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Working Paper No. 06, Towards a Veblenian Theory of Economic Development: Drawing from Imperial Germany

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Towards a Veblenian Theory of Economic Development: Drawing from Imperial Germany

Working Paper No. 6

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Abstract: This inquiry summarizes and analyzes Thorstein Veblen’s explanations for Imperial Germany’s rapid industrialization. In his book *Imperial Germany and the Industrial Revolution*, Thorstein Veblen introduces a comprehensive understanding of processes affecting economic development. Technology transfer, human capital and state intervention are the variables that transformed an agrarian feudal Germany into industrialized Imperial Germany. Instead of developing technology over time by trial and error, Germany just transferred already established technology to their country. Since Germany had no established institution they could set up the most modern technologies. The machine process of the industrial system renders it easy to train workers with new skills that have application in a widespread of industries. State intervention compelled the industrialization process since the social and political culture of Germany allowed for a strong invasive state to force rapid development. Even though these variables explain Germany’s rapid industrialization they can also be applied to the economic development of any country. (Words: 154)

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Thorstein Veblen authored the book *Imperial Germany and the Industrial Revolution* (Macmillan, 1915) in order to share his analysis of Germany's rapid economic development. He inquired about the variables involved in the transformation of several medieval feudal states into an industrial modern nation state capable of threatening Great Britain in industry and war. This inquiry seeks to establish that Thorstein Veblen's theory of economic development, as observed from Imperial Germany, is based largely upon technology transfer, human capital, and state intervention.

Technology Transfer

The first state to develop a new technology tends to suffer for the ingenuity. Technology requires a history of trial and error; growth demands the building on what has been built before. A civilization with all the necessary material equipment can't build a spaceship without acquiring the necessary knowledge and experience. Technology is continuation of previous scientific knowledge and technology. For example, an agrarian society could not go from using a scythe to building a rocket launcher overnight. In order to build a rocket launcher that society would need to know how to acquire better metals for molding, understand gunpowder, Newtonian physics etc. Thus, a new technology will have been the product of a cultural tradition established

over time. Which is not lost on Veblen's (1915, 125) understanding of England's history of economic development.

England ushers in the Industrial Revolution because of its traditions of empiricism and opportunity to utilize idle curiosity. In his book, Veblen (1915, 95) discerns that England's physical distance from continental Europe and its relatively stable political culture was conducive for focusing on idle curiosity. The English had the luxury to tinker away on projects to satisfy their curiosity. A project started as a simple endeavour to experiment could later be used for business. Businessmen were using new technologies for the benefit of higher profits. Veblen (1915, 7) points out that a political, social, and economic environment ripe for the industrial revolution took time. England had to develop the theories for the new technology as well as gain empirical knowledge to reach that technology as close as perfection. Veblen (1915, 125-128) conjectures that the negative outcome of being the first to invent and implement new technology is that once it becomes outdated it is harder to implant the new improvements since the habits, traditions, and physical equipment already exist. Germany benefited from England's history of empirical knowledge, without having to spend time and effort getting it, and from the constraints of established institutions.

Imperial Germany had a fresh slate upon which to industrialize. Veblen (1915, 241) notes that Germany had only recently emerged from the medieval period, which allowed the smooth transfer of England's technology and empirical knowledge. In particular, Veblen (1915, 241) asserts that the new German state was composed of agrarians and craftsmen, consequently being conducive to introducing industrial advancements. There did not exist railroads, factories or other features of an industrial state to inhibit the Germans from building the most modern. An example Veblen utilizes to show possibilities open to Imperial Germany in terms of economic development are their new captain of industry. Veblen (1915, 187) writes that captains of industry free of history and established habits were free to implement, choose, and build whatever they wanted. They could pick the location they wanted, the equipment they deemed the best, and produce what they preferred. An example of what the new captains of industry in Germany could do, that was restricted to the English was Veblen's example of The Railroad tracks. The gauges of the British railroads are too thin, Veblen (1915, 125-128) notes, but the already established institutions for trade and industry inhibited them from replacing the old railroad gauges. The English industrial system was anchored on the railroad. It was the most efficient mode of transporting goods and people at the time. Too much

money, time, and effort, which could be utilized for other endeavours, would be needed to replace the tracks. Also, the British economy would slow down if the railroads have to be out of service for renovation. The English have a higher opportunity cost in updating their track system, than the Germans have in introducing the improved track system. The Germans, who had no railroads or economic institutions built on the railroad, could transfer over the very latest technology. The Germans, as conveyed by Veblen (1915, 125-128), have more freedom in how they industrialize than an already industrialized nation like England has in renovating.

Human Capital

The machine process of an industrial economy renders investing in human capital quick and easy. Insightfully, Veblen (1915, 182) instructs that the skills conducive for the Industrial revolution are easy to learn, and have a wide range of application. The reason is due to what Veblen calls a “Machine Process”. In widening our understanding Veblen [1904] (2005, 10) teaches that the machine process is the necessary mechanical precision and uniformity that pervades the industrial system. Where before the industrial revolution people relied on custom and habit the machine process demands everything to be accurate, measured and standardized. For

instance, instead of furniture made by a master craftsman's trained eye and honed experience industrial furniture requires specific measurements of wood and bolts. Surprisingly, as deduced by Veblen (2005, 11), under the machine process even human labour requires standardization. For example, laborers under the machine process must be at work at a certain hour and they must produce a certain amount per hour for the industrial system to function efficiently. The standardization of human labour and the mechanized nature of the machine process lead to quick training in an industrial system.

As noted earlier, the new German state was composed of agrarian workers, and craftsmen. Those two types of work are restricted by high investment of time, lack of widespread reach, and specialization. Craftsmen learn their trade by being apprentices to master craftsmen. The years needed to attain the level of master are long, and because of that a Master craftsman is limited in their number of apprentices. Even after the many years of work and learning the craft, the skills are honed for the benefit of executing that particular craft. The requirements for an agrarian are not the same as a craftsman but they are more demanding than a factory worker. An agrarian does not need as many years for their training, but the empirical knowledge required to know the land, soil, and plants does. The traditions of knowing

the land and proper experience for agrarian endeavours take time to build. A new worker can be taught the traditions of farming for a particular location faster than a craftsman, but that knowledge does not effortlessly allow the agrarian to work in any farm or grow any plants. People from the crafts and agrarian background could all be taught how to run a machine in a factory. The knowledge on how to run a factory can be transferred rather quickly when compared to the knowledge needed to know a craft. The skills necessary for an industrial economy are easy to teach because of the machine process.

The interdependent nature of the machine process allows for skills to be versatile in their applicability. In reiterating Veblen's (1915, 182) words that once the skills needed for an industrial work were learned, like running a machine, they are easily transferred since everything is mechanized and standardized. The worker with knowledge and skills for running a machine in one factory can more easily switch to another factory even if they produced a different product, than a master craftsman deciding to learn a new craft. For learning a new craft would take several more years while switching factories would require days. Another reason Veblen (1915, 156) notes Germany was able to easily train their workers new skills was because the existing human capital was conducive for the new industrial system. The

educated elite had the intellectual training to grasp the new information required for an industrial system; the working class has the experiences of working hard with tools and being as efficient as possible. The state enforced and smoothed the transitions of those old skills for the necessary new ones.

State Intervention

State intervention is the most essential factor in Imperial Germany's economic development. Technology transfer and Human capital are the building blocks of economic development but without state intervention the results vary. Veblen (1915, 241-242) observed that England developed their technology and human capital over centuries by trial and error, while Germany replicated the industrial level of England in a few years because of the state's high level of involvement in their industrial development. Since the English had developed the skills and knowledge "organically", the German state did not have to. They could just direct and execute to cultivate Germany into a modern industrial state. Veblen (1915, 157) explains that Germany's history and absolutist state were advantageous for prompting along economic development.

Imperial Germany's absolutist and militant state was conducive for effective state intervention. According to Veblen (1915, 154), modern Germany still held the medieval militarism and feudal servile culture of its past. The state during medieval and imperial Germany was absolutist in its power. The citizens in Imperial Germany weren't the sovereigns in a social contract as they are in the United States. The Monarch is the ruler and owner of the nation in medieval and Imperial Germany. The Monarch and the state owned the people, the land and its resources, which legitimized the state's unmitigated management. The tradition of being subservient to an absolutist monarch didn't change when the Germanic principalities united into a modern nation state. Additionally, Veblen (1915, 149-151) explains that since Prussia became the leader of the new German state, all of Imperial Germany took an extreme attitude of absolutism and militarism. Prussia in Veblen's (1915, 149-151) view was the most absolutist and militaristic of all the Germanic principalities. The habits of feudal servitude that persisted enabled a people with a history of subservience to a strong state to be used for the benefit of advancing industrial development.

The compliance of industry to militant endeavours by the state of Imperial Germany compressed the time of Industrial development. Imperial Germany wanted to be a superpower in Europe with a strong military, a

strong economy and a strong political influence. Thus, Imperial Germany managed the industrial development to compress the time needed to catch up with England in terms of industrial strength. Investing in weapons and war ships for Imperial Germany's constant need for military equipment fueled the growth of the German economy. They were hitting two birds with one stone: developing industrially and becoming a military superpower.

Astutely, Veblen (1915, 207) observes that the German state controlled the railroads and subsidized shipping. Those endeavours were for the benefit of making the German war machine run as efficient as possible. The railroads were in state control to coordinate what was transported, along with when and where the state needed. A railroad operated by a free market would be maneuvered by the needs of business owners not what was best for the states militarist goals. The same goes for shipping. The state subsidized shipping in order to grow their economy's exporting power. Naval ships were subsidized in order to compete with Britain's military and economic control of the seas. The Imperial German state was so efficient of controlling industry for war that by WW1 England was legitimately threatened by Germany.

Imperial Germany recent economic development spared them from the distractions of an already developed state. In Particular, Veblen (1915, 191) explains that Germany did not have material distractions that are

products of a fully industrially state like England. In England, industry is used to create superfluous products for luxury and recreation. Entire social and economic institutions were devoted to luxury and alleviating the stresses of the machine process. The wealthy in England's developed economy have a surplus to spend on luxuries that a pre-industrial economy doesn't. While the wealthy in England have extra money to spend, the working class needs distractions and emotional escapes to cope with the toils of a regulated machine process. Each country has a limited amount of human capital, resources and capital. If a country decided to focus those factors on luxuries and distractions they diminish their ability to use it for other purposes. Germany recent departure from a medieval life style still maintained its minimalism. It had not developed the materialism and wasteful consumption of a fully developed country. The average German in Imperial Germany only needed what the average German needed in medieval/feudal Germany. Thus, all the resources of the state are devoted to furthering the war machine and increasing the industrial revolution.

Imperial Germany controls of tariffs were utilized to benefit their industrial development. In Particular, Veblen (1915, 171) instructs that once the Imperial Germany became unified the state created a free trade zone inside its border. This free trade zone allowed Imperial Germany to grow

economically and gain a strong industrial capacity. A free trade zone within Imperial Germany allowed for products to be traded without the confining competition that arises between states. The former principalities within the new German state would not worry about tariffs. Their competition would focus only on trade and profit. A limited free market under the absolutist militant State would be beneficial for the over all goal of the state. In addition to the internal free trade zone, Veblen (1915, 172) observes that Imperial Germany set up high tariffs with other nations. A high tariff is very crucial for a country that wants to industrialize. Without high tariffs a developing country will get flooded with cheap products from an industrialized country. A country with a developed economy has figured out how to produce at a cheap and efficient way. They are able to sell their products at a lower price than a country that has higher production costs due to their recent start. If cheaper products keep flushing people in a developing will choose to purchase the cheaper product. To ensure that the people purchase the national product high tariffs are introduced to equalize the market. Enforcing high tariffs was in character of an absolutist Imperial Germany seeking to industrialize as quickly as possible. The absolutist nature of Imperial Germany allowed for strong state intervention to ensure Germany caught up with the modern countries.

Conclusion

This inquiry has sought to establish Thorstein Veblen's Theory of economic development is anchored on state intervention, human capital and technology transfer. Imperial Germany emerged from the unification of the Germanic principalities with Prussia at the helm. Prussia provided the new German nation state with its militant and absolutist style towards government. The absolutist and militant state utilized its natural disposition towards furthering industrial development. The State made sure high tariffs were in place to protect the new developing industries. The State intervened in controlling the railroads and subsidizing shipping to ensure industry grows and produced effectively and efficiently. The transferring of technology from developed countries and investing in the human capital to sustain the borrowed technology allowed Imperial Germany to gain all the benefits of industrializing without the negative consequences of developing it first. A modern country wishing to gain economic development of an industrial nation would be wise to have the state subsidize growing industries and protect them from other countries with high tariffs. They would also benefit from borrowing technology from other countries that already have technology developed and empirical knowledge. The country should learn from the mistakes of the established country and implement the

new improved technology. The country wishing to modernize should ensure the human capital necessary for a developed industrial state. If the state involved itself with educating the population, human capital would grow at a more efficient and rapid rate. (2, 620 words) (2,850 allowed)

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