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# Veblen's Predator and the Great Crisis

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***Abstract:*** With this inquiry we attribute cause for the current and "Great Crisis" to Veblen's predator. After summarizing origins and manifestations of this crisis we juxtapose Veblen's emphasis upon the predator to other potential causes for crisis and crises. Noted to have emerged when our stock of human knowledge provided for the creation of surplus, Veblen's predator is presented as capable of metamorphosis and also driving evolution of our capitalistic system: whether this means emerging as the businessman in the "era of the machine," or the investment banker promoting a financial metaphysics in the current "era of finance."

***Keywords:*** crisis theory, financial process, predator, Thorstein Veblen, William Dugger

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With this inquiry we seek to attribute cause to the current and what is increasingly termed the "Great Crisis." After first defining its character, and with use of theoretical comparisons, we introduce ideas advanced by Thorstein Veblen toward the start of the twentieth century. Placing special emphasis upon Veblen's notion of the "predator" we consider instrumental advances and the predator's roles in driving a transition from the era dominated by a "machine process" to an era dominated by a "financial process." We conjecture this transformation renders the current crisis as "great" through creating forms of fragility that lead toward financial instability. Should these emerging problems not be properly addressed, then we should anticipate future crises recurrently crippling economic activity over the course of the twenty-first century.

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## *Defining the Great Crisis*

This Great Crisis that got into swing in 2007–2008 could be considered in the terminology of Jack Rasmus (2011, 136-145) as an "Epic Recession" that should be understood in contrast to a "Normal Recession." Unfortunately, very few heeded warnings disseminated by Randall Wray (2003) of a coming and "perfect fiscal storm," an outcome he conjectured would result from relying upon private and not public debt for driving a "Goldilocks' expansion." Descriptively, this maleficent business cycle has led toward a destabilization of our capitalistic system, contributing to increases in economic insecurity through inducing declines in incomes and purchasing power for millions of people.

The Federal Reserve helped brew this perfect storm through establishing low federal funds rates that wielded effects over a range of interest rates for an extended period. While Fed policy sought to drive a continuous Goldilocks expansion, it simultaneously failed to responsibly monitor forms and levels of debt creation, allowing for the emergence and use of a host of novel instruments with levels of risk grossly under-assessed. Along with the Fed's failures, representatives to our U.S. Congress failed in offering policies effectively promoting a fiscal-led expansion. Combined, these failures of our policymakers promoted the emergence of asset bubbles, and with the U.S. housing market of note.

As bubbles burst an ensuing asset deflation led to default processes generating a rash of bankruptcies and creating mountains of private debt. Relying on public funds for bail-outs rendered substantial portions of private debts sovereign. Mountains of public debt emerging across the homeland at the federal, state, and local levels were further heightened by combinations of declines in tax revenues relative to rising public outlays introduced in an attempt to mitigate recessionary exigencies.

High levels of private and public debt combined with a recessionary posture of cautious lending practices on the part of our banks. Consumers and small businesses were then turned like turtles on their backs, generating cumulative effects that spilled over and influenced levels of output and employment in the mostly forgotten "real" economy. And, unlike many earlier downturns, symptoms of this "Great Crisis" register as ongoing — and seemingly unending — as we move deeper into the second decade of this twenty-first century. Manifestations are several, with high rates of persistent unemployment emerging and lingering as one of the more odious features challenging the United States' workforce.

## *Attributing Cause to Crisis and Crises*

Through posing challenges that included pointed critiques of marginal utility theory, Veblen (1909) characterized himself early in his career as a heterodox thinker clearly at odds with neoclassicals. Tony Aspromourgos (1987, 625) even credits Veblen with coining the "neoclassical" term that stuck. In his article "The Preconceptions of Economic Science," appearing nine years earlier, Veblen (1900, 241-242) had sharply criticized neoclassical "cannons of truth" in his trademark, sarcastic and sardonic

tone, and for relying upon a methodological individualism attributable to Jeremy Bentham's ([1781] 1967) "felicific" calculus. He also criticized the neoclassical's belief in laws, in general, as well as the specific belief that the capitalistic economy benefits from a "meliorative" trend generated independently from members of the community. Waylaying orthodoxy of the neoclassicals, Veblen (1906) carried on with his predilection for critique, offering a penetrating deconstruction of ideas advanced by Karl Marx. Challenging scientism of orthodox neoclassicals — and also Marx's concern with production and ownership of surplus value — notions borrowed from selected English philosophers — Veblen advanced original ideas that provide a foundation for attributing cause to crisis and crises that tend to be neglected in the literature.

Taking an altogether novel tack, Veblen avoids simply attributing cause to systemic workings endogenous to the capitalistic system, itself. In this vein Veblen offers novelty to the heterodox tradition of crisis theory, challenging what Marx, and even Hyman Minsky (1992) would have us think.[1] In Veblen's view a host of problems facing the capitalistic system are related to the presence of a threatening member of the community, more threatening and vastly more tenacious than either Marx's "Mr. Moneybags" — prone to over-investment in constant capital — or, to Minsky's "bankers," whom he purports move funds around, seeking profitable investment opportunities over the course of a business cycle.

Veblen's "predator" should be recognized as a character-type possessing agency. Suffering an animus prone to brutishly create and then take advantage when instrumental advances prove favorable, Veblen's predator appropriates his unfair share of what is produced by the efforts of the earnest members of the community: those who could be noted as imbued with noble instincts. Ken McCormick (2006, 6-17) details these instincts exploited during the era of the machine as "workmanship," the "parental bent," and "idle curiosity": instincts that could take on self-regarding and also group regarding characteristics.

For Veblen, the predator and his preying predate the era of the machine and even the capitalistic system.[2] Veblen offers us the understanding that instrumental advances and related levels of technological development — that can be classified into ages and eras — close down and also open up opportunities for the predator. Interpreted by William Dugger (2006), Veblen's thinking suggests that the predator could emerge as an influential agent in society when our stock of knowledge proved sufficient to accumulate surplus. What we need to recognize is the predator's evolutionary character, exhibited as he undergoes metamorphosis in order to improve his prospects for preying on the wealth created by earnest members of the community.

In several respects Veblen's thinking registers as vastly more evolutionary than either Marx or Minsky's. For Veblen, forms the predator takes remain inextricably related to instrumental achievements defining an era. In Veblen's view habits of mind tend to lag behind. And, what Veblen ([1904] 2005) notes as so incongruent for the era of the machine is that laws defining property rights were created hundreds of years earlier and can be found embodied in a view advanced by John Locke (1690 Chapter

V, Section 27) specifying that: "[t]he labor of his body and the work of his hands . . . are properly his."

In the era of the machine, the predator emerged as the businessman, dressed in a suit, and brutishly making use of opportunities afforded by property rights. The businessman endeavored to derive benefits from rights related to ownership of industrial machines representing the accumulation of our common stock of knowledge contributed over the ages by members of the community engaged in idle curiosity. In addition, at the end of the workday the businessman wielded rights to claim ownership over the output and associated wealth we laborers under his employ created. Important to note is that Locke's late seventeenth century assertion becomes even further removed as a metaphysics of ownership emerges with the transformation from the era of the machine dominated by a machine process to what we shall introduce as an "era of finance" dominated by a financial process.

## From the Era of the Machine to the Era of Finance

In Veblen's view the "era of handicrafts" suggested production under control of workshop owners producing quality output in small batches for loyal and discerning customers. In contrast to those earlier times instrumental advances giving rise to the "era of the machine" portended that output could then be produced on a grand scale, providing conditions for the emergence of the predator as businessman, and with an expanding appetite for credit. Veblen ([1904] 2005, Chapter 5) relates and also roots the rise of modern finance to the businessman's seeking funds for large-scale production, allowing him to stay ahead of his competitors. In addition, the businessman demanded and also came to rely upon external financing, according to Veblen, as a manner for appreciating "goodwill" capital associated with his enterprise. Its appreciation could assist in his realizing substantial pecuniary gains when transformed into vendible capital through sale at a later date. This demand for credit led to the emergence of large financial institutions such as investment banks.

Veblen termed and defined a "managerial revolution" more than seventy years before business historian Alfred Chandler (1977) convincingly introduced it to a broader readership. However, in the decades since Veblen's passing, and also since Chandler first advanced this scholarly research, finance has been spun out and largely and effectively delinked from material producing activities. We shall attribute this delinking to the pecuniary animus and cunning agency of our culprit the predator, Veblen's favorite — and also deserving — whipping boy. Contributing to the emergence of the era of finance, the predator should be noted for exhibiting a level of agency sufficient for driving economic evolution through brutishly promoting vantages for preying.[3]

As the machine process promotes the emergence of a standardization of material life that extends to include habits of mind of those also drawn in, the financial process adds novel dimensions. As an example, during the era of the machine the workforce relied upon wages paid to pursue the generic ends of life. What proves different is that integral to the emergence of a dominating financial process members

of the workforce are lured into relying upon forms of consumer credit to participate in what John Kenneth Galbraith (1967, 211-218) dubs as a "revised sequence." As advances in wages, credit is issued to support lifestyles built on consuming the output of industry promoted by those engaged in cultural production, and presented seductively by *madmen* so as to warrant emulation on a societal scale, rendering invidious distinction an accepted norm. In this respect, consumer credit should be viewed as advances that have to be paid back in revolving schemes and at cumulative rates of interest. In this manner those exhibiting a pecuniary and predatory animus promote the financial process for it proves integral for exploiting members of the community, and ensuring their dominant position through reaping massive gains in the era of finance.

Wesley Clair Mitchell ([1903] 1960) and John Kenneth Galbraith (1975, 89-96) explain that "greenbacks" were originally created and introduced as notes to assist Abraham Lincoln in financing the Civil War of the nineteenth century. Starting in 1862, Salmon Portland Chase, then Secretary of the Treasury, issued the greenbacks that came to serve as a unit of account, medium of exchange, and a store of wealth, providing our late nineteenth century monetary policy and related banking system advantages over specie. Instrumental advances transforming money and banking provided a financial foundation for the era of the machine. Additional instrumental advances in electronics and magnetism have contributed toward further transforming possible forms for money, and providing a technological foundation for the era of finance.

In contemporary times money in the hands of a consumer integrated into the financial process can also take the form of a magnetic strip on a plastic card, tallying debits and also ringing up related customer charges accruing to banks. In the era of finance based upon the financial process, if debts are ever settled at all, these are rarely paid off with greenbacks, much less with specie. In short, instrumental advances that transformed money for more convenient holding and use also enable those integrated into the financial sector to accrue and also transfer vast funds, and at the speed of light racing through fiber optics. These instrumental advances provide a technological foundation for the financial process, an attendant rise in mega-financial centers unevenly spaced around our globe, while simultaneously opening up novel opportunities for the evolving predator undergoing metamorphosis from businessman to investment banker.

Veblen presented the businessman as a form of predator wholly specific to the era of the machine. And, his *reviere* remained largely limited to his privately owned business enterprise from which he could realize substantial gains through precipitating interstitial adjustments. The age of finance emerged after the managerial revolution, implying that investment banks are typically going to be owned by those privileged to hide behind a "veil of money," if we might stretch the meaning advanced by John Maynard Keynes. At an investment bank, managers tend to be offered generous stakes as pecuniary gains realizable through their bank's portfolio performance. In this manner the era of finance provides conditions as well as

pecuniary incentives for the relative proliferation of predators. Specifically, these "managerial predators" bring legions into their *reviere* to assist in their preying.

In the era of the machine, rank and file workers stationed along assembly lines were exploited through the businessman's ownership rights. In the era of finance, the rank and file at the investment bank take on the form and function of "mini-predators" spaced behind desks in office cubicles. Mini-predators function as the grunt workers defining the era of finance, preying on those outside of their bank, while simultaneously being exploited, and essentially preyed upon by those owning and managing their investment bank. Through introducing an incentive system based upon bonuses, attempts are made to bring preying into some kind of harmony among the bank's owners, the higher rung of managerial predators, and the mini-predators. Quest for business profits that once goaded the owner and controller of the machine process have evolved. Business profits accruing to the businessman as predator tend now to take form as bonuses dealt out quarterly and/or annually, that can be awarded not only to managerial predators, but also to their legions of mini-predators, thereby providing pecuniary incentives for exploiting and also for acquiescing to their in-bank exploitation.

Today's predators continue to wear suits. However, the suit has shifted from one reflecting refined tastes of a businessman's misses. We now observe uniforms cast in hues of darkened blue. As trademark for the businessman, hefty wingtips with laminated, leather soles tacked and then stitched by skilled hands to full-grain uppers have been traded-in for dark loafer-uppers glued to thin soles mass-produced with injection-molds. Customarily, these leather uppers are adorned with pairs of bell-shaped tassels livened-up by serrated ends — assembled by the nimble-fingered struggling to survive in low wage countries.

To be classified as a predator in the era of the machine one had to weigh in as the owner of a business enterprise. In contrast, in the era of finance, capital stock requirements are reduced and largely limited to the renting of office space, leasing a coffee machine, and hooking up desktop or notebook computers for internet access. Manipulating symbols with use of QWERTY keyboards, including additional keys faced with numbers, registers as the principal, dexterous skill required of mini-predators driven by a pecuniary animus, and oriented toward extracting wealth created by decent and earnest members of the community. Since the financial process is largely based upon creating and trafficking invisibles, then interstitial adjustments offering generous pecuniary gains prove vastly easier to manipulate than these were under the machine process.[4]

## Conclusion and Discussion

With this inquiry we have sought to carry on Veblen's tradition, joining in and also pointing our social science finger at the "predator." We attribute cause to the current and "Great Crisis" to Veblen's predator: slave to a pecuniary animus and motivated to brutishly create advantages. In order to render predation that much more rewarding,

the predator has maneuvered to create what we Veblenian's should consider as a "financial process": that also contributes toward economic evolution in ways extending beyond Professor Dugger's understanding. Integral to this process the predator promotes a delinking of finance from the real economy. This is describable in Veblenian lingo as *financial metaphysics*, and by those not yet acquainted with Veblen's writings as *financialization*. One of the metaphysical dimensions of financialization relates to offering novel instruments with levels of risk strategically under-accessed, and at rates that undermine controls wielded by governing bodies responsible for regulation.

Slave to a pecuniary animus, the latter-day predator's creative and brutish quests contributed to a level of financialization that led to fragility and instability. Burst bubbles and ensuing asset deflation began spilling over in 2007–2008 and reached the real economy in various ways, including generating contractions in aggregate demand that drove up rates of unemployment. And, we shall conjecture that this "great" and "predator-induced" crisis should indeed remain: continuing, reemerging, and likely intensifying for so long as we — as representatives of the earnest members of the community — fail to engage in collective action and effectively whip these financial predators back into line.

## Notes

1. Marx attributes crises to an endogenously generated tendency for the rate of profit to fall, a topic developed at length in Chapter XIII, found in *Capital,* vol. 3 ([1894] 1967). Presented as systemic, this proclivity toward crisis appears embodied in his rendering of an organic composition of capital. Specifically, Marx introduces an on-going tendency for the denominator determined by a level of constant capital to rise faster than the numerator depicting a rate of exploitation. Though Marx indeed considers a host of countertendencies in some detail in Chapter XIV, the law is suggested to prevail.

   Like Marx, Minsky (1992) views crises as stemming from endogenous and systemic forces. However for Minsky, proclivities for crises are rooted in the normal workings of the business cycle and facilitated by bankers acting as intermediaries in finance. Stressing that good times do indeed lead to bad, and are rendered so as profitable opportunities are exploited, Minsky (1992, 8) suggests that over time bankers move investments from the most lucrative opportunities related to a "financial structure dominated by hedge finance units to a structure in which there is a large weight to units engaged in speculative and Ponzi finance." Ensuing financial fragility leads to financial instability, spilling over to dampen performance of the real economy. While Marx considers "Mr. Moneybags" throughout his *Capital,* vol. 1 ([1867] 1967), and Minsky (1992) considers the profit-seeking activities of "bankers," both theorists fail in offering an evolutionary perspective of predation, and especially the predator's uncanny facility for driving instrumental advances so as to generate lucrative opportunities for preying.
2. In his article, "Veblen's Radical Theory of Social Evolution," William Dugger (2006, 660) conjectures that the predator emerged as the stock of knowledge gave rise to a level of surplus rendering it possible for "the unfit [predators] to survive along with the fit [whom we designate as the earnest members of the community]." We rely on Dugger's view. However, we endeavor to advance the idea that the predator exhibits greater degrees of agency. That is, going beyond notions offered by Professor Dugger (2006), we seek to advance the view that the predator's animus leads to an incessant drive that contributes toward economic evolution. If we take what is under consideration, when compared with the era of the machine the era of finance offers golden opportunities to readily promote a metaphysics designed to confuse the earnest members of the community, rendering preying that much more favorable. Our view is that: driven by a pecuniary animus the predator

contributed to economic evolution through promoting the transformation from the era of the machine to the era of finance.

3. In his contribution, "How the Servant Became a Predator: Finance's Five Fatal Flaws," William Black (2009) suggests that predation on the part of the financial system causes problems for the "real" economy. While Professor Black suggests the financial system is predatory, what he fails to consider in his contribution is the predator's agency and active role in rendering our financial system predatory.
4. As a seminal thinker contributing toward our Western philosophical and moral traditions, in *Politics, Book 1*, Aristotle ranks activities for earning a living (Barnes 1984). With farming and animal husbandry considered as the noblest, Aristotle ranks *tokos* as the lowliest, for *tokos* involves earning "coin with coin." Because of advances in the instrumental that have led toward money taking forms of magnetic and electronic impulses tallied in cyberspace and sometimes stored in the bowels of computers, the investment banker manipulating symbols with use of an expanded QWERTY keyboard fails to even rely upon coin in his brutish quest for pecuniary gain at the expense of the earnest members of the community.

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