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## RESEARCH ARTICLE

### RESEARCH PAPER: VEBLENS ECONOMY IN ECOLOGY.

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#### Abstract

In Veblen's historical treatment of the rise of capitalism and wealth represent not only reward for labor and savings but exploitation of labor and land alike. Veblen's critical discourse on predacious business opportunists can be extended to the proclivity of the North's "leisure" and middle classes to engage in extravagant consumerism causing resource inefficiency and environmental degradation.

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#### Introduction:-

'Theory of the Leisure Class' written in 1899 by Thorstein Veblen contradicts the neoclassical theory of consumption. The neoclassical thinkers perpetuate the belief in individuals to maximize benefit (utility<sup>1</sup>) according to external, social factors. In contrast, Veblen argues that preferences are determined by the consumer's position in the hierarchy of the social structure. As per Veblen's theory of conspicuous consumption, individuals contest consumption patterns of others that form the crest of the social hierarchy. Hence, the utilization of resources and dynamic consumption habits affect and are affected by changes in the evolving social fabric of any economy.

In the previous century, Veblen (1899) emphasized that modern materialism may diminish to waste either by the futility of time or by display of wealth. This he termed as "the great economic law of wasted effort" (p. 83). Hence, the economic question of resource scarcity<sup>2</sup>, optimization and allocation<sup>3</sup>, supplements needs and actions of the society. Ostentatious demand and conspicuous consumption are social characteristics of the strengthening capitalism as well as radical economic structures, today. Without doubt, Veblen's works represent elements of environmental sociology that influence governing policies as well as the exogenous factors of 'economics'. Accordingly, problems of resource scarcity and utilization of factors of production<sup>4</sup> (Land, Labor, Capital, Entrepreneurship) can be addressed through Veblen's comprehensive approach to society.

Today, when totalitarianism is challenging democracy through potential productive power, it is necessary to mend the socio economic divide between classes. I argue that the 'second class' is stressing on wasteful methods to meet the North's voracious demands and insatiable consumption needs. Also, Veblen's works offer perspective on the larger role of humanity especially in exacerbating environmental crisis. Optimistically, Veblen's classic outlook on

<sup>1</sup> Utility: the satisfaction or pleasure that an individual derives from the consumption of a good or service.

<sup>2</sup> Scarcity: A situation where unlimited wants exist but the resources available to meet them are limited.

<sup>3</sup> Resource allocation: The way that resources within an economy are split between their various uses – the way in which resources are used.

<sup>4</sup> Factors of Production: Land (natural resources, i.e trees, ocean, minerals, sunshine), Labor (human resources, physical/ mental), Capital (capital resources, man-made resources - machines), Enterprise (organization of FOP's for production)

the cycle of demand and consumption can be further applied to comprehend essential links between the spheres of ecology, sociology and economics.

### **Thomas Malthus, Thorstein Veblen , John Maynard Keynes on Gluts and Global Crises:-**

In essence, Veblen notions that demand by individuals is in fact, determined by social status rather than Say's Law that states "supply creates its own demand". Ergo, Veblen's theory of conspicuous consumption is corollary to Thomas Malthus' need of "unproductive consumers " as a class who would initiate demand elaborated in Principles. Thomas Malthus further iterates that income is distributed between the labor class, capital owners and entrepreneurs receiving wages, rent and profit, respectively. The capitalist results in a profit since the value of the good produced is greater than the price paid (income) to the labor. Since, the labor class receives only subsistence wages, they must dispose a large portion of their income on necessities to maintain and reproduce the socio-economic class. Consequently, the extra output would be absorbed by the capitalist as 'capital goods' or saved and later, invested, stimulating production and employment. Also, if ostentatious spending is constrained, the demand and subsequently, the prices of luxury goods would fall beyond the profit margin, conceiving a glut in the economy. Thus, the excess capacity to spend adds to the effective demand<sup>5</sup>, initiating economic growth and curbing an economic glut (History of Economic Thought, 2010)<sup>6</sup>.

### **John Maynard Keynes (Keynesian Economics):-**

In his book, The General Theory of Employment, Interest and Money, John Maynard Keynes praises Malthus for promoting the possibility of under-employment equilibrium, which forms the basis of the Keynesian theory. The Keynesian economics assumes that aggregate expenditure is based on real production whereas, consumption on disposable income (Grant et al, 2007:427-438)<sup>7</sup>. Additionally, Keynes held the belief that it was the effective demand, which initiates production (creates supply), arguing against Say's Law of "supply creates demand" (MacLachlan 1999:71-572). Keynes believed that the lack of aggregate demand, due to the disequilibrium of planned savings and investing, results in a glut in the economy (Anderson, p. 18)<sup>8</sup>. Although, he supports Malthus hypothesis of unproductive consumption, focused on increasing effective demand<sup>9</sup> as aggregate demand furthers as consumption spending increases. ( $AD = C + I + G + (X-M)$ )<sup>10</sup>.

Say's Law in effect states that "supply creates its own demand", such that, the total output of production in an economy should be able to generate enough income in the economy to purchase all of the production (Sloman, 2006:346)<sup>11</sup>. Veblen would argue that such conditions can only flourish if resources are optimally allocated and efficiently utilized. In present day, such simple analysis is narrow, inherently the law does not account for hoarding, accumulation of money without purpose or intention to save, spend or invest.

In comparison, the global financial crisis of 2008 aggravated due to lack of consumer spending, wherein consumers became frugal and saved a portion of their disposable income. The crisis exacerbated as demand for goods and services fell and consumption weekend, resulting in dangerously low levels of aggregate demand and a 'great recession' in the world economy.

### **What is Environment?**

Schnailberg (1980) believed the environment to be the "locus of (all) material support of humanity". This implies that the environment, is an essential integration of biotic (living) and the abiotic (nonliving) components of life. The environment encompasses the physical world and its natural resources and humans impact and impede the organic

<sup>5</sup> Effective Demand in a market is the demand for a product or service which occurs when purchasers are constrained in a different market.

<sup>6</sup> The History of Economic Thought Website. [Online]. Available:<http://www.economictheories.org/2008/11/over-production-and-under-consumption.html> [2014, September 9].

<sup>7</sup> Brue, S.L. & Grant, R.R. 2007. History of Economic Thought. United States of America: Thomson South-western.

<sup>8</sup> Anderson, William L. "Say's Law: Were (are) the Critics Right?" mises.org. Accessed April 29, 2013. <http://mises.org>.

<sup>9</sup> effective demand in a market is the demand for a product or service which occurs when purchasers are constrained in a different market.

<sup>10</sup> Consumption demand by the households (C ),Investment demand, i.e., demand for capital goods (I) by firms,Government expenditure (G), Net income (X – M).Thus symbolically, $AD = C + I + G + (X-M)$

<sup>11</sup> Sloman, J (2006). Economics. 6th ed. London: Pearson Education. 341-346.

process. Under the purview of economics, environmental crisis are mere negative externalities<sup>12</sup>. Though deductive logic would assume that dependency on material capital that is, natural resources would ensue crisis. An environmental calamity can be deferred but only avoided, since production yield pollution, depletes raw material and dispenses bounds of energy (O'Connor, 1988).

It is disconcerting that classic sociology does not aim to interpret environment in its study of the structural development and functioning of humanity. Environmental sociology distinctively emerged from environmental movements in early 1970's, which traced the discourse of physical-biological-material as the bases of human existence (Murphy, 1994).

As a critical theorist of conspicuous consumption and wasteful extractive processes of natural resources, it is odd indeed that Veblen has rarely been cited within the environmental sociology subfield (Mitchell, 391). Although, the precinct of environmental sociology cannot address environmental dilemmas nor mitigate natural disasters. However, it may influence the development of economic systems to foster human capital rather than favor capitalistic intentions and conspicuous consumption habits (Humphrey & Buttel, 1982).

#### **Relationship between Trough (Environment) and Boom (Capitalism):-**

The direct relationship between environmental degradation and rise of capitalism. Veblen alleges that profit steered manufacturing and a consumer driven society is responsible for pollution and exploitation, a premise applicable hasty environmental and socioeconomic change. The relationship between Trough (environment) and Boom (capitalism) in the ecology and economy are dynamic, and consequent of one another. Which maybe understood through

- A. predatory-industrial class distinction (Labor),
- B. Sociological, Psychological, Economic concepts of 'Conspicuous Consumption', demand and leisure (Capital),
- C. Exploitation of resources without ownership (Enterprise/ Land)
- D. and synthesized by applying Technology (fifth FOP).

#### **Predation of Labor:-**

It is generally accepted that societal development is relative to growth of technical knowledge. Thorstein Veblen in 'Theory of the Leisure Class' (1899) illustrates that knowledge is fragmented between two classes in society: the industrious class (workers) and the predatory class (business class).

The businessmen comprise of the predatory class categorized so due to their 'parasitic' characteristics. Persons of this class produce nil benefits and further leech-off the fertility of the working class. Veblen affirms that the numerically smaller, privileged, upper-class segment relied on market manipulations and increased competition to maximize personal benefit for a higher social stature. The predatory intentions of capitalists expanded in the 19th century, under the garb of industrial efficiency and growth, the environment was degraded and worse, ignored. Hence, Veblen's predators are commensurate with Marx's bourgeoisie or capitalists, John Kenneth Galbraith's new class, and Joseph Schumpeter's entrepreneurs.

Industry is still an instrument necessary to accumulate profit as wealth, and greedy members of the business community often permeate the economic structure to ensure promotion of personal interests. A market monopoly<sup>13</sup> affirms continuity of personal yet dynamic interest (Veblen, 1904, chap. 3). Moreover, price dominance and class and predatory characteristics are impediments that underline societal systems. Additionally, legally monopolistic positions may be achieved by comparative advantage<sup>14</sup> due to a privileged location or control of natural resources.

<sup>12</sup> Externality occurs when actions of producers or consumers give rise to positive or negative side effects, and are harmful to other non-stakeholders ie. spillover costs

<sup>13</sup> Monopoly: a market form where there is only one firm in the industry, so the firm is the industry. Hence, have high barriers to entry.

<sup>14</sup> Comparative advantage : An advantage arising out of relative efficiency, which follows from scarcity of resources. Comparative advantage is the advantage measured in terms of other goods that could be produced vice versa (comparative disadvantage in another).

Veblen forecasted the perils of specialization in the production process controlled by competitive business practices. Essentially, the specialization of technical skills, alienated the labor and as predicted would instigate economic stagnation. Scholars Ashley and Orenstein (1998) postulate that this theorized 'unprecedented economic collapse' occurred following Veblen's death, known today as the Great Depression, 1929.

### Consumption and Waste:-

Economic goods<sup>15</sup> are consumed by society either to satiate conspicuous consumption, which is a socially nonproductive waste of time and effort or in order to achieve a desired purpose. Veblen hypothesized that conspicuous consumption is expenditure on consumable goods, as a social symbol of economic stature portrayed by the upper, predatory class. The drain of wealth is accorded by leisure time spent on socially unproductive work. Envy and emulation motivate consumption in order to display wealth, and their continuance maintains the domination of the upper, predatory classes. Such pompous, pretentious demand trends ignore the virtue of sustainable, equitable, paramount economic growth. As sociologist Robert Merton noted, "the Veblenian paradox is that people buy expensive goods not so much because they are superior but because they are expensive" (quoted in Tilman, 1991, p. 176).

### What is Waste?

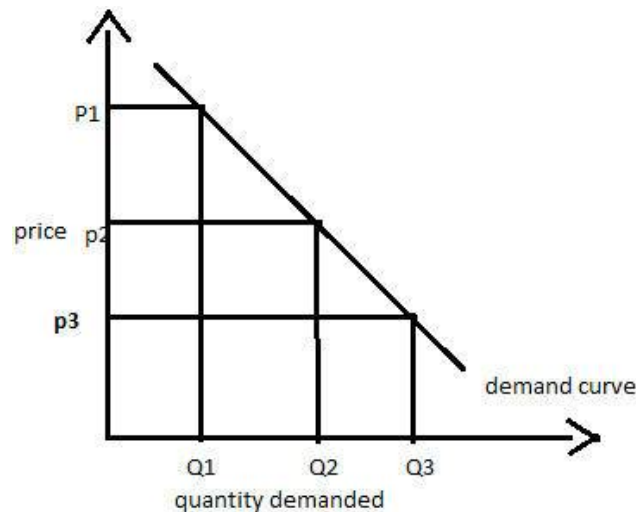
Veblen did not directly assert environmental pollution or chemical affluences to be 'waste' in his 'Theory of the Leisure Class'. Instead, of referring to waste as externalities in modern economics, economic inefficiencies and societal consumptive patterns are indicators of waste.

"The institution of a leisure class hinders cultural development (1) by the inertia of class itself, (2) through conspicuous waste, and (3) indirectly through that system of unequal distribution of wealth and sustenance on which the institution itself rests (Veblen 2001 [1899], 150)."

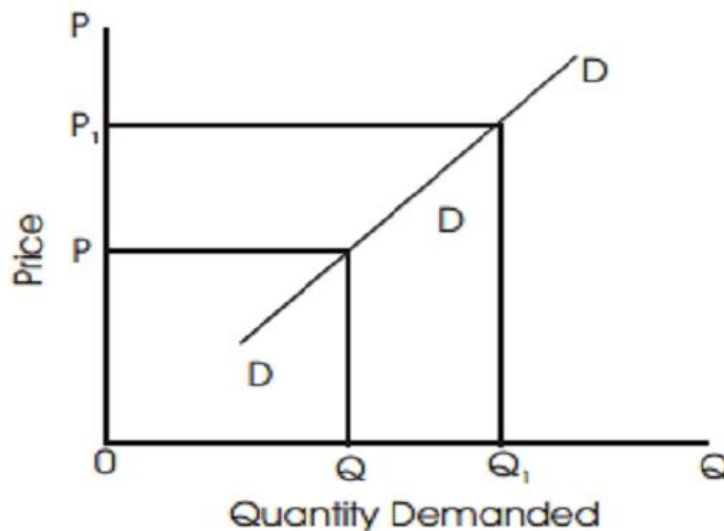
1. "Canon of conspicuous waste": This canon states that people consume certain types of goods, in order to signal their wealth-status in society and therefore to gain the esteem of others.
  2. Property rights create incentives for "invidious comparison" and "emulation".
  3. This immiseration is exacerbated by a 'status quo bias' (my interpretation) where conspicuous consumption is an institution of habit.
  4. Within the leisure class vertical emulations of status-signs are supported by advertising.
  5. Society continues to subtly display wealth through dynamic (evolutionary) consumption patterns.
  6. Veblen Good: "gratification of our sense of costliness masquerading under the name of beauty" (Veblen 2001, 94).
- a. Duesenberry (1949), Leibenstein (1950) etched non adhering demand curves representing conspicuous consumption (snob effect, bandwagon effect, Veblen effect) in an economy.
  - b. The law of demand states that there is an inverse relationship between the price of a good and quantity of the good demanded, *ceteris paribus*<sup>16</sup>. Veblen goods defy the law of demand, the demand curve of such goods or services is upward sloping due to flamboyance or a belief that a lower price is indicative of low quality. There is a positive relationship (directly) between price and quantity demanded, a consumer derives greater utility (satisfaction) from the desire to impress other than from consumption of the good itself. A market demand curve is inclusive of all consumers, including those of lower income groups whose patterns are consistent with the law of demand. Hence, such consumption patterns resulting in an upward demand curve, are of higher income individuals purchasing luxury goods.

<sup>15</sup> Economic good: a good or service which is relatively scarce, hence has a price. An opportunity cost is involved once consumed.

<sup>16</sup> *ceteris paribus*= all other things constant/equal.



**Diagram 1:-** The Law of Demand.



**Diagram 2:-** Violation of the Law of Demand.

Individual interests take priority over collective actions, incentive to consume for social status peaks as societal efforts are devoted to produce positional goods. Frank (1985) proposes that conspicuous consumption be taxed so that the state can provide more public goods<sup>17</sup> and merit goods<sup>18</sup>.

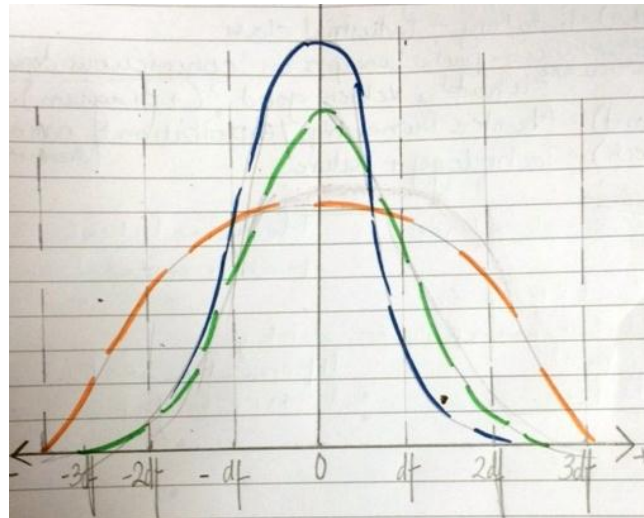
The illustrations below outline Robert Frank's redistributionist policies. The initial position is at normal distribution-taxation and redistribution of resources will create data closer to a "compressed" normal distribution. Hence, in the short term, economic inequality due to conspicuous consumption will reduce as a result of an equilibrium of nonpositional goods<sup>19</sup> and distribution of positional goods. In the long term, however, the contrary is observed. In fact, a concentrated distribution that is, compressed consumption levels allow greater immiseration. Samuelson

<sup>17</sup> Public goods : goods or services which would not be provided at all by the market. They have the characteristics of non-rivalry and non-diminishability, e.g. flood barriers.

<sup>18</sup> Merit goods: goods or services considered to be beneficial for people that would be under-provided by the market and so under-consumed.

<sup>19</sup> Positional Goods. These are goods which tend to be very scarce and are desired for their ability to show success over other people. For example, getting into best university

(2004) notes higher marginal returns to conspicuous consumption post redistribution of resources hence, the policy to balance wasteful expenditure would actually have nil effect on individualistic demand.



'Normal' = normal distribution (green)

Redistribution = compressed normal distribution (orange)

Reduced inequalities, normal distribution = steep curve (blue)

Redistributionist policies demolish incentive for the 'rich' to stay economically rich and allow the poor to signal conspicuous consumption to gain social status. The logical taxation policy that follows must focus to reduce conspicuous consumption of (the poor) those ostentatiously displaying wealth and subsidize consumption of (the rich) those unmotivated to spend. Therefore, a redistributionist economic policy is socially regressive. Simply stated, the concept of conspicuous consumption, by definition, is a waste of society's resources though 'redistribution economists' argue that inequality increases waste while, 'laissez-faire' economic thinkers propose that inequality reduces waste.

#### Exploitation of Natural Resources (Land):-

Veblen believed that land expropriation by absentee owners, wasteful natural resource extraction, and rapid deterioration of the productive land base would erode the environment belligerently. Essentially, absentee ownership can be understood, by those who did not rightfully own the land but nonetheless exploited natural, material, and human resources (or land, capital, and labor) for financial gain. Veblen implicated the predatory class of unable to share responsibility of environmental degradation caused by negligence of their capitalistic intentions. Such preoccupations as Veblen illustrates is highlighted through the import practices of certain countries concentrating on cash crops and neglect the organic native yield. The primary criticism of Veblen was that agricultural practices were wasteful and satiated only pecuniary interests. Still today, modern farmers are caught between merchants who pay little for agricultural produce yet sell to unwary consumers at inflated prices. Monopolistic efforts served to secure landholdings are inefficient in resource management. Even today, tariff protectionist policies safeguard the interest of industries and costs society heavily. Instead, demand and supply should be governed by "a plan of deliberate economy and conservation from the outset" (p. 193).

#### Technology and Nature:-

The previous analysis on waste and consumption seemingly makes the relationship between technology and nature incoherent. Though, natural resources are increasing in efficiency as a consequence of improved applied technical knowledge. In his chapter "The Technology of Physics and Chemistry", new tools, designs, and processes help better allocate and optimally utilize resources. Moreover, natural resources are valuable as a social construct simply since, society is willing to pay for its use, hence, natural resources are resources. Veblen claimed that technicians, by early 20th century formed the fifth standard factor of production "because technicians know how to turn them (natural resources of landscape) to account (resources for profit)" (p. 272).

In Veblen's historical treatment of the rise of capitalism and wealth represent not only reward for labor and savings but exploitation of labor and land alike. Veblen's critical discourse on predacious business opportunists can be extended to the proclivity of the North's "leisure" and middle classes to engage in extravagant consumerism causing resource inefficiency and environmental degradation.

### **Conclusion:-**

In 'Theory of the Leisure Class' written in 1899, Thorstein Veblen expounds on issues relevant to the sphere of environmental sociology, of capitalism, waste generated via production or during consumption and absentee ownership. The ultimate aim of profit making at a social or environmental cost guides his analysis. The contradiction between the capitalistic system, devoted to predatory, pecuniary ends, and imperative human technology to transform raw materials into consumable goods, is apparent in his works. Most importantly, incessant waste of natural resources and relentless consumption mark the global era which is accompanied by environmental issues that are contemporary problems needing immediate attention by sociologists and economists.

The defining culture of capitalism assumes consumption for satiating self interests and a limited socially productive output. Veblen foreshadowed the failure of the enterprising capitalist class, since factors of production were applied to maximize profits by producing and selling greater quantity of goods. Whereas, capital should have been concentrated in improving production technologies and process especially, by recognizing the asset in the form of human resource. Veblen suggested that knowledge deficient entrepreneurs wantonly exploit natural resources of and sustainable production practices are ignored. Leadership is a vital component of dynamic yet directed social change for civil practices and policies that prevent absentee ownership described by Veblen. Additionally, the link between industry and waste can be perceived as class based phenomenon. Marx understood exploitation of labor on the basis of class as the controlling dynamic of capitalism. Whereas, Veblen for example, would believe that all exploitation of factors of production is inherently, environmentally degrading thus, inefficient and a direct consequence of capitalism.

In conclusion, economists and sociologist both should systematically approach their studies through conjoint effects of technology and environment as represented in Veblen's works. In his visionary writings, he connects rapid economic of the North, their predatory business class and trending consumerism along with deterioration of the South. Natural resource sociology could benefit immensely by expanding the scope to incorporate Veblen's thought on production practices, consumption habits and by approaching environment classically.

### **Linking Veblen's thought on production and Consumerism:-**

Incorporating technical input in corporate decision making, implementation of efficient extraction and production processes, reinforcement of workmanship values, and encouragement of responsible consumer habits, all have relevance to the interrelationship of environment and society. Veblen's insistence on leadership through public policy and responsibility extends to the duty of humanity to check conspicuous consumption.

### **Examining environmental sociology from a classical perspective:-**

Comparisons of Marx and Veblen may provide insight into connections between capitalism and environment. Social phenomena should be studied through an ecological perspective simply since consumerism has ignored the synthesis of material and living objects- our environment.

Unrecognized pillars of environmental sociology and political ecology Thorstein Veblen's works, The Theory of the Leisure Class (1899), The Theory of Business Enterprise (1904), and Absentee Ownership (1923) may help Linking Veblen's thought on production and consumerism and Examine environmental sociology from a classical perspective.

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