

Thorstein Veblen and the Revival of Free Market Capitalism
Janet T. Knoedler, Robert E. Prasch, and Dell P. Champlin, eds.
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Although the title of the work bespeaks to a more innocent time prior to the near collapse of the world economy over the past two and a half years, this collection of essays may provide a bit of “I told you so” to the financiers of the world. In a world where institutions didn’t seem to matter, where capital flowed freely, and, to the extent that institutions did matter, the Washington Consensus was that all had to have the same formula for success, Thorstein Veblen’s theories of evolutionary economics and institutions may have seemed quaint. Yet, the underlying need to understand that the collapse was the *result* of unresponsive and antiquated institutions, both public and private, of institutions that simply could not and cannot regulate the behemoth of the financial markets because they suffer from institutional sclerosis is something that most academics who appear hell-bent on accomplishing such regulation anyway is a lesson that will not probably be learned until we plunge into another downturn, if the lesson is ever learned at all.

The essays in this book provide an antidote to this problem, although like any such elixir that is concocted before the disease is seen in its full-blown effect, their sharpness have been somewhat dulled by the passage of time. Anne Mayhew begins the quest to understand Veblen in the modern world with her excellent essay, “The place of science in society.” Scientists such as Richard Dawkins have launched a war on religion and God in their hopes of overturning centuries of culture. Yet this quixotic approach is not only doomed to failure but rather can cause individuals who would otherwise be sympathetic to the cause of science to turn against it. We seem so certain that we know what is right when we follow science, yet did we not go down this path with the financial engineers and their AAA-rated subprime mortgage-backed securities that had been obviated of risk through the use of tranches through which payments would flow such that the first to be paid would be the AAA-rated group, the next to be paid would be the BBB group, and the last to be paid would achieve junk status? The financial wizards of Wall Street applied science to their discipline and brought the world financial

system to near collapse. Is it not possible that science will do the same in other spheres? We know so little of weather that we cannot predict it past next week but we seem to relish the idea that we know so much about climate that we can predict it a hundred years hence. Whether this is true or not is immaterial; the question is whether people believe in it and are willing to make known sacrifices to avoid unknown calamity. Furthermore, Western hostility to everything that is not scientifically-based meets with Eastern mysticism that has hundreds of millions, if not billions, of adherents. Such “quackery” as homeopathic medicine, acupuncture, and acupressure have found their way into mainstream life and the fact that people not only believe in such remedies but that the placebo effect generated by these “treatments” seems to cause greater comfort than modern medicine when it is not believed in is a subject to which science needs to devote its resources to understanding.

Prasch’s article has us understanding that property *is* power and that property rights are merely a means of maintaining that power when some have much and others little. When one has property, one finds that liberty is bountiful, while those without find that liberty means relative little.

Hake’s paper is particularly important in light of the financial meltdown of 2007-9. The intangibility of assets and their ownership has set the stage for financial innovation of a grand scale. Indeed, the invention of ‘goodwill’ as a catchall for everything that a company has as its value that explicitly is *not* capital is probably the single greatest determinant of financial instability in the modern world. Goodwill, often acquired over time, can be destroyed in an instant and not just by something that a company does or fails to do but rather based on the feckless forecasts of financiers.

The other papers in the volume are similarly adept at looking at economics or society from a pragmatic lens. The influence of Dewey’s philosophy of pragmatism finds its expression in these works, no less than Veblen. This is a book that begins a critical reexamination of institutional economics in the aftermath of the dominance of neoclassicism that was at its apex when the book was published in 2007. Picking it up now provides us a refreshing look at the world and the economy and warns us of the dangers involved with “the arrogance of too many economists in asserting both at home and abroad that their proposed reforms are based on scientific truth and not derived

from one of those aspects of culture that lies beyond the narrow realm of Western superiority.” (page 14)

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