivities and tropismatic aptitudes with which the species is typically endowed. Not only is the continued life of the race dependent on the adequacy of its instinctive proclivities in this way, but the routine and details of its life are also, in the last resort, determined by these instincts. These are the prime movers in human behavior of all those animals that show

self-direction or discretion. Human activity, in so far as it can be spoken of as conduct, can never exceed the scope of these instinctive dispositions, by initiative of which man takes action.<sup>1</sup>

The "instinctive proclivities," however, were different from the "tropismatic aptitudes." The instincts were the more important and constructive, for, "instinct, as distinguished from tropismatic action, involves consciousness and adaptation to an end aimed at."<sup>2</sup>

Man was endowed with various instincts to aid him in his pursuit of survival. Some instincts were dependent upon and contingent to instincts of more saliency and eminence. These primordial instincts, therefore, were the basal determinants of human activity. Of these more important instincts, Veblen concerned himself with those that contributed to the advancement of the race. The instinct which occupied the position of provenience within this highest order was the instinct of workmanship:

Chief among those instinctive dispositions that conduce directly to the material well being of the race, and therefore to its biological success, is perhaps the instinctive bias here spoken of as the sense of workmanship. The only other instinctive factor of human nature that could with any likelihood dispute this primacy would be the parental bent. Indeed, the two have much in common.<sup>3</sup>

Veblen had considerable trouble expressing himself and his position because of the inadequacies of language and terminology at his disposal. However, he attempted a clarification. It is apparent that he was of the opinion that the term

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<sup>1</sup>Thorstein B. Veblen, The Instinct of Workmanship, p. 1.

<sup>2</sup>Ibid., p. 4.    <sup>3</sup>Ibid., p. 26.



"instinct" was too broad and indefinite; it was also a very controversial term. He finally stated that "the instinct of workmanship is an expression to signify a concurrence of several instinctive aptitudes."<sup>4</sup> But, throughout the rest of the book, The Instinct of Workmanship, Veblen used the term "instinct of workmanship," without its definition, more or less as a convenience.

In demonstrating evidence of the existence of the instinct of workmanship, Veblen stated that

the instinct of workmanship, on the other hand, occupies the interest with practical expedients, ways and means, devices and contrivances of efficiency and economy, proficient, creative work and technological mastery of facts . . . . It shows at its best, both in the individual workman's technological proficiency and in the growth of technological proficiency and insight in the community at large, under the circumstances of moderate exigencies.<sup>5</sup>

So long as there is a healthy economy, the instinct of workmanship will direct the advancement of the community. When the economy is operating smoothly there is a time when man does not have to concern himself with the present; he then looks to the future.

Veblen recognized another trait in mankind that tended to aid and supplement the instinct of workmanship. This trait was "instinctive curiosity" which was "an idle curiosity by force of which man more or less insistently, want to know things, when graver interests do not engross their attention."<sup>6</sup> Idle curiosity worked with the instinct of

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<sup>4</sup>Ibid., p. 27.

<sup>5</sup>Ibid., p. 34.

<sup>6</sup>Ibid., p. 85.

workmanship to create knowledge of technological ways and means.

Through the combined interplay of the instinct of workmanship and idle curiosity, knowledge will develop, if the economy manages to maintain a stable progressive position.

From the beginning of mankind, the instinct of workmanship and idle curiosity have aided man in the struggle for survival:

The instinct of workmanship brought the life of mankind from the brute to the human plane, and in all the later growth of culture it has never ceased to pervade the works of man.<sup>7</sup>

In other words, idle curiosity and the instinct of workmanship act as a boost to the individual whereby he seeks knowledge. The instinct of workmanship and idle curiosity produce the initiative that motivates man to think and contribute to the growth of knowledge. Out of these thoughts arise experiences through attempts at application of the resultant ideas:

The complement of technological knowledge so held, used, and transmitted in the life of the community, is, of course, made up out of the experiences of individuals. Experience, experimentation, habit, knowledge, initiative, are phenomena of individual life, and it is necessarily from this source that the community's common stock is all derived.<sup>8</sup>

The individuals within the community contribute to the common technological knowledge. Experiences are transmitted from

<sup>7</sup>Ibid., p. 37.

<sup>8</sup>Thorstein B. Veblen, "Essay on the Nature of Capital II," reprint, The Place of Science in Modern Civilization, p. 328.

from one member to another; and through this exchange the body of knowledge grows. The body of knowledge of a community is so large that it is impossible for any one individual to create or use it:

. . . and the history of its growth and use is the history of the development of material civilization. It is a knowledge of ways and means, and is embodied in the material contrivances and processes by means of which the members of the community make their living.<sup>9</sup>

Knowledge, therefore, becomes the source of all "material contrivances" used in production of goods and services:

These "material contrivances" ("Capital Goods," material equipment) are such things as tools, vessels, vehicles, raw materials, buildings, ditches, and the like, including land in use; but they include also, and through the greater part of the early development chiefly, the useful minerals, plants, and animals. To say that these minerals, plants, and animals are useful--in other words, that they are economic goods--means that they have been brought within the sweep of the community's knowledge of ways and means.<sup>10</sup>

As knowledge is created and diffused, it finds uses for the raw materials of society. A thing may or may not be useful at present, under the current state of the industrial arts; it may be replaced by a more useful object. Whether a thing is useful or not depends upon man's knowledge of its capabilities.

Thus, Veblen advances an evolutionary theory of production. In the past, in producing goods, raw materials of a certain sort have been used. But, as the productive process expands, another resource has been found to be more useful

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<sup>9</sup>Ibid., pp. 328-29.    <sup>10</sup>Ibid., p. 329.

and has been substituted in the place of the former inferior one. The growth of knowledge of a community leads to the growth of the material equipment of that same community:

But as the common stock of technological knowledge increases in volume, range, and efficiency, the material equipment whereby this knowledge of ways and means is put into effect grows greater, more considerable relatively to the capacity of the individual.<sup>11</sup>

The machine process of today is the result of the growth of technological knowledge of ways and means of the community. The resources of the community are also used in production in accordance with the knowledge of them. One may state, therefore, that the machine process is the result of the evolution of the growth of technological knowledge.

As an evolutionary concept, Veblen demonstrates the growth of the machine process through an interpretation of history, and concludes that

the machine industry comes on gradually; its initial stages are visible in the early eighteenth century, but it is only toward the close of that century that its effects on the industrial system become so pronounced.<sup>12</sup>

It is likewise true, that the machine process, technologically speaking, contributes to efficiency. And as "efficiency conduces to the common good," it is also a "meritorious and commendable trait in the person who exercises it."<sup>13</sup>

<sup>11</sup>Ibid., p. 331.

<sup>12</sup>Thorstein B. Veblen, The Instinct of Workmanship, P. 301.

<sup>13</sup>Ibid., p. 349.

If the machine process were kept in operation the effects would be tremendous. The resulting efficiency coupled with the original technological purpose would cause the well-being of society to advance at a remarkable rate of growth and increase.

The machine process is a complicated mass of technological methods. Each method is dependent upon some other method within the whole arrangement. The whole, called collectively the machine process or the machine industry, is dependent upon the parts within it. And, says Veblen:

Looked at in this way the industrial process shows two well marked general characteristics: (a) the running maintenance of interstitial adjustments between the several sub-processes or branches of industry, wherever in their working they touch one another in the sequence of industrial elaboration; and (b) an unremitting requirement of quantitative precision, accuracy in point of time and sequence, in the proper inclusion and exclusion of forces affecting the outcome, in the magnitude of the various physical characteristics . . . of the materials handled as well as of the appliances employed.<sup>14</sup>

Precision is very important from the standpoint of such quantitative factors as weight, strength, et cetera, which concern materials entering into the process of production. With precision, efficiency may be fostered, and the creation of a product will be speeded. Greater all-round production will be the result.

The interstitial adjustments are of the greatest import. The machine process may be compared with the mechanism of a

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<sup>14</sup>Thorstein B. Veblen, The Theory of Business Enterprise, p. 8.

fine watch. Each part of the mechanism is extremely delicate and subject to adjustment from time to time. The adjustments and points of adjustment are likewise subject to precise, meticulous judgment. Care should be exerted to the utmost to prevent an interruption in the operation of the mechanism. Diligence should be the order of the day. In case the reverse is prevalent, a disturbance will occur which will throw the whole mechanism out of operation:

A disturbance at any point, whereby any given branch of industry fails to do its share in the work of the system at large, immediately affects the neighboring or related branches which come before or after it in the sequence, and is transmitted through their derangement to the remoter portions of the system.<sup>15</sup>

After such a situation takes place, there is necessarily an adjustment called for. The various balances that need to be maintained are subject to the operation of business transactions:

It is by business transactions that the balance of working relations between the several industrial units is maintained or restored, adjusted and readjusted, and it is on the same basis and by the same method that the affairs of each industrial unit are regulated. The relations in which any independent industrial concern stands to its employees, as well as to other concerns, are always reducible to pecuniary terms. It is at this point that the businessman comes into the industrial process as a decisive factor. The organization of the several industries as well as the interstitial adjustments and discrepancies of the industrial process at large are of the nature of pecuniary transactions and obligations. It therefore rests with the business men to make or mar the running adjustments of industry. The larger and more close-knit and more delicately balanced the industrial system, and the larger the constituent units, the larger and more

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<sup>15</sup>Ibid., p. 17.

far-reaching will be the effect of each business move in this field.<sup>16</sup>

It is, therefore, the concern of the businessman and his function to see that the interstitial adjustments are made, and the economy kept in operation. The businessman, and the businessman alone, is in the position of responsibility of the machine process and its operation through performing his various business transactions.

Veblen doubted the abilities or the inclinations of the businessman. He was of the opinion that the businessman found at times that an interruption of the interstitial adjustments operated to his advantage, at the expense of the community's welfare.

Direction of the administration of the interstitial adjustments, thought Veblen, should lie with the engineers who were acquainted with technology and with the machine industry. The duties and powers of the Soviet of Technicians to be organized would

converge on those points in the administration of industry where the old order has most signally fallen short; that is to say, on the due allocation of resources and a consequent full and reasonably proportioned employment of the available equipment and man power; on the avoidance of waste and duplication of work; and on an equitable and sufficient supply of goods and services to consumers.<sup>17</sup>

From this point, the engineers would proceed to take the remaining positions of trust and responsibility into control,

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<sup>16</sup>Ibid., pp. 18-19.

<sup>17</sup>Thorstein B. Veblen, The Engineers and the Price System, p. 148.

following the least line of resistance. The first move would be the elimination of absentee ownership of the means of production. In fact, Veblen was of the opinion that the abolition of absentee ownership was all that was necessary:

In principle, all that is necessarily involved is a disallowance of absentee ownership; that is to say, the disestablishment of an institution which has, in the course of time changed, proved to be noxious to the common good. The rest will follow quite simply from the cancelment of this outworn and footless vested interest.<sup>18</sup>

When absentee ownership was overthrown by the proof of its operating at the expense of the community, the remaining obstructions would fall of their own weight. The rule of the engineers would then carry out the management of the productive process of the machine industry in accord with the technological aims.

When the rule of the engineers is a reality, knowledge and the technological ways and means will be employed to turn the resources of the community to account. The engineers are able to distinguish technological knowledge and will act accordingly to enforce the principle of technology, that is, contribution to the common good.

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<sup>18</sup>Ibid., p. 149.



## CHAPTER V

### THE VEBLENIAN THEORY OF WASTE

In the preceding chapter, Veblen's theory of production has been shown to be a theory of the growth of technological knowledge. The growth of technological knowledge, as capital, produces those things conducing to the well-being and the advancement of the community. Technological knowledge is the product of the instinct of workmanship and the instinct of idle curiosity combined with the experiences of the members of the community.

Veblen clearly shows that the growth of knowledge follows an evolutionary process. And, as technological knowledge has followed an evolutionary process, so have the processes of production. The present machine process is the result of an evolution of the applications of technological knowledge following the evolution of the technological knowledge itself.

As the evolution of knowledge and the application of knowledge progresses, that is, if there is no interruption or impediment of the instinct of workmanship, the benefits to the community would be boundless. However, Veblen recognized the fact that there were serious limitations affecting this evolutionary process. The limitations that he recognized took the form of institutions which were "a settled habit of

thought common to the generality of men."<sup>1</sup> They were the result of the "habitual ways of thinking and acting which are established by individuals to give expression to their instinctive drives."<sup>2</sup> As habit and custom become a persistent element in a culture, the institutional form emerges. After the birth of an institution, it begins to grow and turn on the very technology that made its existence possible.

The institutions come to dominate and change the objectives of the instinct of workmanship:

. . . the extensive complication of circumstances and the altered outlook of succeeding generations, brought on by the growth of institutions and the accumulation of knowledge, have led to an extension of its (the instinct of workmanship's) scope and of its canons and logic to activities and conjectures that have little traceable bearing on the means of subsistence.<sup>3</sup>

But, not only is the instinct of workmanship affected by the institutions:

All instinctive behaviour is subject to development and hence to modification by habit. Such impulsive action as is in no degree intelligent, and so suffers no adaptation through habitual use, is not properly to be called instinctive; it is rather to be classed as tropismatic.<sup>4</sup>

In other words, institutional behavior is of a tropismatic nature which provides an expedient, pragmatic, "proximate"

<sup>1</sup>Thorstein B. Veblen, "The Limitations of Marginal Utility, reprinted in The Place of Science in Modern Civilization, p. 239.

<sup>2</sup>Allan G. Gruchy, Modern Economic Thought, p. 68.

<sup>3</sup>Thorstein B. Veblen, The Instinct of Workmanship, p. 37.

<sup>4</sup>Ibid., p. 38.

immediate end to guide individual behavior. This differs from the ends set up by the instinctive drives. The ends provided by the instinctive drives are those that hold to the contributing to the well-being and the advancement of the community. Institutional behavior is determined by fixed and inflexible "laws" while instinctive behavior, technological behavior, follows ever changing, evolving limitations of process.<sup>5</sup>

As long as the proximate ends set up by the institutions coincide with those sought by the instinctive drives, the basic instinctive needs are satisfied, and there is no conflict. But, when the institutions fail to change so as to meet the altered evolving physical or technological conditions, the harmony of interest no longer exists. In this situation, if the institutional pattern is not changed, the community comes to be dominated by "imbecile institutions."

When the imbecile institutions gain their position of dominance, the logic and aims of technology are either altered or ignored:

A people whose culture has for any reason taken on a pronounced coercive (predatory) character, with rigorous class distinctions, an arbitrary governmental control, formidable gods and an authoritative priesthood, will have its industrial organization and its industrial arts fashioned to meet the demands and the logic of these institutions.<sup>6</sup>

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<sup>5</sup>Thorstein B. Veblen, "The Limitations of Marginal Utility," reprinted in The Place of Science in Modern Civilization, pp. 240-41.

<sup>6</sup>Thorstein B. Veblen, The Instinct of Workmanship, p. 41.

Whenever the institutions dominate and surpress the freedom of action of the instinct of workmanship and the resulting growth of technology, waste begins to take place. For, in the first place:

Innovation, the utilization of newly acquired technological insight, is greatly hindered by such institutional requirements that are enforced by other impulses than the sense of workmanship.<sup>7</sup>

The institutional forces prevent the adoption of new and more efficient ways and means of production that would advance the well-being of the community. Although serious damage is done to the interests of the community in this manner, a more important source of waste is the attempt to de-activate the instinct of workmanship itself:

But the most obstructive derangement that besets workmanship is what may be called the self contamination of the sense of workmanship itself . . . . The hinderance to technological efficiency from this source will often rise to large proportions even in advanced communities, particularly where magical, religious, or other anthropomorphic habits of thought are prevalent.<sup>8</sup>

It, therefore, follows that any attempt to prevent the adoption of new, more efficient technology to production, or to prevent the operation of the sense of workmanship, will result in waste in the form of curtailing the development and well-being of the community.

Of the more important institutions that exert hostility to an extremely marked degree upon the sense of workmanship and the proposed adaptation of advanced technology are those

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<sup>7</sup>Ibid., p. 42.      <sup>8</sup>Ibid., p. 53.

institutions possessing status as their foundation. Status, as a collective institution, has been found to have existed since the beginning of mankind:

Man as we find him today has much regard to his fame--to his standing in the esteem of his fellow men. This characteristic he always has had, and no doubt always will have.<sup>9</sup>

And, as each member of the society possesses this characteristic, an emulative quality enters. The constant striving of one to outdo another in order to gain status in the eyes of the community brings on emulation.

Emulation and the struggle for status, in the beginning, were not detrimental to the instinct of workmanship. The institutional and the technological aims were the same, for status was involved in the service to the community:

During that primitive phase of social development, when the community is still habitually peaceable, perhaps sedentary, and without a developed system of individual ownership, the efficiency of the individual can be shown chiefly and most consistently in some employment that goes to further the life of the group. What emulation of an economic kind there is between the members of such a group will be chiefly emulation in industrial serviceability.<sup>10</sup>

The objectives of status and emulation of the members of the community in the primitive phase of culture revolved about the well-being of the community. The institution became established and played a dominant role in shaping the nature of things culturally.

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<sup>9</sup>Thorstein B. Veblen, "The Theory of Socialism," reprinted in The Place of Science in Modern Civilization, p. 392.

<sup>10</sup>Thorstein B. Veblen, The Theory of the Leisure Class, p. 16.

But, in the era of barbaric culture there occurred great changes in what was considered a desirable status for the individual. The standing of the individual came to be judged as to his ability to be a disservice to the community with emulation again coming into play. A man's status was judged by his ability to avoid productive work and to consume wealth wastefully and conspicuously:

When the community passes from the peaceable savagery to a predatory phase of life, the conditions of emulation change. The opportunity and the incentive to emulation increase greatly in scope and urgency. The activity of the men more and more takes on the character of exploit . . . as accepted at this cultural stage, the accredited, worthy form of self-assertion is contest . . . . Labour acquires a character of inksomeness by virtue of the indignity imputed to it.<sup>11</sup>

The barbaric definition of status and achievement has come to exert a powerful influence upon individual conduct in all recent stages of cultural development to the extent that

gradually, as industrial activity further displaces predatory activity in the community's everyday life and men's habits of thought, accumulated property more and more replaces trophies of predatory exploit as the conventional exponent of prepotence and success . . . . So soon as the possession of property becomes the basis of popular esteem, therefore, it becomes also a requisite to that complacency which we call self-respect.<sup>12</sup>

Abstention from labor was also a result of the struggle for status. Any attempt to avoid labor, "is not only a honorific or meritorious act, but it presently comes to be a requisite of decency."<sup>13</sup>

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<sup>11</sup>Ibid., pp. 16-17.    <sup>12</sup>Ibid., pp. 28-31.    <sup>13</sup>Ibid., p. 41.

As leisure signifies an exalted position to those who practice it, their position was advanced further if the leisure were conspicuous. Consumption was looked upon from the same position:

. . . unproductive consumption of goods is honourable, primarily as a mark of prowess and a prerequisite of human dignity . . . . When the quasi-peaceable stage of industry is reached, with its fundamental institution of chattel slavery, the general principle, more or less rigorously applied, is that the base, industrious class should consume only what may be necessary to their subsistence. In the nature of things, luxuries and the comforts of life belong to the leisure class . . . . Drunkenness and the other pathological consequences of the free use of stimulants therefore tend in their turn to become honorific, as being a mark, at the second remove, of the superior status of those who are able to afford the indulgence. Infirmities induced by over-indulgence are among some peoples freely recognized as manly attributes . . . . Conspicuous consumption of valuable goods is a means of reputability to the gentleman of leisure. As wealth accumulates on his hands, his own unaided effort will not avail to sufficiently put his opulence in evidence by this method. The aid of friends and competitors is therefore brought in by resorting to the giving of valuable presents and expensive feasts and entertainments.<sup>14</sup>

Other things, such as dress, were mentioned in The Theory of the Leisure Class as falling into the category of the institutions possessing status as their foundation for existence.

Concerning dress, Veblen expressed the view that

we find things beautiful, as well as serviceable, somewhat in proportion as they are costly. With few and inconsequential exceptions, we all find a costly hand wrought article of apparel much preferable, in point of beauty and serviceability, to a less expensive imitation of it, however cleverly the spurious article may imitate the costly original; and what offends our sensibilities in the spurious article is not that it falls

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<sup>14</sup>Ibid., pp. 69-75.

short in form or colour, or, indeed, in visual effect in any way . . . . It loses caste aesthetically because it falls to a lower pecuniary grade.<sup>15</sup>

Feminine wearing apparel suffered most violently under Veblen's attack:

The dress of women goes even farther than that of men in way of demonstrating the wearer's abstinence from productive employment. It needs no argument to enforce the generalization that the more elegant styles of feminine bonnets go even farther towards making work impossible than does the man's high hat. The woman's shoe adds the so-called French heel to the evidence of enforced leisure afforded by its polish; because this high heel obviously makes any, even the simplest and most necessary manual work extremely difficult . . . . The corset is, in economic theory, substantially a mutilation, undergone for the purpose of lowering the subject's vitality and rendering her permanently and obviously unfit for work . . . . It may broadly be set down that the womanliness of woman's apparel resolves itself, in point of substantial fact, into the more effective hinderance to useful exertion offered by the garments peculiar to women . . . . Obviously, if each garment is permitted to serve for but a brief term, and if none of last season's apparel is carried over and made further use of during the present season, the wasteful expenditure on dress is greatly increased.<sup>16</sup>

Modern "survivals of prowess" had their place in the leisure class culture. Prowess takes the form of dueling between military and naval officers who were members of the leisure class, and it also is evident within the activity of "low class rowdies." Sportsmanship is not an expression of the love for nature, but rather it is fostered for the survival of primitive exploit. The same is true of athletic games. All such activity finds its roots in the struggle for status.

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<sup>15</sup>Ibid., p. 169.    <sup>16</sup>Ibid., pp. 171-173.



The "modern woman" movement was attributed to a revolt by woman against her ornamental position:

She is petted, and permitted, or even required, to consume largely and conspicuously. . . . She is exempted, or debarred from vulgarly useful employment . . . . But the woman is endowed with her share . . . of the instinct of workmanship, to which futility of life or of expenditure is obnoxious.<sup>17</sup>

Veblen was of the opinion that the practices of the leisure class culture will finally become so absurd in the light of scientific probing that it will cause a reaction of the society toward such practice. The instinct of workmanship coupled with science and technology would force an abstention of the practices of the leisure class.

The institution of private property and most of Classical Economic Thought was nothing more than an institution which characteristically stifled technology. Ownership, and the rights of ownership served as a check on the adaptation of new technology:

Ownership conduces to diligence in acquisition and therefore indirectly to diligence in work . . . . Its effects on workmanship, industry, and technology, therefore, are necessarily somewhat uncertain and uneven.<sup>18</sup>

Ownership destroyed the aim of the sense of workmanship; and, therefore, waste resulted in the failure of men to pursue their objectives along the lines ascribed by the canons of efficiency. When the sense of workmanship's aims is altered toward ownership, the whole community suffers:

<sup>17</sup>Ibid., p. 358.

<sup>18</sup>Thorstein B. Veblen, The Instinct of Workmanship, p. 173.

An appreciable advance in the industrial arts is commonly followed or accompanied by an increase of population. The difficulty of procuring a livelihood may be no greater after such an increase, it may even be less; but there results a relative curtailment of the available area and raw materials, and commonly also an increased accessibility of the several portions of the community. At the same time a larger unit of material equipment is needed for the effective pursuit of industry. As this situation develops, it becomes worth while--that is to say, it becomes feasible--for the individual with the strong arm to engross or "corner" the usufruct of the commonplace knowledge of ways and means by taking over such of the requisite material as may be relatively scarce and relatively indispensable for procuring a livelihood under the current state of industrial arts.<sup>19</sup>

As an example of this contention, Veblen offers an historical analysis of ownership of the means of production:

The effect of slavery in its best day, and of landed wealth in mediaeval and early modern times, was to make the community's industrial efficiency serve the needs of the slave-owners in the one case and of the land-owners in the other.<sup>20</sup>

Ownership of the means of production in modern times has the same effect as it did in the past, but capitalism is a more or less recent phenomenon that has not been examined closely; and its position has not been adequately ascertained:

So late an innovation, indeed, is this modern institution of "capitalism"--the predominant ownership of industrial capital as we know it,--and yet so intimate a fact is it in our familiar scheme of life, that we have some difficulty in seeing it in perspective at all, and we find ourselves hesitating between denying its existence, on the one hand, and affirming it to be a fact of nature antecedent to all human institutions, on the other hand.<sup>21</sup>

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<sup>19</sup>Thorstein B. Veblen, "Essay on the Nature of Capital I," reprinted in The Place of Science in Modern Civilization, p. 332.

<sup>20</sup>Ibid., p. 335.      <sup>21</sup>Ibid., p. 334.

The confusion enveloped in the conflicting concepts of capital and of Natural Rights inherent within the institution of capitalism is the result of the failure of the community to make an adjustment necessary because of the advancement of technology. As a result, capitalism, which may or may not have served a useful purpose at its onset, has become an imbecile institution:

So it has come about that while the system of Natural Rights is an institutional by-product of workmanship under the handicraft system and is adapted to the exigencies of craftsmanship and the petty trade, it never fully took effect in the shaping of institutions until that phase of economic life was substantially past.<sup>22</sup>

The same is true of the concept of "free competition":

Free competition, e.g., belongs as much to the era of handicraft as to that of the machine, having prevailed--more extensively in theory than in practice--under the former regime as under the latter; and the point of fact is it gradually falls under increasing restrictions as the machine age advances, until in the more highly developed phases of the current situation it has largely ceased to be a practicable line of policy in industrial business.<sup>23</sup>

Veblen offers an explanation of the behavior of men in their attempts to set up a "desirable" system whereby the community would prosper:

. . . the speculative theoreticians of that time still saw the phenomena of current economic life in the light of the handicraft traditions and of the preconceptions of natural rights associated with that system, and still looked to the ideal of "natural liberty" as the goal of economic development and the end of economic reform.

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<sup>22</sup>Thorstein B. Veblen, The Instinct of Workmanship, p. 341.

<sup>23</sup>Ibid., p. 302.

They were ruled by the principles (habits of thought) which had arisen out of an earlier situation, so effectually as not to see that the rule of equal opportunity which they aimed to establish was already technologically obsolete.<sup>24</sup>

The Classical Economists failed to make a scientific inquiry into the nature of things. Instead, they assumed certain institutional factors as facts not to be questioned.

Business enterprise, as is known today, is partially the product of Classical Thought of a century ago. Whether business enterprise ever served a useful purpose or not is of no concern here; but Veblen was of the opinion that it too was obsolete, and therefore, an imbecile institution. The justification of business enterprise by the Classical Economists, says Veblen, arose out of their failure to understand the nature of capital. Capital, according to Veblen is of two sorts: (a) pecuniary capital--which is "wealth employed in investment or in the management of capital in the business sense of the word," and (b) industrial capital--"wealth, material means of industry, physically employed for industrial ends."

Neither immediately in his purely pecuniary traffic, nor indirectly, in the business guidance of industry through his pecuniary traffic . . . can the undertaker's dealings with his pecuniary capital be accounted a productive occupation, nor can the gains of capital be taken to mark or measure the productivity due the investment.<sup>25</sup>

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<sup>24</sup>Thorstein B. Veblen, "Essay on the Nature of Capital I," reprinted in The Place of Science in Modern Civilization, p. 341.

<sup>25</sup>Thorstein B. Veblen, "Industrial and Pecuniary Employments," American Economic Review, pp. 69-70.

As far as Veblen was concerned, the Classical Theory of Rent was also applicable to the owners of capital:

All this (the Classical) argument concerning the unearned increment (involved in the orthodox theory of rent) may be carried over, with scarcely a change of phrase, to the case of "capital goods."<sup>26</sup>

If the return to the landlord was a monopoly price, then the same was true of the capitalist.

The Classical Economists thought that waste occurred outside of the assumed institution of business enterprise, except through monopoly practices, the amount of which was assumed to be inconsequential. Veblen was of the opposite opinion in that he thought that the whole procedure of business enterprise was of the nature of an imbecile institution, and, therefore, wasteful.

As has been stated above, the businessman is entrusted with the operation of the interstitial adjustments of the machine industry. And at times, the businessman finds it more profitable to make money than to make goods. The procedure to follow in the making of money is to interfere with the interstitial adjustments. He, the businessman, owns his part of the machine process because he has invested his "capital" in it; he, therefore, has a natural right to do with his "business" whatever he desires to do. Usually interference with the interstitial adjustments follows the line of price manipulations which leads to the phenomena of the business cycle:

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<sup>26</sup>Thorstein B. Veblen, "Essay on the Nature of Capital I," reprinted in The Place of Science in Modern Civilization, p. 338.

Crises, depressions, hard times, dull times, brisk times, periods of speculative advance, "eras of prosperity," are primarily phenomena of business; they are . . . phenomena of price disturbance . . . . They affect industry because industry is managed on a business footing, in terms of price and for the sake of profits.<sup>27</sup>

It is through the procedure of interfering with the operation of the machine industry by interfering with the interstitial adjustments that profits are made in terms of money. But, the inability of the businessman to forecast future developments, and his primary interest in making money, has caused the economy to fall into a position of chronic depression:

Under the more fully developed business system as it has stood during the close of the century dull times are, in a way, the course of nature; whereas brisk times are an exceptional invention of man or a rare bounty of Providence.<sup>28</sup>

Apparently, the Unseen Hand does not operate within the above proposition. Veblen clearly demonstrates the unworkability of such an arrangement. The businessman has not been schooled in the technological intricacies of the machine industry; he only knows how to make money. And the trait of the businessman, his knowing how to make money, is directly contrary to the interests of the community. What is more ridiculous, the institutional system of Natural Liberty and Natural Rights sanctions the actions of the businessman at the expense of the community.

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<sup>27</sup>Thorstein B. Veblen, The Theory of Business Enterprise, p. 180.

<sup>28</sup>Ibid., p. 184.

The machine industry itself would serve to alleviate the wasteful practices of the businessman if it could only gain a foothold:

Broadly the machine discipline acts to disintegrate the institutional heritage, of all degrees of antiquity and authenticity--whether it be the institutions that embody the principles of natural liberty or those that comprise the residue of more archaic principles of conduct still current in civilized life. It thereby cuts away that ground of law and order on which business enterprise is founded.<sup>29</sup>

However, business enterprise attempts to disallow technology a foothold. In fact, business strives to "blitz" the technology that does not serve it.

If the interests of the community are to be served, then full use of the resources and technology of the community is required. But, such action is contrary to the principles of business enterprise. The resources of the community will be utilized only so long as there is a possibility that a profit can be gained.

There is no better illustration of primary profit consideration than the actions of the absentee owner and the institution of absentee ownership.

During the handicraft era, the craftsman did not hire labor, and did not find it necessary to go into debt to any lender. He exchanged part of his produce for that of another craftsman. The only trade of the time was "petty trade" whereby products were exchanged without the use of a middle

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<sup>29</sup>Ibid., p. 374.

man. There was a close relationship between effort and remuneration received. All incomes received by the craftsmen were "earned" incomes. Prices of handicraft products were only sufficient to cover the costs of production, and to leave what was considered to be an adequate return for the efforts put forth by the craftsman. In this stage of the handicraft industry it was difficult, if not impossible, for the craftsman to obtain an "unearned" or "free" income--to get something for nothing.

Under the guild era of the handicraft stage of industry, the joint rules set up, developed habits of thought and behavior which led to "a solidarity of economic interests."<sup>30</sup> The guilds kept the individual's selfish and acquisitive urges from becoming a ruling force in behavior.

As the handicraft system underwent further development, the close connection between efforts put forth and rewards received suffered some deterioration.<sup>31</sup> The institution of absentee ownership made its appearance in a variety of ways. Veblen defines absentee ownership as the claim to unearned or free income, pointing out that the absentee owner or the vested interest gets something for nothing.

In the latter period of the handicraft era, absentee ownership took the form of the ownership of large estates. The farms were too large for one individual to do all the work

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<sup>30</sup>Ibid., p. 290.

<sup>31</sup>Thorstein B. Veblen, Absentee Ownership and Business Enterprise in Recent Times, pp. 12-49.



required. The landlord rented parts of his estate for a share in the produce forthcoming.

The landlords did not invest the returns they received in the farms that they owned, instead they sought to invest in other people's enterprises. In lending their funds, the investors laid claim on a part of the useful goods produced by the borrower. Something was obtained for nothing. Master craftsmen began to depend more and more upon hired labor for the operation of their expanded establishments. These employers who hired laborers laid claim to a portion of the output created by the wage earners. The result was the further development of absentee ownership. Finally large scale trading enabled the merchant princes to get an income without adding to the supply of useful goods.

When the handicraft era gave way to the machine technology, absentee ownership became a "master institution." The use of large machines separated the workers from ownership of their tools, and credit came to be widely used. The collective features of the handicraft industry gave way to the individualistic competitive business system.

Individuals found that by amassing money, they gained prestige and esteem. The old status of serviceability gave way and the sense of workmanship was pushed into the background. Disservice replaced service as a requisite for status. When the era of free competition gave way to the era of corporate capitalism the conflicts reached a high level of

development. The actual management of industry fell more and more into the hands of "unbusinesslike technicians" while the "captains of industry" became more concerned with the pecuniary aspects of business enterprise. The captain of industry became a "captain of business," and the separation of technicians from businessmen was complete.

In the effort to avoid the complications of price wars and depressions, the businessman adopted the "expedient of coalition." The basic aim was to pool the interests of business to stave off competition. At the same time prices were pinned and production was slowed down to the point where the participants in the pool were able to produce at the point of maximum profits. Through the financing of pooling arrangements, et cetera, large investment houses were able to dominate the key industries, coal, iron, steel, investment. Through the administration of prices in the key industries, small scale enterprises were brought into control. Competition was not killed, however.

Competition arose in another form; each industry began to compete with the rest of the community. This was true of all organizations such as labor and business along with the controlled industries.

The struggle of each vested interest against the rest of the community resulted in an economy that operated with only "partial employment of equipment and manpower."<sup>32</sup>

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<sup>32</sup>Ibid., p. 134.

Occasionally, in boom periods, full employment was approximated.

The result is that the economy of today is a hybrid of competition and monopoly arrangements. The monopolistic portion of the economy is inflexible and rigid, which is the result of administrative controls imposed by the owners and managers of the corporations.

In the competitive segment of the economy, the position is flexible and subject to many adjustments. However, the adjustments of the competitive portion are called upon to absorb the shocks generated in the monopolistic segment. The costs of adjustment fall upon what Veblen considered as the competitive part, the workers and farmers. The monopolistic elements are in an advantageous position to avoid the consequences of a depression although they are the most responsible for a depression. The high prices and restricted production arising from absentee ownership and the growth of the giant corporation has the effect of speeding up the process of taking the purchasing power of a community and giving nothing in return. Such action also sabotages the interstitial adjustments of business enterprise, and prevents the readjustment of them, unless the adjustments suit the aims of the captains of business.

#### Summary

Veblen was of the opinion that the institutions were

the cause of the waste that occurred in the community. The present canons of status contributed much to the total quantity of waste. However, business enterprise, so loudly lauded by the Classical Economists, was a very significant contributor to waste also.

Absentee ownership of the means of production was another source of waste.

Status, private property, business enterprise, Natural Rights, Natural Liberty, are concepts which may at one time have served some useful purpose. But, as the machine process and the growth of knowledge progressed, the community failed to make the necessary adjustments and permitted the growth of the imbecile institutions conducing to waste.

Veblen was of the opinion that the problems of the economy could be eliminated if they were attacked in a matter of fact manner. The first necessity was to get rid of absentee ownership and business enterprise in favor of common ownership and technological control of the machine process by those who have been trained for the responsibility of keeping the interstitial adjustments under constant observation. As absentee ownership is the most powerful institution, and the most vulnerable to attack, to overthrow it would mean the weakening of the remaining institutions. Waste would not be eliminated at the onset of the planned attack, but it would disappear in due time. As soon as technology came to dominate the institutions through

scientific probing, the institutions would begin to decay.

On the other hand, if the community does not rid itself of the institutional behavior that plagues the growth of knowledge, then the whole machine process will surrender to the institutions at the expense of the common man and the vested interests alike. If allowed, institutional behavior will produce so much waste that it will finally destroy the state of the industrial arts.

Veblen was of the opinion that the latter course probable would be followed by mankind. Man seemed unable to overthrow the institutions, and as a result, he was doomed to downfall.

## CHAPTER VI

### A CONTRAST OF THE CLASSICAL AND INSTITUTIONAL VIEWS

The Classical theories of production and waste were centered on the theory of capital. The "resources" that they were concerned with were land, labor, and capital. Business enterprise operating under the Natural Laws of Competition and Supply and Demand through the Automatic Market took the resources of the community and applied them to production for profit. As man was selfish, he tended to seek his own private gain with no consideration for the rest of the community. However, there was nothing wrong with such a proposition, for each producer was led by the Smithian Unseen Hand through the operation of the Natural Law of Competition to promote the interests of the community through an expansion of the supply of goods and a lowering of prices. The price system operating under the Natural Law of Supply and Demand with the Automatic Market also at its disposal allocated the resources of the community in the most efficient manner possible. So long as man abided by the dictates of the Natural Laws there could be no waste. The Classicists recognized that waste did occur, but they rationalized that such was the result of violation of the Natural Laws.

The worst violation of the Natural Laws was Monopoly.

Monopoly destroyed the money of a society, thereby, monopoly caused waste. All other forms of waste except government interference were ignored as being of little consequence. The Classicists, in substance, stated that there was no possibility for great waste to occur, except as a result of monopoly or other interferences with the Natural Laws. In reality, the Classicists had no theory that could successfully cope with the problem of waste.

The Veblenian theory of production and waste seems to reach closer to the core of the waste and resource problem.

The knowledge of a society, says Veblen, is the basic resource of that society. The human being alone is capable of creating knowledge in the form of science and technology, but this same human being is also capable of creating nonsense in the form of institutions. On the face of this proposition one might conclude that human beings are normally schizophrenic. However, the proposition refers to a group relationship. Some members of the community are not hampered by the fetters of institutional beliefs, and these members are capable of creating technology through the resulting free functioning of the instinct of workmanship with the instinct of "idle" curiosity. The production of science and technology carries forward the advancement of the community.

The institutional handicaps to the free operation of the instinct of workmanship constitute waste.

In the present capitalistic system, business enterprise

is supposed to allocate the resources of the community in the most efficient manner. Veblen says that it does not do so. The institution of business enterprise is one of the chief causes of waste. Business enterprise will produce only so long as there is the possibility for profit. When the prospects for profit decline, then production is curtailed and resources are not utilized; in fact, they may be destroyed through non-use. Business enterprise determines the welfare of the community. And, business enterprise operating in the system has managed to keep the community in constant depression with occasional interruptions of prosperity which cannot be traced to any action on the part of business enterprise.

Veblen seems to have seen deeply into the heart of the resource problem. The Classicists stopped when they came to the price system and business enterprise; Veblen did not.

The remedies offered by Veblen are simple. First, the community needs to rid itself of the absentee owner who is more interested in money making than goods making. Money making conflicts with the interests of the community. Second, the operators of the machine process need to be replaced by those with a technological ability to understand and operate it. Third, the institutions that interfere with the creation of science and technology should be destroyed, followed by those institutions that destroy or hold back technology once it has been created.

The Natural Law concept, to Veblen, was a justification



for the existing institutions that obstructed technology and had no place in the economy. The Natural Law Theory could not stand in the light of scientific probing. The time might come, Veblen indicated, when such beliefs would fall under the weight of scientific research.

But, on the whole, Veblen was pessimistic. If the community did not destroy the institutions, then it would suffer. The community is not capable of recognizing the detrimental nature of institutions, and as a result, technology and science might lose ground to the imbecile institutions.

The Classical theory of production and waste represents a body of fixed "laws" that may have applied to a situation at one time. The influence of the philosophy of that time, Rationalism, is seen throughout the Classical writings. The belief that the world operated within a framework of fixed and unchanging laws was carried over into economics. Whatever the conditions, the Natural Laws, handed down from the Almighty, would bring mankind out of its debacle if man would only abide by them. In fact, as long as man stayed within the limits defined by the Natural Laws he would find no cause for worry. There could be no trouble, no waste.

Veblen presents an ever changing concept of process in his theory of production and waste. All of his concepts concerning production, knowledge, institutions, and waste follow an evolutionary pattern. As the Classical Economists based their philosophy on Newtonian Physics, Veblen based his

economics on the evolutionary process. The physics of Newton explains only a limited amount of phenomena. Social scientists, who want to know the nature of things, have turned to Darwin for the explanations. If man is subject to the evolutionary process, the knowledge of man is of an evolutionary nature.

On the whole, Veblen's theories go far to explain the phenomena that the Classical Economists had ignored or rationalized. As Veblen argues, the Classicists were correct only once--on the theory of rent. And, says Veblen, the theory of rent of the Classicists could be easily brought over into the area of business enterprise and applied to the capitalists.

As the growth of knowledge is evolutionary, the progress of the industrial arts is also evolutionary. The Classicists concerned themselves with the static conception that the resources used in production, regardless of the type of industry, were land, labor, and capital. They defined or assumed money as capital along with machines. But, as Veblen shows, money as an institution is a method of controlling the machine side of capital and is capable of producing great waste in the community.

The present study has examined two theories of resources and two theories of waste. These two separate theories represent two entirely different lines of thought and two entirely different conclusions. The Classical and Institutional theories of resources and waste are completely contradictory.

In order for an adequate theory of resources and of waste to be developed, the argument between the two schools will have to be resolved by economists.

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