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Thorstein Veblen and The Vested Interests

WORKING PAPER No. 3

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Abstract: This inquiry seeks to establish the importance of "vested interests" as introduced and relied upon within Thorstein Veblen's system of reasoning. Veblen considers vested interests from two different perspectives in his 1919 book *The Vested Interests and the Common Man.* First, Veblen considers the relationships between vested interests and what he terms "the business enterprise". Veblen takes a historical view, relating vested interests to lingering laws and customs of an old era that continue to be applied in modern times. In addition, Veblen considers vested interests and "the divine right of nations", which he connects to the historical institution of "the divine right of kings". [Words: 105]

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This inquiry seeks to establish the importance of "vested interests" relied upon within Thorstein Veblen's system of reasoning. In *The Vested Interest and the Common Man* [1919], Veblen considers vested interests from two different perspectives. First off, Veblen considers relationships between vested interests and what he terms "the business enterprise". Veblen takes a historical view and relates vested interests to laws and customs that are lingering social institutions that continue to be applied at a later time. In addition, Veblen considers vested interests and the "divine right of nations," that he relates to the historical institution of "the divine right of kings".

The Vested Interests in Veblen's System of Reasoning

Laws and customs prove to be both rigid and inflexible, continuing to exert influence in a new era, even if it is marked by significant change. Thorstein Veblen [1919] (2005, 13) explains that change in a system comes about when there are alterations in habits of thought. When this takes place, the *status quo* with respect to laws and customs, comes under review. Therefore, those seeking to be successful in a new era must exert pressure to maintain the *status quo*, employing well-crafted interpretations of law and custom of the old era to advance their interests, or fulfill their vested interests. Vested interests are steps taken to advance personal gain even though it could be in detriment to others. Veblen [1919] (2005,

100) defines a vested interest as “a marketable right to get something for nothing”, but this does not mean that they cost nothing. If the cost to the surrounding community or society is taken into account, the cost of a vested interest can be high. Vested interests are assets that are impalpable. They are implemented as methods to drive a bargain, not as methods of producing goods or services. Limitation of supply and obstruction of traffic are both examples of vested interests since they are employed for the sole purpose of pecuniary gain and they are completely useless to the society in general.

Throughout history, those who have had power, have had influence. Influence can be used to advance self-interests to foster gain, barring the effects on the surrounding community. In past eras, the monarchs and nobility possessed all of the land. The ownership of the land gave them authority over the entire area, including its occupants, and thus anything produced on the land belonged to the owners. Since the owners of the land did not have a tangible performance in the production, Veblen [1919] (2005, 47) calls the income gained from the products an “unearned income” and the unearned income that does not get reinvested back into the land is a source of “free income”. Since the replacement and upkeep of the tangible assets used in production, are a minor cost in the scheme of production, Veblen [1919] (2005, 65) asserts that the majority of free income goes to intangible assets. Intangible assets are related to technical knowledge or insider knowledge, which goes on to advance the personal interests of those vested with the right of ownership.

Given the choice, those vested with the right of ownership choose to spend their wealth on assets that will increase their wealth over assets that will not. Veblen [1919] (2005, 65) explains that the pecuniary gains from production are more readily spent on intangible assets because they possess a higher earning-capacity compared to tangible assets. Earning-capacity is simply determined by the capitalization capacity, and the maximum amount of capitalization occurs when the smallest level of effort or investment attains the highest level of return. Furthermore, Veblen [1919] (2005, 71) adds that the oldest and most fundamental tangible asset is that of "good-will", designating an accepted preferential advantage in trade. Good-will is a means used by vested interests to achieve valuable ends. Preferential gains, such as good-will, are a form of immaterial wealth, existing in the form of trade secrets, combination of ownership, or conspiracy. Veblen [1919] (2005, 73) explains that intangible assets grant their possessors a special source of gain by decreasing productivity and restricting access. Furthermore, the gains of this immaterial wealth are derived from their ability to limit output and decrease trade, in the name of maintaining prices, all while harming the surrounding community.

Veblen [1919] (2005, 100) describes vested interests as "marketable rights to get something for nothing", implemented as a method of driving a bargain. The vested interests of a society abuse law and custom to achieve pecuniary gains at the expense of others. When cost to society is taken into account, the price of vested interest is high, with no benefit to the common man. Vested interests are a means of achieving unearned income for those in power, extracted from those who actually do the real work. The income made in the process that does not get reinvested into production, referred to as free income, is invested into intangible assets with the highest earning-capacity. Intangible assets, such as good-will, are a type of immaterial wealth that go towards fulfilling further self-interests that further amplify free income with the least amount of effort expended. Vested interests will use their power and influence to maintain the *status quo* if it suits them in their quest for gain. If law and custom are not in their favor, vested interests will use well-crafted interpretations to get what they aim to achieve or combine forces with other vested interests to attain more power in the system. As long as vested interest can benefit from the system of law and custom without consequence, the material welfare of the common man is bound to the workings of those with influence.

Vested Interests and the Business Enterprise

From the Enlightenment doctrines of the eighteenth century, the matter of Natural Law became eternally and fundamentally right and good thereafter. Veblen [1919] (2005, 19) explains that the new order still employs the same systems of law and customs applied in the eighteenth century. Under the Natural Law, the vested rights of ownership, free bargaining, and self-help are paramount. Although they served the correct purpose at the time, these rights are causing dissention and discomfort within the new order. The new realities of science and the machine industry have surpassed the terms laid out by these eighteenth-century doctrines. Veblen [1919] (2005, 23) expresses that, since the eighteenth century, civil rights and the right of ownership have largely remained intact, with some advancement in the way of *live and let live* along with some retraction in other matters. Furthermore, the institution of Natural Rights is an institution of personal rights, where ownership is the supreme right, and within the right of ownership lies the rights of free disposal, security of ownership, and credit obligations.

Veblen [1919] (2005, 89) highlights that, although it would be reasonable to entrust the management of the machine industry workings to those who are skilled in matters of technology, instead the workings of the industry are under the control those who can "higgle the market", i.e. the captains of finance or the businessmen. Veblen [1919] (2005, 91) underscores that the sole purpose of business is the pursuit of profits. Profits are derived from profitable sales, and profitable sales can only be achieved if prices are maintained at a profitable level. In business enterprise, the price is chosen by what the traffic will bear, in other words, the maximum amount of money people will pay for a given good or service. Veblen [1919] (2005, 93) states that success in business means "getting the best of the bargain". Even though the common good in terms of material welfare would be best served by an unobstructed functioning of the industrial system at full capacity, the businessman dislocates and interrupts the system for his own financial gain. Businessmen will hold out for better prices and withhold pertinent information and necessary material from business rivals, all of which dislocate, obstruct, and delay the working system. What's more, Veblen [1919] (2005, 94) underscores that these practices are legitimate means of carrying out business and sound under the laws and customs of self-help and free bargain.

Veblen [1919] (2005, 63) notes the modern machine industry is so productive and efficient that it remains in constant danger of over-production. Although high production would be beneficial to the community, it is not profitable for the businessmen who govern the industry, and therefore industries nearly never run at full capacity. Thus, it is the vested interest of businessmen to let large portions of plants lay unused and let a substantial degree of man power remain unemployed. Veblen [1919] (2005, 87) underscores that the machine industry is an intricate system, relying on the balance of the sum of its parts. Not one agent of the machine industry runs independently of another, therefore the disruption of one industry disrupts the entire system. Furthermore, even at decreased levels of production, Veblen [1919] (2005, 65) claims that the net product significantly surpasses the costs, since the machine industry runs on such a high level of productive efficiency. The replacement and upkeep of capital and working capital are a minor cost in the scheme of production, therefore the businessmen have an appreciable source of free income which will be spent on intangible assets. Intangible assets can be looked at as future earning since intangible assets increase future profitability.

The chief objective of the business enterprise is profitable sales and businessmen will use any contrivances available to them to increase earnings. To achieve this, Veblen [1919] (2005, 95) explains that the businessman is unremittingly involved in competitive practices, creating advantages for themselves in the market. Veblen [1919] (2005, 99) expresses that a vested interest comes about in business enterprise when maneuvers are enacted to generate an assured strategic advantage find success. This vested interest becomes a system of operation which may be continued at will, eventually to be capitalized upon in the form of intangible assets. Veblen [1919] (2005, 101) emphasizes that, in the ordinary course of business, a considerable amount of effort and resources are consumed in the process of increasing sales and producing an increase in future profits, contributing nothing to the total output of actual goods in the present or future. This is all done to add to their stream of free income, and Veblen [1919] (2005, 102,103) explains that this unearned income is incorporated into the expected costs of production, becoming a legitimate overhead charge in business dealings.

Veblen [1919] (2005, 105) explains that the margin of intangible assets greatly exceeds the total market value of any material resources or industrial equipment in a given industry. Thus, with such a margin of fee income, the businessmen possess the wherewithal to tackle any business concern that confronts the industry. When further free income is achieved in this way and is expected to continue, it becomes a vested right. When this takes place, the vested right can formally be capitalized as an immaterial asset and its recognized earning-capacity is equal to the prospective free income it can attain, constituting it as a vested interest. Veblen [1919] (2005, 106) adds that when business enterprise cannot procure vested rights to unearned income, they centralize ownership and control by drawing together larger and larger aggregations of corporate ownership. Through centralization, delay and uncertainty in industrial operations are lessened, while stability and security are increased. Veblen [1919] (2005, 112) illustrates that, the larger a corporation becomes, the more substantial its position and the greater freedom it has in setting its own terms.

In summation, it is the vested interest of business enterprise to attain the highest pecuniary gain using the least amount of effort, regardless of the cost it may inflict on others. Although the rise of the machine industry brought about unprecedented change to the material lives of society, law and custom remains dictated by the enlightened principles of the eighteenth century. Within these principles, the right to ownership is the supreme and ownership gives the businessmen power. To maintain and secure their standing and keep industry running smoothly, businessmen aim to keep the status quo of law and custom, even though business as usual is not in the interests of the common man. The modern machine industry runs so productively, if let to run its normal course, it will constantly produce in excess. Obviously, this is not profitable for the business men so they will keep production down to maintain prices, resulting in unemployment and wasted resources. In addition, to gain more revenue, businessmen set prices at what the traffic will bear. Furthermore, costs to replace and service physical and working capital are only a fraction of revenues, so a substantial amount of free income is left over for the businessmen to pursue additional vested interests. In the end, none of the contrivances of the businesses bring back even a portion of the total sum lost in the pursuit of these vested interests.

Vested Interests and the Devine Right of Nations

Veblen [1919] (2005, 116) explains that the Enlightenment principles of free contract and self-help are the source of vested interests in nations. These nations unrelentingly aim to acquire as much as they can and extract as much as they can out of what they have acquired. The vested interests of civilized nations and of business enterprise work in an analogous fashion when they are under the same liberal principles of self-determination. There is no moral ambiguity or shame felt by the warlike nations. Just as the business enterprise in industry, the national enterprises of civilized nations apply as much fraud and force as the traffic would bear. Whilst pursuing their own self-interests, these self-determining nations will disturb other nations bound up with them in industry and trade. Veblen [1919] (2005, 118) underscores that free and full self-determination violates the rule of *live and let live* and transforms the conditions of life for everyone else involved. Furthermore, if self-determination, the unalienable right of free nations, is abridged or disallowed, alarms will be raised surrounding law and custom, namely in the issue of sovereignty. Veblen [1919] (2005, 118) explains that when “the sacred right of property” is threatened, the vested interests of a nation become greatly apprehensive. It is the vested interest of nations to keep the right of national self-determination unimpaired, making them a league of nations, not a league of the people.

Veblen [1919] (2005, 119) observes that nations can continue to exercise their right of self-determination solely on the basis of a mutual accord. A common agreement between nations lays bare the terms for playing fair beneath the new rules that guide the conduct of national enterprise. Veblen [1919] (2005, 121) notes that the kinship of nations exists as a basis for their shared vested right of sovereignty and business, vested rights meaning an established right to get something for nothing. The vested interests of major nations will suppress the rights of self-determination of any other smaller nation that stands in their way, and in effect, suppressing the nation's rights of equal opportunity and self-help. For this reason, Veblen [1919] (2005, 122) highlights that equal opportunity and self-help are incompatible in the new order of things.

The *divine right of nations* can be related to the *divine right of kings*, in that it cannot be defined in matter-of-fact words, it cannot be scrutinized, and it is difficult to find evidence that it assists the common good in any material matter. Veblen [1919] (2005, 124, 125) states that the vested interest of the king or statesmen in the usufruct of surrounding community is the presumption that the underlying community's interest is the right to their own knowledge, resources, and skills. The guise of a democratic sovereignty allows the statesmen to cover up the business they perform in the government for the kept classes. The statesmen of the national enterprise use the enlightened principles to protect and advance the vested interests that dwell within their own nations. Within the eighteenth-century principles, the right of ownership allows the nations to own vast areas of property, which leads to control of the industrial system and authority over the society's net output of product over cost. Thus, the national enterprise secures free income and their pecuniary interests of investment under the cloak of democratic sovereignty.

The national policies, managed by the statesmen, exist in the benefit of vested interests. In the matter of diplomatic talks, Veblen [1919] (2005, 129) asserts that nations with incompatible interests conceit themselves as rivals. Nations seek dominion, resources, and territory outside of their region. They strive for gain at the cost of others, although the net gain is generally significantly less than nothing for the common man. For example, nations, especially America, will levy tariffs on other countries whose interests do not align with their own. Veblen [1919] (2005, 132, 133) highlights that, in the industrial era, self-sufficiency and isolationism are out of the question. It is obvious that a protective tariff, done in the name of national self-interest, obstructs industry and leads to the impoverishment of the common man. Tariffs cost the nation a disproportionally larger sum compared to the gains made by national self-interests. Furthermore, statesmen will take part in business-like sabotage to advance their vested interests as long as their nation has a role in industry. Thus, the welfare of a society is connected to the prosperity of business.

To sum up, the principles of self-help and free contract are the root of vested interests in civilized nations and they work in a similar fashion as business enterprise when they are under the liberal principles of self-determination. National enterprises of civilized nations apply as much fraud and force as the traffic would bear and their vested interest is to keep the right of national self-determination unimpaired. Nations maintain their right of self-determination by making agreements with other nations that set terms of conduct between the involved nations. The vested interests of major nations will suppress the rights of self-determination of any other smaller nation that stands in their way, suppressing their rights of equal opportunity and self-help. Statesmen use the cover of democratic sovereignty to hide the actions and policies the national enterprise uses in pursuit of their vested interests. Nations seek resources, territory, and domination outside of their region. They strive for gain at the cost of others, although the net gain is generally significantly less than nothing for the common man. Furthermore, as long as nations have a role in industry, the welfare of the society is bound to the prosperity of the national enterprise.

Conclusion

This inquiry has sought to establish that, in his reasoning, Thorstein Veblen defines and explains the importance of vested interests. Veblen [1919] (2005, 100) defines a vested interest as "a marketable right to get something for nothing", but this does not mean that they cost nothing. If the cost to the surrounding community or society is taken into account, the cost of a vested interest can be high. Vested interests are assets that are impalpable. They are implemented as methods to drive a bargain, not as methods of producing goods or services. In the modern era, industry is the leader of the economy and it is run by whomever owns large holding of property in a nation. In effect, the owners of industry command the conditions of life for those involved in industry. Therefore, ownership is a proxy for influence and those who do not own do not have any influence. The machine industry is run by the business enterprise and kept classes, and the statesmen who govern nations use their power to protect the vested interests that reside within their nations. Vested interests utilize any contrivances available to them under law and custom to achieve personal gain, and the gains they receive from this are trivial compared to the costs inflicted upon society.

[Words: 3298]

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