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„Thorstein Veblen’s Theory of the Leisure Class:
Methodological Problems and their Solutions”

Verfasser

Siegmund Skalar

angestrebter akademischer Grad

Magister der Sozial-
und Wirtschaftswissenschaften
(Mag.rer.soc.oec.)

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0. Introduction: Problems, Institutionalism and Theory of the Leisure Class

Thorstein Veblen's *Theory of the Leisure Class*, by secondary title "an economic study in the evolution of institutions", at the time of its publication in 1899 did create much sensation; the use of sarcasm and a method very much different to the formalist mainstream made and continues to make its establishment as a work of economic theory difficult. The essay focuses upon the broad range of influence of a special class of society - the so called leisure class; however it does not try to give a systematic account of the influence or its dynamics, but rather consists of a series of consecutive observations traversed by the recurring notion of the leisure class. Its fundamental conclusion is that people consume in order to impress their surrounding society. In his essays Veblen refers to many different examples (social customs, aesthetics, institutions in general), which are mere manifestations of that very principle. The leisure class, which is the leading class of society not only in terms of power and wealth but also in terms of conspicuous expenditure,[1] finds itself under strong critique by Veblen. Quite often reviewers therefore saw but a blunt "*attack on existing institutions*"[2] - an essay on sociology based on a few precise observations[3]. In his history of economic analysis Joseph Schumpeter mentions Thorstein Veblen and *Theory of the Leisure Class* only

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[1] i.e. expenditure as a demonstration of wealth, in order to gain in terms of honorific standing in society.

[2] LESTER WARD, *Review of Theory of the Leisure Class*, The American Journal of Sociology, Vol. 5, No. 6 (May, 1900), pp. 829

[3] e.g. the review by literary critic William Dean Howells: HOWELLS, *Review of Theory of the Leisure Class*, in: Literature. An International Gazette of Criticism, No. 16, New Series (Apr., 28, 1899), pp. 361-362; and No. 17, New Series (May, 5, 1899).
remark: even on a basic level *Theory of the Leisure Class* does deal with scarcity; it does try to answer a question of efficiency, of how to cope best with the scarcity of natural resources. How can the burden of labor, to satisfy one's sustenance, be alleviated? The prevailing socioeconomic system is inefficient in Veblen's opinion; collectively inefficient behavior/institutions arise because of various social dynamics with involvement of a special class - the so called leisure class. *Theory of the Leisure Class* is an inquiry into the causes of the acts of collective underachievement, identifying these absorbing institutions, deriving them from their archaic precedents. Comp. also to: ANDERSON (1933), *The unity of Veblen's theoretical system*, p24

parenthetically and accuses his work of being in economic sociology[4]. Some even speak of it not having contributed anything to economic theory.[5]

The broad range of disagreement as to the value of the contribution is foremost the result of its fundamentally different approach to economics: "Veblen always meant the work to be appreciated as a contribution to social and economic theory, […] This aspect of the work has received insufficient attention, in part because of a failure of many commentators to appreciate the intellectual environment of the 1890s and thereby the substance and stature of Veblen's intellectual achievement".[6] Discontent with prevailing economic explanatory systems, Veblen criticizes their insufficiencies and purposefully suggests what has been known as *Evolutionary Economics*; a methodological position decidedly different from the upcoming Neoclassicism. In *Theory of the Leisure Class* he implements this program to the extent suggested in the secondary title – *Theory of the Leisure Class* is not a new economic theory proper[7] (or a universal theory) but a specific study of institutions[8]. As such it does not feature an ahistorical economic problem in the manner of price theory, international economics etc. (questions: How can price differences, inflation be explained?); neither does it purposefully advocate economic policy considerations (questions: how can unemployment, inflation be avoided).[9]

What it does feature, is the solution to a series of fundamental methodological problems. It is the solution to these problems that enabled the new economic movement succinctly called *Institutionalism* to position itself as an economic theory. It is not only the purpose of

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[4] JOSEPH SCHUMPETER , *History of Economic Analysis*, Routledge 1994, p763

[5] KURT DOPFER, *Thorstein Veblens Beitrag zur ökonomischen Theorie*, in: K.-D. Grüske (Hrsg.), Kommentarband zum Faksimile Nachdruck der Erstausgabe von Thorstein Veblen: The Theory of the Leisure Class, Düsseldorf: Verlag Wirtschaft und Finanzen, 2000, S. 89-144.

[6] GEOFFREY HODGSON, *Veblen and Evolutionary Economics*, in: Samuels Warren J, The founding of institutional economics, Routledge 1998, p190

[7] A. M Day in his review writes "Professor Veblen has not presented the theory of the leisure class, but a part of one theory": A.M DAY., *Review of Theory of the Leisure Class*, Political Science Quarterly, Vol. 16, No. 2 (Jun., 1901), p369 or Hodgson Geoffrey, The *Evolution of Institutional Economics – Agency Structure and Darwinism in American Institutionalism*, Routledge 2004, p141

[8] A. M DAY (1901), p367: "All this is, of course, a study of motives"

[9] This is also a common characteristic of all works of Institutionalism. See HODGSON GEOFFREY, The *Approach of Institutional Economics*, Journal of Economic Literature Vol. XXXVI (March 1998), p170

Note that certainly Veblen wanted to some extent explain economic aspects with involvement of the leisure class as in the consumer behaviour with regard to luxury goods.

this thesis to identify and reproduce these problems, their respective problem situations and problem formulations, but furthermore to outline the capacity of Veblen's *Theory of the Leisure Class* and its implemented program of Evolutionary Economics to solve them in a different manner than other contemporary economic theories do; it will also be shown, that the solutions admitted by Veblen entail altered explanatory power and thereby validate the existence of a definitive economic theory.

The history of economic thought is a history of problems and their respective solutions, as is the history of any scientific discipline[10]; the solution of problems triggers problems which in turn require new solutions etc. A new theory hence has to have problem solving capabilities that make it somehow superior to preceding theories; that is, it has to be able to solve more problems or admit better solutions. The depiction of those problems and their respective solution requires foremost the exact formulation of the former and the latter; in addition it requires depiction of the respective problem situation; that is the initial formulation and the solutions to those very problems by other authors. The first part of this text, discusses basic properties of scientific explanations, aims to illustrate the nature of the problems in question. It also aims furthermore, as the first part of the problem situation, not only to outline the different approaches in economics to solve those very problems but also to give an overview of the economic theories that preceded the formulation of Evolutionary Economics. Part two assesses the problem solving capabilities of Veblen's Economic Approach: A preliminary chapter provides an introduction Evolutionary Economics. A chapter on Veblen's criticism of contemporary theories recapitulates the problem situation from Veblen's perspective, identifies the different problem formulations and leads to the chapter which outlines the problem solutions of Veblen in detail; the latter chapter also assesses explanatory power. A fourth part briefly comments on the solutions provided by Veblen and states the conclusion.

[10] Quoted from KARL MILFORD, *A Note on Menger's Problem Situation and Non-essentialist Approach to Economics*, in: Austrian Economics in Transition – From Carl Menger to Friedrich Hayek, Palgrave Macmillan 2010, p159

1. Explanations in the Social Sciences

The social sciences ever since have strived to explain human (inter)action on a systematic level, controlled by factual evidence. However, data in the social sciences is very different in comparison to those of the natural sciences - controlled experiments which keep variables constant are hardly possible. Economics in comparison to other social sciences deals foremost with the implications of scarcity (and concomitant phenomena) and thereto related human action. Approaches in the social sciences have striven to comply with idealistic conceptions of a natural science. As a result while only a small group of heterodox theorists adhere to informal approaches, Positive Economics and ultimately Neoclassicism adhere to a more formal method - a method characterized by mathematics, generalizations and the use of deductive logic. Veblen however belongs to the former; his approach emphasizes the importance of explanatory power of an economic theory. Differing solutions to fundamental problems of explanation outlined in this chapter express that very view.

Explanatory Power

The performance of an explanatory system in economics unanimously rests heavily on its ability to predict[11] - to guarantee policy advice: in Milton Friedman's conceptions of Positive Economics it is to be judged by precision, scope and experience-conformity[12], all with regard to the latter; hence if a theory is able to predict more precisely and if it is not refuted by succeeding observations, it is performing well. However prediction does not necessarily imply explanation. Blaug gives an illustrative example[13]: Newton's Theory of Gravitation ignores all characteristics of moving objects but their positions, point masses and velocities; his universal law states that "bodies attract each other with a force that varies directly with the product of their masses and inversely with the square of the distance

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[11] E.g. WILBER CHARLES/HARRISON ROBERT, *The Methodological Basis of Institutional Economics: Pattern Model, Storytelling, and Holism*, Journal of Economic Issues (pre-1986); Mar 1978, p66

[12] MILTON FRIEDMAN, *The Methodology of Positive Economics*, in: Essays in Positive Economics, University of Chicago Press 1966, p3

[13] MARK BLAUG, *The Methodology of Economics: or how economists explain*, Cambridge University 1980, p7

between them". The law's predictions include trajectories of objects, the occurrences of tides, the course of planets etc. However Newton is unable to assign a cause to the force he identified, it just miraculously acts at a distance; the motion that produces gravity remains unexplained. So despite its extraordinary predictory powers, the explanatory power is only humble. Another example: Darwin's theory of evolution is not able to state a universal law or to make exact predictions. When asked if a certain species is able to adapt to its fatally changing surrounding (environment, climate) the theory suggests that this might happen, but it is not going to assign any number to the percentage of the population that actually adapts and hence survives. Darwinism on the other hand provides a cause for the variation of species: natural selection. Freudian depth psychology does in the same manner advocate a certain method of explaining symptoms but is unable to make exact attributions or remotely suggest universal laws (which ultimately would lead to a clear-cut method of cure). In sum the explanatory power of an explanation in comparison to the overall performance decidedly depends on its ability to account for the phenomena in question by providing a causal explanation, i.e. unveiling the causal mechanisms behind a certain phenomenon.[14] A causal explanation is an explanation with sufficient informational content[15]. By distinctly stating a cause it restricts the explanation in terms of logical possibilities (events, processes that are not going to be present as a result of the explanation); hence if one of the causes would be invalid then the theory would abruptly be refuted. As a result, the more informational content a (causal) explanation has, the higher its explanatory power, and likewise the more likely is its refutation. The explanation that all economic phenomena are caused by god, does not enable the scientist to make predictions, however it is a causal statement; due lack of informational content it is not of high explanatory power. In a similar manner a ceteris paribus clause if not specified, voids any statement of informational content and makes refutation impossible. In sum a theory with high explanatory power might so in the first place lead to the formulation of a theory

[14] GEOFFREY HODGSON, *How Economics Forgot History – The problem of historical specificity in social science*, Routledge 2001 p242, Blaug (1980), p13

[15] The explanatory property "informational content" receives its motivation foremost from the position against tautologies. However a causal explanation must entail informational content. HANS ALBERT, *Marktsoziologie und Entscheidungslogik – Zur Kritik der reinen Ökonomik*, Mohr Siebeck 1998, p110

with high predictory power; both types of power or performance of a theory are highly distinct and only assess designated qualities.

1.1 Methodological Problems

1.1.1 Causality

Causality involves the problem of how to account for phenomena in terms of cause, but also how to devise a truly scientific explanation of an event. All explanation is causal[16]; i.e. an explanation of a certain phenomenon (explanandum) cites a causal phenomenon (explanans) – an event that serves as a cause. A basic event-event explanation according to David Hume involves an earlier event (ball A hitting ball B) that serves as a cause and explanation to another event (ball B moving). Hume contested, that causal connections themselves can be observed; the principle of causation cannot be derived by experience. It involves the imputation of cause and effect with regard to the events (ball hitting, ball moving) in question; an observer makes silently the assumption that the reaction he has observed will continue in the future. Later Kant argued that all causal relation necessarily depends on imputations by the observer. How can hence a truly scientific explanation be devised? The first standard model in this manner (which is now equal to the common men's view on the method of science) was formulated by John Stuart Mill in 1848 in his *System of Logic, Ratiocinative and Inductive.* He commended proceeding on the basis of unprejudiced observation from the facts via inductive interference to the formulation of universal laws; thence further induction leaves the scientist with statements of wider generality: theories. Finally the statements are subject to a comparison of empirical consequences with observed facts. The hypothetico-deductive model adopted after the turn of the century can be considered the next step, it conceived another structure for truly scientific explanations: one universal law plus a statement of initial conditions constitute the *explanans*, from which an *explanandum*, a statement about some event one seeks explanation for, is deduced. The implications are grave: "The universal laws are not derived

[16] E.g, JON ELSTER, *Explaining Social Behavior – More Nuts and Bolts for the Social Sciences*, Cambridge 2007, p7

by inductive generalization from individual instances; they are merely hypotheses, inspired conjectures … that may be tested by using them to make predictions about particular events but which are not reducible to observations about events."[17] i.e. the hypothetico-deductive model does only work via deduction. The system entails what has been known as the symmetry thesis: explanation and prediction involving the same logical rules; the only difference - explanations being after the event and predictions before. The symmetry thesis has been criticized broadly. Positive, formal economics however builds on the symmetry thesis.

1.1.2 Agency vs. Structure

(Explanatory) reductionism[18] by doctrine entails that complex phenomena should be explained in terms of one level or one type of unit; physical reductionism for example requires all phenomena to be explained solely in terms of physical characteristics, biological reductionism claims that all (social) phenomena can be explained in terms of biological characteristics. The social sciences[19] and hence economics discern two major entities from which all socioeconomic phenomena shall be explained: agency and structure; the resulting dichotomy is known as the agency-structure problem; its ontological question: To what fundamental entity can an explanation (in economics) be reduced?

The human agent is being characterized by his ability for deliberation and forethought upon the context and possible outcomes of an action.[20] A social structure on the other hand is a set of significant relations between individuals that can lead to causal interactions[21]; a social structure can amount to anything starting from language, conventions, it can be a set of common unique meanings. Structure can outlive individuals and is hence ontologically entirely different from individual behavior; it cannot be reduced

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[17] BLAUG (1980), p5

[18] Reductionism shall not be confounded with reduction. Reduction is a necessary means for science, albeit complete analytical reduction being impossible.

[19] The agency structure dichotomy primordially stems from sociology.

[20] Not all human action might be deliberate, but still the possibility persists.

[21] GEOFFREY HODGSON, *The Evolution of Institutional Economics – Agency Structure and Darwinism in American Institutionalism*, Routledge 2004, p12

to it. A special type of the social structure[22], the institution is ubiquitous in the writings of Veblen and his contemporaries: it is, broadly defined, a set of embedded social rules that organize the relations between agents; it is within those rules to change purpose or preferences of agents.

In the history of thought, the conception of society being more than the sum of individuals preceded atomistic notions that started to emerge at the age of enlightenment. Physiocratism as well as German historical school made frequent allusions to an "economic body"; Adam Smith's conception of the invisible hand hinted the failure of the letting solely the individual's interest account for the forces of the market. Karl Marx had his own ideas of structure: He perceived structure to be consisting of the totality of relations of production, molding thereof a frame of political consciousness.

Two opposing ways of treatment with the problem can hence be identified, both having their respective adherents, advantages and disadvantages respectively – one appointing structures as the ultimate explanatory units, the second claiming that individuals are the ultimate ontological elements. Neoclassicism belongs to the latter group.

Methodological Collectivism

Evidently a holistic/collectivistic explanation suggests that individual action is only properly understood if the individuals are considered parts of a bigger picture – their behavior can be entirely explained in terms of social, structural, cultural or institutional phenomena; the very positions individuals are occupying in the scheme then define their actions – "determining the values, ideas, knowledge, preference, purposes and constraints faced by them".[23] Thus when analyzing human (inter)action, one is supposed to be looking for the entities which everybody is a part of - as for example according to: social class, political affiliation, religious confession; however what is of interest is not the active participation, but the passively adopted set of rules and beliefs: e.g. can the founder of a

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[22] it is sensible to distinguish between an institutional and a relational structure, the latter only concerned with the relationships themselves

[23] FERNANDO TOBOSO, *Explaining the process of change taking place in legal rules and social norms: The cases of institutional economics and new institutional economics*, European Journal of Law and Economics, vol 2,1 1995, p4

certain organization be long gone and nevertheless exert a certain influence on the latter – as by some sort of codex or unwritten law. Popper does a simple illustration[24]: a group consisting of A and B possesses another character than a group consisting of B and C; if some or all members of a certain group die, it is however possible that the pristine character is being kept alive but only if they did ingress into the group bit by bit, instead of mutually forming a new group together; thereby he stresses the history of a group as an important factor. Adherents include most prominently Karl Marx and the French sociologist Èmile Durkheim.

Frequent criticism stems from the fact, that methodological collectivism makes the individual the mere puppet of social forces[25] - the individual is conflated into the social structure. Collectivism emphasizes on social constraints by which it provides an ultimate account for the individual's action - it is explained only in terms of coercion (Durkheim!) by the social organism; Karl Marx' capitalists act as such because they occupy a capitalist role within the social structure. Hence collectivism lacks perspective on the (cognitive) mechanisms (e.g. psychology) by which the individual is fundamentally altered, his dispositions are truly molded respectively.

Methodological Individualism

Proposes the atomistic structure of a satisfactory explanation in the social sciences; according to it, social phenomena can be explained as the unintended result of the interplay of intended individual actions; thus, bottom line: all social interactions are interactions among individuals – that is: those involved; so does for example the entrepreneur's profit maximizing result in the minimization of profit for everybody.[26] An individualist explanation would therefore consider the Popperian society mentioned beforehand, or the example of the organization of the long gone founder, not more than

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[24] KARL POPPER., *Das Elend des Historizismus*, Mohr Siebeck 2003 p16

[25] e.g. WILLIAM GORTON, *Karl Popper and the Social Sciences*, State University of New York Press 2006, p19

[26] The Austrians since stressed the notion of a spontaneous order.
Comp.: KENNETH ARROW, *Methodological Individualism and Social Knowledge*, The American Economic Review, Vol. 84, No. 2, Papers and Proceedings of the Hundred and Sixth Annual Meeting of the American Economic Association (May, 1994), p3

the sum of its parts - a mere sum of all individual interests and policies – therefore strongly denying the existence of any mysterious social entity which turns the mass of individuals into a society. Traditional economics is built very much on the foundations of methodological individualism; the individual agent makes decisions (to save, to invest, to produce etc.) in order to determine the economy's overall course, the allocation of resources respectively.

Frequent confusion stems from the question whether methodological individualism means explanations in terms of individuals alone, or in terms of individuals plus individual interaction or social structures[27]. Can Adam Smith be considered an individualist, or does his notion of the invisible hand involve a holist explanation? It depends on whether social interaction is meant to be included. If it was to mean the latter than there would be few objections, however it would not warrant the title of methodological individualism. In fact the idea of socially determined individuals will always involve entities that cannot be explained solely in terms of individuals. If institutions are admitted, then true individualism requires an explanation in terms of individuals too, which in turn could again be partly explained by institutions etc. The result is an infinite regress in which no position, neither institutional nor individual, possesses explanatory supremacy over the other.

Carl Menger proposes a solution to the problem. In his "*Untersuchungen über die Methode der Sozialwissenschaften*" he insinuates that even social institutions (which might not at once reveal any individual motives behind them) might be explained via methodological individualism; he gives the example of money: on the one hand can the institution of certain coins be the result of a legislative act, an explicit convention, but it does not necessarily have to be so. He proposes as well an organic process developing from standard economic conduct, which makes certain goods apt for the task of being mutually accepted, to be traded anywhere and anytime against anything; Menger stresses that everybody needs not even to be constantly aware of the obvious advantages that certain mutually craved goods possess, in comparison to goods that are unfit for barter – economic success will

[27] See also footnote 115

guide the individual[28]; thus it is in the end spontaneous individual interests[29] (without any higher good consideration!) that make for the advent of the institution of money (coin). According to Menger it would appear that there was a basic institution-free-state, from which then institutions would then spontaneously appear. However, again there would be institutions involved, which would have to be explained etc.: How do people in this institution-free-state of nature e.g. converse with each other? Language in some rudimentary form would always be the last resort of an institution that would remain. The construction of a basic layer that traverses the infinite regress is pragmatic but not feasible. The popular notion of methodological individualism is in a more narrow sense not possible; explanations cannot be reduced solely to individuals without any conflation of social phenomena upon the individual.

The agency structure dichotomy is not a problem that can be "solved"; rather it shows the difficulties arising from explanations categorically resting on of the two social entities in question. Marxism recognizes the powerful rule of structures over individuals - the explanatory burden however rests heavily on structure. Consequently traditional economics (by its credo being the science of choice) departing from an allegedly institution-free-ensemble, by its methodological premise is impelled to take the purposes and preferences of the individual as given. Economic theories from either alignment fail to give account as to how individual intentions or preferences may change.

1.1.3 Decision Modeling

Explanations in economics also entail explanations of human behavior and human planning: Economic phenomena (in some way) always involve the individual and the choices he makes. In order to explain the decisions of man one has to account for the

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[28] It is chosen out of frequency and convenience and it is all the more convenient and frequent because it is chosen

[29] Carl Menger, *Untersuchungen über die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere*, Duncker & Humblot 1883, p178 : „…sociale Institution als das unreflektierte Ergebnis, als die unbeabsichtigten Resultate spezifisch individueller Bestrebungen der Mitglieder einer Gesellschaft"

individual's capacity to reason by theoretically modeling it. How can this model be construed? The answer can, but does not have to result in recourse to psychology.

According to David Hume, reason is the slave of the passions as outlined in his "Treatise on Human Nature". His notions were famously updated by Jeremy Bentham who adopted utility as the measure for pleasure or pain an agent feels as the result of an outcome of a decision; hence according to him, ontologically the faculty of reason decides only between good and bad, assigning values accordingly. The classical models of "rational choice" that resulted in the discipline of economics adopted these notions[30]; they have been further developed on by succeeding (marginalist) authors.

Rational Choice

Starting with Adam Smith' *Wealth of Nations*, economics as a social science has been propelled by the desire to emulate physics and other natural sciences in order to achieve universality of scope. (Neo)Classical economics has since dominated economic psychology with a set of a priori notions that preferably allow the broadest range of application: It assumes that agents evaluate all choices in form of comparing all the outcome's respective expected utilities and then choose the alternative that maximizes it; utility being a measure for the net sensuous/monetary gain of a certain action. Central idea is furthermore that all individual behavior is grounded in terms of a given preference function specifying values of utility, which has to be maximized. Specific inputs, e.g. consumer goods or the utility of others, enter as an argument in the function and hence utility is assigned in accordance. Individuals – so it is assumed – make a rational choice by maximizing their utility: human behavior is explained on the basis of preference functions given limited resources and other constraints. However preference functions are the mere result of a deliberation process by the individual making the choice in concern. The popular misconception of the neoclassical agent being a greedy and selfish machine is only partly true: altruism can very

[30] Revealed preference theory as a result of the contributions of Samuelson (1947) has surpassed the phase of admitting any psychological assumptions whatsoever (as it is the case with early rational choice since it acknowledged a process of mental valuation). Revealed preference theory assigns utility as the result of a choice. The causal utility fallacy comments on the confusion between the two opposing concepts of utility. See KEN BINMORE, *Rational Decisions*, Princeton University Press 2008, p19

well be modeled – the agent can gain utility by enhancing those of others, all depending on the utility function; the model can allow for behavior that is selfish as well as good or bad, since it says nothing about the origin or nature of the objectives: this is what is meant by given preferences. Predictions in collaboration with rational choice models can lead to meaningful, falsifiable predictions however only at the point of bringing in additional assumptions; typically these include the existence of perfect information (in order to allow agents to evaluate the strategic choices) or the homogeneity of agents (all agents share the same utility function).

Not only because of its alignment with methodological individualism, the model of rational choice is subject to criticism: methodological individualism in combination with rational choice does lead to individual preferences being the smallest fundamental unit; the latter of which are ultimately taken for granted in such an economic inquiry: A model of reasoning that starts at given preferences, does not need psychology as an explanatory device – this is a major advantage. On the other hand given preferences do not relate to any underlying causes of the choices made by agents.[31] A causal explanation of the choice behavior is being given up in favor of an explanation that could encompass the pursuit of all sorts of ends by an agent. This reduces the explanatory power of an explanation.

1.1.4 Specificity

Models in the social sciences do not only have to consider the structured relations between agents, but also the reactions of agents according to the changing circumstances: as a result a theory is being confronted with an abundance of information it has to account for. A general theory in economics as in every other science simplifies by combining different phenomena in a common explanatory framework; a general theory is a theory that omits details - it unifies in order to reduce contingencies; specific circumstances hence enter the theory as mere parameters. However unification may come at a high cost: while a general theory may be able to fit all possible phenomena within its framework, it might be unable

[31] For example: KLIEMT HARTMUT, *Philosophy and Economics I: Methods and Models*, Oldenbourg 2009, p53 or BINMORE (2008), p20

to properly fulfill predictory or explanatory tasks required of a scientific theory. In the history of economic theory a general theory has been most explicitly pursued by Ricardo who advocated the use of universal conclusions, derived from a set of fundamental and general propositions; his method had been criticized Malthus on grounds of its simplification and generalization. Keynes in his General Theory of Employment, Interest and Money (similarly to all succeeding proponents of general equilibrium theory) also clearly advocated a general approach to market equilibrium conditions.
Albeit many of the differences between economic systems of inquiry might be insignificant and may hence be captured by a general theory (a tailored general theory might even apply to various specific problems) there might be essential differences that cannot be taken care of solely in the change of parameter values.

A theory acknowledging the problem of Specificity in contrast suggests that there are different socioeconomic systems and it points to the limits of explanatory unification: substantially different economic systems require different theories – the unique applicability of one system is challenged[32]. This does not doubt the view that there are not problems of timeless validity to be solved by economics, but hints that there might be decisive factors involved which change with respect to time and/or setting; they require a significantly different theory and therefore impose restrictions on ontological explanatory unification; this is to say there might be a necessity for distinctive, particularistic theories, each applicable to their respective setting. Socio-economic systems differing from each other by a time span of a few hundred years might involve important variations in and mechanisms of production and allocation or in terms of cultural rules and norms[33]. Specificity as formulated by Hodgson[34] is foremost the problem how to deal with different

[32] German economist Meyer uses the following expression :"das Faktum der historischen Relativität alles Sozialen" WILHELM MEYER, *Grundlagen des ökonomischen Denkens*, Mohr Siebeck 2002, p214
[33] Traditional economics will disregard the problem since it challenges its claim of universality; Robert Solow comments: "My impression is that the best and brightest in the profession proceed as if economic is the physics of society. There is a single universally valid model of the world. It only needs to be applied. You could drop a modern economist from a time machine…at any time, in any place along with his or her personal computer; he or she could set up in business without even bothering to ask what time or place." ROBERT SOLOW, *Economic History and Economics*, The American Economic Review, Vol. 75, No. 2, (May, 1985), p330
[34] HODGSON (2001)

historical periods that each include their respective institutional setting; however specificity involves also the question as to how far to the outskirts of *unification* a general theory is allowed to go, without forfeiting the unique (institutional) setting of any problem situation[35]. A theory focusing on decisions of the capitalist firm might be totally unapt to cope with the requirements of a theory to explain consumer behavior.

A theory focusing on (e.g timesensitive) specificities automatically entails a more dynamic framework of analysis than a general theory. Change becomes an important factor since it may directly determine the specificities that ultimately influence economic phenomena. Why and how do these specificities change? Under a static framework these questions are not of concern, in a dynamic framework they are fundamental. Specificity in this manner may challenge the static applicability of the utility concept: in a specificity-sensitive theory can mankind no longer be represented by one type of utility function; unifying assumptions as in "ad hoc agent homogeneity" are void.

As a result of philosophical upheaval in nineteenth century Europe, two newly emanating economic theories acknowledging the importance of specificities have evolved: the historical school and Marxism.

The problem of specificities in the social sciences is not a dichotomy: i.e. resulting theoretical compounds cannot be divided into "unificationists" and "particularists"; every scientific theory has to some extent adhere to both branches – every theory must ask itself, what specificities it omits or to what extent it is general – independent from the questions whether it considers economics from the viewpoint of heterodox or traditional economics. In any case there are consequences in terms of explanatory power.

1.2. Problem Situation I: Economic Explanations in the 19th century

The incentive to solve problems differently does not arise without previous solutions that have proven to be ineffective and/or have the potential to be enhanced. Economic methodology in the 19th century with its highly dissimilar positions proved a fertile ground

[35] This is what Hodgson admits as "differences in socioeconomic space" , HODGSON (2001) p24

thereto. However not every problem of the problems in question is explicitly elaborated on by every economic school; this chapter aims to give a survey of relevant positions.

In the 19th century English Classicism was slowly replaced in the second half of the century by the Hegelian influenced Historical School emanating from Germany. German philosophers at that time debated over the question as to what constituted the difference between the natural sciences and the social sciences: Can the same methods be applied, or do the social sciences require other tools to gain knowledge? Two fundamentally different branches of thought evolved: Antinaturalism was against the search of universal and timeless laws - the methods of natural science were inapplicable in the social sciences. They stressed the analysis of specific events in time. A position in accordance with Naturalism however believed in the very opposite: laws and theory can be acquired quite similarly to the natural sciences; these laws have to be verified empirically. Differences in Methodenstreit between German Historicist Schmoller and Austrian Marginalist Menger were result of different views on this very problem[36]

In the 19th century Karl Marx publicized all his major works, thereby not only laying the cornerstone for socioeconomic uppheaval but profoundly changing the philosophical landscape of traditional Hegelianism. Moreover, previously shunned evolutionary theories started to become accepted in the scientific community. J.B. Lamarck had already unveiled the first theory of evolution and Charles Darwin did so in 1859; Spencer introduced "survival of the fittest" on the social realm, proclaiming the ideas of social Darwinism.

1.2.1 Classicisal economics

Classical methodology is very different from the ideas of modern economics. The premises of a theory by its verificationist credo do not focus on validation of the latter but rather on its "applicability". Those premises consist of introspections and observations and via deductive logic leads to the formulation of implications. Classical methodology is a defensive methodology, making it secure against attacks.[37] However classical economics

[36] The simplification of Naturalism vs. Antinaturalism is not a correct in that respect. Both sides did position themselves not uniquely on one side.

[37] BLAUG (1980) p51

believes in the existence of universal laws and sees individual action as the ultimate explanans of economic phenomena[38].

While Smith does not constantly apply the same method and does not directly state his rules of explanation, Ricardo implicitly advocates the hypothetico-deductive model. In his 1836 essay *On the definition of political economy* John Stuart Mill for the first time clearly states the modus operandi: In his conception the science is resting on deductive analysis, psychological premises and abstraction from human behavior. "Disturbing causes" are the prime cause of the "uncertainty" in the social sciences. Mill compares it to friction in mechanics. These primarily non-assignable deductions will in certain time be uncovered by science and admitted. Verification for Mill is necessary; however a failure to verify a certain prediction is not equal to a refutation of the theory. The predictions of classical economics only amount to so called "tendency laws", predicting only a tendency to a certain result. The human model of Mill does not take man as he is but makes an abstraction: he admits only a pecuniary motive and its simplified constraining motives (aversion to labor, costly indulgences) – an economic man. Mill does not admit induction to the social sciences because of the "frequency of composite causes". Mill's classical methodology in this manner is very much verificationist, explanations favored to predictions. When it was clear that the predictions of Ricardo or Malthus had failed, Mill retained them on grounds of their assumptions, which are true "by virtue of being based on self evident facts of human experience"[39]. Cairnes confirms in his *Character and Logical Method of Political Economy*: Economics is a hypothetical science, making conditional predictions about the future, always subject to a ceteris paribus clause (what would, or what tends to take place). Only qualitative predictions are possible in economics – the discrepancies are caused by economic disturbances; a logically consistent theory can never be refuted.

1.2.2 Historical School of Economics

[38] HANS ALBERT, *Die Idee rationaler Praxis und die ökonomische Tradition*, Forschungsgemeinschaft für Nationalökonomie (Hrsg) Walter Adolf Jöhr Vorlesung 1995, p17

[39] BLAUG (1980) p68

German Historical School focuses on establishing a new "historical-realistic"[40] approach to vanquish the highly abstract and theoretical notions of traditional economics. Adherents can broadly be divided into two different branches: the Older School (e.g. Roscher, Knies, Hildebrand) and the Younger School (Schmoller, Sombart).[41]

Adopting Hegelian ideas of history as a progressive but non-linear development (in stark contrast to notions of societal equilibrium beforehand) the economists of German Historical School react to deductive and individualist methods of British classical political economy. The Historical school has entirely new ideas what concerns method and responsibilities of economics: they stress the descriptive acquisition of social institutions and socioeconomic phenomena and the depiction of historical sequences regarding economic entities in favor of the elaboration of "ideals" i.e. theory. Causes of specific economic phenomena (i.e. explanations), can in this manner be found by systematically comparing cases – i.e. by induction. The ultimate *explanans* of economic developments are institutional setups and conjunctures as determined by factors like climate, geography, technology, or cognitive features as human motives, attitudes and aptitudes. The notion of the classical economists' "economic man" is therefore perceived as a very blunt simplification, which reduces all motives to self interest and the pursuit of wealth. Albeit there might be situations in which man acts in accordance with those motives (there might even be some people who always do act accordingly), homo oeconomicus as a general assumption is wrong. Wagner and Schmoller propose an enhanced psychology[42] by adding various different motives (egoistic and non egoistic).

The historical school retains holistic doctrines[43]: Not the individual but larger social bodies create economic phenomena. The state and society are being conceived as an organism: This organism has a mind of its own – which is in turn also the collective will – a thinking spiritual entity – its *Geist*. The latter which is also the collective *Geist* of the entire nation

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[40] MEYER (2002), p211

[41] Members of the so called English Historical School (Ingram, Cliffe, Ashley, Cunningham) are not directly related to its German counterpart and tried in a similar manner to make a stand against the fact-voided works of Mill, Jevons and Marshall on their own terms.

[42] MEYER (2002), p215

[43] LARS UDEHN, *Methodological Indvididualism: Background, History and Meaning*, Routledge 2001, p24; POPPER K.R., *Die offene Gesellschaft und ihre Feinde Band II – Falsche Propheten: Hegel, Marx und die Folgen*, Mohr Siebeck 2003, p46

shall hence be studied as a whole. This is connected to the formulation of *Nationalökonomie*, the study of the economics of the nation; it tries to grasp the essence of the spirit in the history of events.

In sum German historical school distances itself from abstract and deductive economics of the classical school by three major objections[44]: 1) Incompleteness - the finding that classicism negates the influence of institutional, psychological and cultural factors. 2) Unrealism - axiomatic and highly hypothetical (a priori[45]) causes as suggested by deductive economics are simply unrealistic and unable to explain actual events. 3) Historical specificity - certain general laws are confined in their validity to a narrow episode in history (i.e. to a certain set of institutions), and their unrestrained application is void. Only specific combinations of motivations, institutions etc. provide causes; since these causes may change over time so do the alleged laws.

The problem of historical specificity in the writings of German Historical School economists is entangled with the pervading empiricist claim of all historical data being the only source of truth: Roscher declares economics a purely empirical science[46]. Latter statement is also a cause for the very demise of German Historical School; it is not possible to exclude concepts and theories from the professed purely empirical science. In the Methodenstreit Menger clearly identifies in a series of contestations with Schmoller the shortcomings: Among other objections he argues that empirical data as the source for knowledge leads to an internally inconsistent methodology since it relies on (non empirical) taxonomic assumptions that even allow induction in the first place[47]. It is the necessary uniformity and measurability that goes unmentioned by the writers of the Historical School. The Younger Historical School in return partly recognizes a role for deduction; however it continues to stress the method of induction as well as factual description.

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[44] MEYER (2002), p214

[45] Comp. with the destinction between a priori and a posteriori e.g. in: IMMANUEL KANT, Kritik der reinen Vernunft 1, Suhrkamp 1974, p45

[46] WILHELM ROSCHER, *Der gegenwärtige Zustand der wissenschaftlichen Nationalökonomie und die nothwendige Reform desselben*, (Deutsche Vierteljahrschrift, 1849, N° 1), p186

[47] MENGER CARL, *Untersuchungen über die Methode der Socialwissenschaften und der Politischen Oekonomie insbesondere*, Duncker & Humblot 1883, p260

1.2.3 Marxism

Marx criticizes the classical precursors on basis of their universal and ahistorical assumptions (abstract individual, dogmas). His methods in *Kapital* particularly stress historical interpretations and sociological description. Marxism perceives political economy as a historical science since it is constantly subjected to change, and stresses the importance of real premises which also can be verified in a purely empirical way. Hence Marxism acknowledges the importance of a dynamic inquiry in contrast to the static notions of classical utility theory; [48] Marxism also values an inquiry which pays attention to historical specificities. At first the scientist is bound to seek out laws that are valid for their respective period (which is characterized by their respective relations of production and property) and then move on to finding laws which are of a more general nature.

Marxism departs from the Idealism of Hegel: the spirit/ideas are no longer the propelling force behind the unfolding of history, but socioeconomic discrepancies which result in a continuing class struggle. The material conditions of life (i.e. the individuals' social existence) precipitate change, and no longer the individual itself. This also amounts to a statement of methodological holism, since Marxist explanations now rest on the social structure instead of the individual. Those socially constructed individuals within a defining institutional setting further lead to a process of social change, which can be delineated. The theory of socio-economic change characterizes different socio-economic systems also only by their respective relations of production and property relations. Capitalism is in this manner regarded in reference to its main exponent of production: the capitalist firm - characterized by privately owned means of production and the fact that all products are the property of the owners and are sold for profit. History is hence nothing more than the succession of one distinctly different economic system after the other (ultimately evolving to communism).

Again albeit an appeal for historically "real" data Marx makes explicit use of trans- and ahistorical concepts[49]. It is impossible to conceive the notion of a particular socio economic

[48] KARL MARX, *Das Kapital*, in: Karl Marx - Friedrich Engels – Werke, Bd. I, Band 23, Dietz 1968, Kapitel 22, Fußnote 63

[49] E.g. "Mode of production", "use value" even "labour" are taken as universals HODGSON (2001) p.50

system without the use of general, taxonomic concepts; this however is denied in the methodology of Marx.

1.2.4 Marginalism

While Walras' ideas are of influence not until the dawn of World War 2, Marshall and the Cambridge School of Marginalism prove of decisive capacity to change economic theory away from empiricism. With his *Principles of Economics* he is founder of what has been since known as neoclassical economics.
Independently from Marshall, Menger founds in his dispute with Schmoller (inadvertently) what has been called by his opponent mockingly the "Austrian School". In Methodenstreit where Menger makes a stand against the inductivist practice, he proves doctrines of Historical School wrong: description and facts are unable to explain economic phenomena without the use of taxonomic concepts. He also advocates the finding of universal laws concerning economic phenomena. Menger wants to reform a tradition which, in his conception had reached a dead end.
Menger propagates a science which deals no longer with economic processes or systems and leads the way for economics as a science of choice. Menger's essentialist approach re-elects the individual as the most fundamental unit in economics; of all motives self interest is of the most dominating influence, especially for the field of economics. Socio economic structures and institutions are solely based on the interaction of individuals and shall be explained solely by them. He rejects Hegelian "spirit" notions that could be used on the emergence of social institutions in favor of an individualist evolution: an institution can be a result of the intended or unintended interaction of individuals. In this manner he also rejects economics as interpreted by German Historical School; instead of a direct expression of the life of a nation, it is rather the result of the interplay of all individuals involved and has to be analyzed as such. Contrary to his predecessors he strongly encourages universal laws – which, at specific times assume specific values.

2. The Leisure Class and Veblen's Approach to Economics

2.1 Evolutionary Economics: an Introduction

In the 1898 essay "Why is Economics not an evolutionary science" Thorstein Veblen hints the possibility of a methodologically different approach to economic theory - in magnitude equal to the ascending Marginalism; it would later primarily be assembled on an implicit level in his opus magnum, *The Theory of the Leisure Class*. In his belief economics is no longer apt to qualify as a modern Science due to its inability to incorporate concepts of evolution. A broad range of influences might have inspired the application of evolutionary principles[50]. While Alfred Marshall only acknowledges the importance of the latter and does not pursue the application of (any) evolutionary theory, Veblen chooses to do so on grounds of other sciences successfully complying with those principles:

It may be taken as the consensus of those men who are doing the serious work of modern anthropology, ethnology, and psychology, as well as of those in the biological sciences proper, that economics is helplessly behind the times, and unable to handle its subject-matter in a way to entitle it to standing as a modern science.[51]

[50] At Yale University he came into contact with William Graham Sumner who advocated Spencerian ideas of evolution to the social sciences; when he was a student at Carlton College Veblen also frequently read Spencer.

When Veblen took teaching a post at the University of Chicago in 1892 and stayed for 15 years, it was there where he met acclaimed biologist Jacques Loeb who might have inspired reoccurring notions about a true modern science being evolutionary. It was also during this time when Veblen publicised his most important works. He had been introduced to the works of William James, who like former teacher Charles Sanders Peirce favoured Darwin to Spencer.

Dorfman/Hodgson also identified the influence of C. Lloyd Morgan: He primarily proposed an evolution of social environment to solve the problem of the rapid progression of man in the last centuries - which Darwinism could not account for; the phylogenetic evolution, that is the evolution in terms of genetic material, has been negligible in that period of time. Morgan explained this by conflating the emergent properties from the individual to the environment. If a group of individuals is given better health care then the development of the lifespan of those individuals could be improved – ontogenetically.

[51] THORSTEIN VEBLEN, *Why is Economics not an Evolutionary Science?*, The Quarterly Journal of Economics, Vol. 12, No. 4 (Jul., 1898), p373

Main drawback of not complying with that principle is the inability to continually cite causal explanations to economic phenomena which ultimately reflects on the power of economic theories to explain. The modern scientist

… wants to reduce his solution of all problems to terms of the conservation of energy or the persistence of quantity..[52]

The tissue of those explanations is institutions: aptitudes and attitudes of man; i.e. Veblen proposes instead of the orthodox theories an informal inquiry into the evolution of those habits of thought: How did certain propensities evolve and how did they change in the course of time? Veblen believes that institutions governed the decisions of man to an important extent and hence takes an influence also on economic phenomena which are to be explained:

The economic interest goes with men through life, and it goes with the race throughout its process of cultural development. It affects the cultural structure at all points, so that all institutions may be said to be in some measure economic institutions.[53]

Their continuing influence and their dynamic nature has to be outlined in an inquiry, since they offer causal explanation to economic phenomena. He names this new theoretical approach concisely 'Evolutionary Economics'. However Veblen rejects biological reductionism; culture and institutions are not explained in biological terms as the notion 'evolutionary' might also suggest.

An evolutionary economics must be the theory of a process of cultural growth as determined by the economic interest, a theory of a cumulative sequence of economic institutions stated in terms of the process itself[54].

[52] VEBLEN (1898), p377
[53] VEBLEN (1898), p392
[54] VEBLEN (1898), p394

The informal and counterteleological nature of Veblen's evolutionary account entails detailed depiction of all the time specific institutional phenomena involved[55]: i.e. it relies on extensive description and facts in favor of abstract mathematical deductions, while aware of the dangers of seemingly pure inductive reasoning. [56].

It is doubtable to formulate a generally valid "essence" of Evolutionary Economics or Institutionalism; however the approach by Veblen can concisely be characterized by the following aspects:

1) Focus on institutions and their influence upon economic decisions
2) Informality and inductive 'storytelling'
3) Avoidance of reductionism
4) Emphasis on causal explanations

2.2 Problem Situation II: Critique of Economic Ideas

The evolutionary approach of Veblen is highly characterized by his problem situation and by the positions of economic theory he rejects. While the overtly deductive, formal and highly teleological positions of (Neo)Classicism fall short of being an evolutionary science on a number of accounts, the informal approaches of Marxism and the Historical School are regarded far more favorably, both relying on a (more) dynamic approach of inductive inference. In his writings Veblen frequently makes the distinction between the following schools of thought:

Marxism
Austrian School of Marginalism (Menger & Böhm-Bawerk)

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[55] This has frequently been labelled as "storytelling". BENJAMIN WARD, Sind die Wirtschaftswissenschaften am Ende, Belser 1976, Kapitel XII

[56] "Causal sequence…is of course a matter of metaphysical imputation. It is not a fact of observation, and cannot be asserted of the facts of observation except as a trait imputed to them. It is so imputed, by scientists and others, as a matter of logical necessity, as a basis of systematic knowledge of the facts of observation" : VEBLEN THORSTEIN, *The Evolution of the Scientific Point of View*, in: The University of California Chronicle, vol. 10, No. 4 (1908), p32

Classical Economics (Alfred Marshall, John Bates Clark and Cairnes, Mill, Smith)
German Historical School (Roscher, Knies, Hildebrand, Schmoller, Sombart)

While Marxism, the Historical School and Marginalism provide explanations of the changing order of institutional setups, Classicism refuses to do so and explains in Veblen's opinion only on a static basis; corresponding explanations do only entail institutions taken for granted - i.e. the explanation stops at a certain level. The schools of Classicism and Marginalism find themselves in strong criticism for applying a taxonomic scheme, in which all economic phenomena are to be fitted in; they maintain a very doubtable relationship to causation – reducing economic phenomena to a set of preconceptions on a basic level; thereby they are unable to explain the true causes of economic phenomena. The importance of institutions in economic explanations by Marxism has been highly stressed due to its Collectivist credo; however Classicism and Marginalism refuse to do so in favor of methodological Individualism. Veblen does not state exactly what concerns the position of the Historical School regarding institutions in the explanations but almost certainly they will not be underrepresented.

In all contemporary economic schools Veblen criticizes the existence of so called trends - whether it is, in position of the Historical School and Marxism the imputation of Hegelian Materialism, or the taxonomic nature of Marginalism and Classicism; these illustrate preconceptions by the scientist and impede the search for an (ultimate) explanation. Explanatory power is enhanced by getting rid of preconceptions in search of the underlying causal mechanism of an economic phenomenon.

By containing explanations void of evolutionary thought, Veblen criticizes the missing cumulative order in the explanations of all economic theories with exception of the Younger Historical School.

Finally the model of man is criticized of Classicism and Marginalism; no clear statements are made as to the decision models of Marxism and the Historical School.

	Historical School	Marxism	Classicism	Marginalism
Explanation of Change	Dynamic	Dynamic	Static; Teleology	
Evolutionary Account	No/Yes	No	No	No
Preconceptions	Hegelian Materialim	Hegelian Materialism	Universal Laws, Taxonomy, hypothetico - deductive model	Universal Laws, Taxonomy, hypothetico - deductive model
Institutions as elements of an explanation	Emphasis	Overemphasis (Collectivism)	Neglection/Under-emphasis (Meth. Individualism)	Underemphasis (Meth. Individualism)
Model of man			Hedonism/Rationality	Hedonism/Rationality

Table 1: Adopted explanatory concepts in Economic theories

2.2.1 Marxism

Marxism with its focus on social and economic change was of molding influence for the development of Veblen's institutional approach to economics. In a seminal book review of 1897 (Max Lorentz - "*Die Marxistische Socialdemokratie*") Veblen conjointly with the author points out defects of Marxism and suggests an amendment[57]. The paragraph already contains much of the innovations of Veblenite thought.

While the materialistic interpretation of history points out how social development goes on – by a class struggle that proceeds from maladjustment between economic structure and economic function – it is nowhere pointed out what is the operative force at work in the process. It denies

[57] HODGSON (2004), p131

that human discretion and effort seeking a better adjustment can furnish such a force, since it makes man the creature of circumstances. This defect reduces itself ... to a misconception of human nature and of man's place in the social development. The materialistic theory conceives of man as exclusively a social being, who counts in the process solely as a medium for the transmission and expression of social laws and changes; whereas he is, in fact, also an individual, acting out his own life as such. Hereby is indicated not only the weakness of the materialistic theory, but also the means of remedying the defect pointed out. With the amendment so indicated, it becomes not only a theory of the method of social and economic change, but a theory of social process considered as a substantial unfolding of life as well.[58]

Veblen criticizes the holistic overemphasis on structure asserting that class position does not automatically determine the actions and habits of thought of an individual[59] (both capitalist and worker); an individual has the power to act on his own. Neither on the other hand is the individual the exclusive entity of explanation – Veblen does not sanction methodological individualism as the potential cure. In contrast to Marxism Veblen contrived man as not exclusively being molded by his socio-economic surroundings but rather as a social being with own (individual) aims. The individual may act on behalf of structure but has it within its power to change and form the latter. While Veblen does praise the "method of change" (in contrast to classical approaches which he perceived static) he further remarks that Marxism fails in outlaying the origin of the individual's capacity. The evolution of individuality should be subject to an explanation itself. Furthermore, despite the undisputed importance of structure, Marxism lacks an answer as to what is the "operative force" at work – how do structures i.e. institutions affect the individual?

In a later formulated, more explicit critique of the Marxian System, Veblen comments on the causal structure. Due to the impeding influence of Hegelianism an explanation in Marxian terms comes to a sudden halt.

[58] THORSTEIN VEBLEN, *Review of Max Lorentz: Die Marxistische Socialdemocratie*, The Journal of Political Economy, Vol. 6, No. 1. (Dec., 1897) , p136

[59] There is, no warrant for asserting a priori that the class interest of the working class will bring workers to take a stand against the propertied class.

The romantic (Marxian) sequence of theory is essentially an intellectual sequence, and it is therefore of a teleological character. The logical trend of it can be argued out. That is to say, it tends to a goal. It must eventuate in a consummation, a final term. On the other hand, in the Darwinian scheme of thought, the continuity sought in and imputed to the facts is a continuity of cause and effect.[60]

For Veblen the so called Materialistic Conception of History is at the heart of the argument: Deriving from Hegelian orthodoxy in the Marxian system, material exigencies determine man's spiritual life[61] – his thoughts. The struggle for self realization of the spirit in the Hegelian system becomes the class struggle in the Marxian system. A steady state as in "realization of the human spirit" however is overtly in opposition to the principle of causation; historical materialism is hence discarded by Veblen. Evolutionary Economics admits no final trend since every seemingly stable state (or final term) can and has to be explained in terms of institutions and habits of thought involved – the latter of which will lead to a new set of institutions under new circumstances. Veblen breaks with the metaphysical influence of Hegelianism in economics arguing strictly in favor of a method of cumulative causation.

In sum Veblen dissents with Marxism on the structure/agency problem and the un-scientific explanations originating in the application of Hegelianism. However Marxism also provides the very key stimulus to the institution focus of Veblenite Institutionalism: Institutions have the power to influence economic decisions of man, although they do not exclusively decide his fate. An explanation proper should take this into consideration.

[60] THORSTEIN VEBLEN, *The Socialist Economics of Karl Marx and His Followers II*, The Quarterly Journal of Economics, Vol. 21, No. 2 (Feb., 1907), p304

[61] THORSTEIN VEBLEN, *The Socialist Economics of Karl Marx and His Followers I*, The Quarterly Journal of Economics, Vol. 20, No. 4 (Aug., 1906), p580

2.2.2 German Historical School

Veblen was in a similar manner highly influenced by the fact insistent detailed inquiries of the historical school the latter of which bear a certain resemblance to the economic essays of Institutionalism. Veblen valued their work greatly, due to the informal, institution sensitive and dynamic analysis, but within limits of a non-evolutionary approach.

…no economics is farther from being an evolutionary science than the received economics of the Historical School. The whole broad range of erudition and research that engage the energies of that school commonly falls short of being science, in that, when consistent, they have contented themselves with an enumeration of data and a narrative account of industrial development, and have not presumed to offer a theory of anything or to elaborate their results into a consistent body of knowledge.[62]

In the reviews and essays of Veblen German historical school is frequently being confronted with the reproach of not having adhered to a "closely knit body of knowledge", whereby Veblen means its inability to explain in accordance with evolutionary theory. While the historical school maintains also an approach to economics that holds socio-economic change in high esteem it fails in terms of Darwinist internal continuity – which is able to gradually interlink institutions and habits of thought over the course of time, one leading to the other. Veblen accuses them of having given a "narrative survey of phenomena, not a genetic account of an unfolding process".[63]

Between the writings he distinguishes two different branches: the younger (Schmoller), and the elder (Wagner) While he sympathized with the former, he harshly criticized the latter for lack of theory proper:

It is work of a sufficiently important and valuable order, perhaps it is indispensable to the task which the science has in hand, but, broadly speaking, it need not be counted with in so far as it touches directly upon economic theory. This elder line of German economics, in its numerous

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[62] VEBLEN (1898), p375
[63] VEBLEN (1898), p388

modern representatives, shows both insight and impartiality; but as regards economic theory their work bears the character of eclecticism rather than that of a constructive advance.[64]

Veblen mostly finds fault in Roscher's adopted Hegelian notions of the (human) "spiritual unfolding": In Roscher's ideas the life process is an active, self determining process; the course of culture is an exfoliation of the human spirit; economics has to outline the laws of this cultural unfolding with regard to economic exigencies. The history of cultural growth repeats itself, since it is always the same human spirit that seeks realization; economics grasps the historical uniformities in the sequence of phenomena. Despite similarities to Darwinist concepts of evolution (the so called historicist "process of cultural development" of which economic inquiry is supposed to determine the laws of), the true causes at work will thereby not be revealed. Veblen is aware that the conception of the historical school makes use of development and evolution, but the Hegelianism present both in Marxism (the ultimate trend to a class struggle) and the historical school (spiritual unfolding), contains grave preconceptions impeding a method of cumulative causation. In Schmollers (late) work however the very Hegelian bias is absent. Historical investigations examine the various causal relationships that take an influence on economic agents and activities; Schmoller inquires as to cause and effect - this makes an impression on Veblen:

"For the distinguishing characteristic of Professor Schmoller's work, that wherein it differs from the earlier work of the economists of his general class, is that it aims at a Darwinistic account of the origin, growth, persistence, and variation of institutions, in so far as these institutions have to do with the economic aspect of life either as cause or as effect."[65]

Criticism of Schmoller's approach stems from the stipulated use of normative social guidelines, suggesting certain institutions as more apt for society than others[66]. On account of its causal analysis of the historical details involved "in the shaping of economic activities and aims" Schmoller's "*Grundriss der allgemeinen Volkswirtschaftslehre*" nevertheless is

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[64] THORSTEIN VEBLEN, *Gustav Schmoller's Economics*, The Quarterly Journal of Economics, Vol. 16, No. 1 (Nov., 1901), p71
[65] VEBLEN (1901), p81
[66] Homiletics as e.g. in VEBLEN (1901), p86 or p90

reviewed highly favorable by Veblen. Sombart's "*Der moderne Kapitalismus*" is even labeled as "the most considerable essay in economic theory yet made on lines independent of the classical English political economy".

2.2.3 Classicism, Marginalism

Veblen maintains a starkly dissenting attitude to all literature of the classical branch, formulating a broad range of criticism. He distinguishes the Marginalists from the English classical economists by being a more refined derivative, constantly adhering to common postulates. Veblen put himself deliberately in contrast to the emanating schools of Marginalism.

In Veblen's opinion a pervading aspect traverses all economic theories from the early Physiocratism to Adam Smith over to Mill and Cairnes and Marshall; he criticizes their use of stipulated concepts of preconception combined with a taxonomic impulse, trying to file economic phenomena accordingly. Features that do not lend themselves to an interpretation in that respect, are classified as disturbing causes and not pursued any further. Veblen's Criticism stems mostly from the use of universal laws, so called "natural laws" (as in natural wage, unseen hand, equilibrium). In his opinion these laws stand in stark contrast to pure cumulative causation, since they are mere imputations of a preconceived reality. So called tendencies are also based on preconceived notions of a definitive end, or as to what might constitute a legitimate trend. This also implies a direct critique of the hypothetico-deductive model of science, since its a priori character results in a method of causal inference which after authentication via induction discards any cases that do not lend themselves to the interpretation of the tested formula in question.[67]Explanations of this type cannot explain the causes of economic phenomena without preconceptions or taxonomy considerations; in favor of internal consistence and irrefutability, explanatory power is limited.

[67] VEBLEN(1898), p384 or VEBLEN (1909) p622

The outcome of the method, at its best, is a body of logically consistent propositions concerning the normal relations of things - a system of economic taxonomy. At its worst, it is a body of maxims for the conduct of business and a polemical discussion of disputed points of policy.[68]

The common model of man of the rational hedonistic individual, where human conduct is interpreted as a rational response to a situation, is discarded as a "faulty conception" of man. Neoclassical choice theory sees all individuals equally on a level of a whole, standardized machine that is able to farsightedly anticipate future pain and pleasure with painstaking scrutiny. Veblen is well aware of the advantages a certain model brings ("how adequate it may be") but purposefully discards its use.

The hedonistic conception of man is that of a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift him about the area, but leave him intact. He has neither antecedent nor consequent. He is an isolated, definitive human datum, in stable equilibrium except for the buffets of the impinging forces that displace him in one direction or another.[69]

In Veblen's opinion the model of man being a simple bundle of desires is no longer up to date with the latest results in the field of psychology and anthropology. Man is governed by his habits and instincts, which makes him a prime mover who does not simply suffer pleasure or pain in subjection to external forces; human activity is not incidental to the saturation of given desires.

Under the Darwinian norm it must be held that men's reasoning is largely controlled by other than logical, intellectual forces. …that … sentiment which animates men, singly or collectively, is as much, or more, an outcome of habit and native propensity as of calculated material interest.[70]

[68] VEBLEN (1898), p384
[69] VEBLEN (1898), p389
[70] VEBLEN (1907), p308

The cultural elements of the classical economic theory are not subject to an inquiry: Classicism by its methodological individualist method does not include structure in its explanations or gives institutions the power to be an entity of ultimate explanation; institutions are accepted as the nature of things. If they are included in the premises, they are merely included as postulates a priori. (e.g. ownership, hedonistic calculus); consequences and effects are not being accounted for. Since however in the ideas of Veblen they do condition human conduct (as has been demonstrated by Marxism), cumulative causation requires them to be explained.

It is characteristic of the school that wherever an element of the cultural fabric, an institution or any institutional phenomenon, is involved in the facts with which the theory is occupied, such institutional facts are taken for granted, denied, or explained away. [71]

An inquiry into the details of institutional setups involves a dynamic approach; Smith and the English Classical Economists did pursue an approach of developmental, processual relation (and are therefore held in high esteem[72]) On the other hand the Marginal School did not engage in a theory of growth but only in a "static" endeavor.

It offers no theory of a movement of any kind, being occupied with the adjustment of values to a given situation[73].

The Austrian School of Marginalism is mostly regarded with the same disapproval as the economics of Marshall and Clark; both being confined by a very narrow ("faulty") conception of the human reasoning. However despite its taxonomic nature, Veblen values the processual and informal inquiry into the underlying causes.

…the Austrians and their precursors and their coadjutors in the value discussion have taken up a detached portion of economic theory, and have inquired with great nicety into the process by

[71] THORSTEIN VEBLEN, *The Limitations of Marginal Utility*, The Journal of Political Economy, Vol. 17, No. 9 (Nov., 1909), p622
[72] VEBLEN (1898), p376
[73] VEBLEN (1909), p620

which the phenomena within their limited field are worked out. The entire discussion of marginal utility and subjective value as the outcome of a valuation process must be taken as a genetic study of this range of facts.[74]

2.3 The Power of Veblenian Institutionalism

The fact that the contribution of Veblen been summarized differently and with different emphases by various authors reflects the fact that the core notions of Evolutionary Economics highly depend on each other and are hardly able to stand on their own as methodological positions; an analysis of the power of Veblenite Institutionalism is even complicated by the fact that Veblen himself does not formulate a clear cut methodology or metatheory. All of the methodological positions presented here are apparent in *Theory of the Leisure Class* and take reference to both preceding economic theories and the fundamental problems in the background; however they are all interconnected to some extent. The new solutions to the problems eventually entail the augmentation of a theory's explanatory power.

DECISION MODELING gives an alternative answer as to what constitute fundamental motivations for (economic) decisions of man. CUMULATIVE CAUSATION comments on a frequent misconception which has been unveiled not only as a result of Methodenstreit: Basic taxonomy precedes economic theory - historical specificities favor a dynamic and informal causal account. DARWINISM provides the introduction of Darwinist ideas on an institutional level to the field of economics. REJECTION OF METHODOLOGICAL INDIVIDUALISM AND COLLECTIVISM comments on the question as to what unit constitutes the fundamental unit of explanation in economics.

[74] VEBLEN (1898), p389

2.3.1 Decision Modeling

Problem:	How can decisions of man be modeled?
Preceding solution:	rational (hedonist) individual
New solution:	habit/institution-dominated individual

Classicism makes universal use of the „economic man"- conception as a "lightning calculator of pleasure and pain"[75]; it assumes an individual which is directed solely towards the acquisition of pecuniary assets; the hedonistic Benthemite individual is not altered by specific philosophical beliefs, cultural norms and values. Neoclassicism adopts the rationality principle: an agent chooses of a number of alternatives in accordance with a preference ordering (transitive, complete), subject to perfect information, maximizing his utility. Neoclassical compositions under the banner of rationality can practically be made to fit any possible behavior and hence can hardly be refuted – they amount to an analytical tautology: everyone maximizes utility because whatever they choose exhibits the utility they maximize[76]. The apperception of man in Neoclassicism is far from reality: Man does indeed make choices that are far from a perfectly foresighted rational deliberation of possible alternatives[77]. Therefore Veblen accuses them of using an inapt model both in terms of recent psychology and anthropology which no longer conforms to the standard of actual knowledge[78]; the limits of such a theory are grave; explanatory power is confined to a narrow cordon.

Such a theory can take account of conduct only in so far as it is rational conduct, guided by deliberate and exhaustively intelligent choice-wise adaptation to the demands of the main chance[79].

[75] SCOTT GORDON, *The history and philosophy of social science*, Routledge 1991, p265
[76] BLAUG (1980), p230
[77] ex. in.: BLAUG (1980) p232.
[78] VEBLEN (1898), p389, p390
[79] VEBLEN (1909), p623

Veblen in turn proposes a habit and instinct dominated model of man: 19th century Pragmatism has proven intelligent conduct as the result of habit instead of instantaneous, "rational", insight: habits act as filters in accordance with past experiences.[80] Habits are not applied consciously, they come before reason. Reason only acts as a judge between habitual measures and intervenes in resulting cognitive conflicts – a resulting pattern if successfully enacted, consequently manifests as another habit. Veblen argues here in favour of a model of man which does not oversimplify but rather does explain the origin of agents' decisions in accordance with the ideas of Pragmatism. On the most fundamental level man is driven by his instincts[81]:

…that instinct [the instinct of workmanship] is the court of final appeal in any question of economic truth or adequacy [82]

By the subsequent influence of institutions upon the individual, habits and beliefs emerge. For example the institution of ownership might at its genesis inspire new forms of human action in order to continually satisfy basic instincts; habits are hence similar to instincts – they impose a certain propensity to the individual as a means to an instinctive end [83]. Habits however have to be sanctioned by selective adaptation: only successful behavior will be admitted and subsequently passed on.

In general, the longer the habituation, the more unbroken the habit, and the more nearly it coincides with previous habitual forms of the life process, the more persistently will the given habit assert itself.[84]

In Theory of the Leisure Class the emergence of these habits is traced over the course of the centuries as it continually changes its form due to the altering cultural conditions: Under new regimes of thought – peaceable phases, industrialization, the feudal era – different

[80] HODGSON (2004), p170
[81] The instincts are further commented in 2.3.4.
[82] THORSTEIN VEBLEN, *The Theory of the Leisure Class*, Oxford University Press 2007, p69
[83] Examples from the Theory of the Leisure Class: propensity for emulation, fighting propensity etc.
[84] VEBLEN (2007), p73

solutions prevail that satisfy basic human needs. In this manner the model of the habitual (institution caused) motivations of human decisions is also dynamic and cannot rely on a fixed set of habitual propensities. The search for conduct for the individual in a changing environment is a dynamic process.

With the advent of the predatory stage of life there comes a change in the requirements of the successful human character. Men's habits of life are required to adapt themselves to new exigencies under a new scheme of human relations.[85]

And on the other hand, whenever an accession of pecuniary strength puts the individual in a position to unfold his life process in larger scope and with additional reach, the ancient propensities of the race will assert themselves in determining the direction which the new unfolding of life is to take.[86]

From this dynamic departure Veblen makes a further addition: some habits that have been adopted a certain timespan ago and then due to an institutional change have been then without application, do not necessarily have to be selectively eliminated. They can be passed on to consecutive generations of man and can re-emerge (that is if the individual benefits from it in the attainment of his instinctive goals).

… habits of life are of too pervading a character to be ascribed to the influence of a late or brief discipline. The ease with which they are temporarily overborne by the special exigencies of recent and modern life argues that these habits are the surviving effects of a discipline of extremely ancient date, from the teachings of which men have frequently been constrained to depart in detail under the altered circumstances of a later time; and the almost ubiquitous fashion in which they assert themselves whenever the pressure of special exigencies is relieved, argues that the process by which the traits were fixed and incorporated into the spiritual make-up of the type must have lasted for a relatively very long time and without serious intermission.

[85] VEBLEN (2007), p148
[86] VEBLEN (2007), p75

Veblen's portrayal of the institution of ownership and private property might serve as an example of the habit/institution dominated model: On the possible consumption of a good the neoclassical rational individual would contemplate by evaluating the future increase/decrease in the comforts of life:

It has not been unusual for economic theory to speak of the […] struggle for wealth […] as a competition for an increase of the comforts of life,—primarily for an increase of the physical comforts which the consumption of goods affords.[87]

Veblen however sees the propensity for emulation i.e. the habit of invidious distinction as the most important factor taking an influence on consumption decisions in preindustrial societies[88]. If an agent buys a certain good than it is not due to an act of meticulously exact calculation regarding future gains and losses in comfort but due to the fact that he reacts instinctively to his propensity to emulate (which in turn is rooted in the instinct of workmanship[89]) and the historically specific fact that possession confers honor[90]. In Veblen's opinion it is also emulation that is at the root of most present considerations of consumption – the habit has been passed on to further generations and has prevailed.

The motive that lies at the root of ownership is emulation; and the same motive of emulation continues active in the further development of the institution to which it has given rise and in the development of all those features of the social structure which this institution of ownership touches.[91]

The causes of economic choices in Veblen's model of human action - the habits and institutions that govern the decisions of man, are of fundamental importance to Veblen

[87] VEBLEN (2007), p21
[88] Veblen does concede that it is still possible that subsistence may for a time be a motive.
[89] "…the instinct of workmanship works out in an emulative or invidious comparison of persons…" VEBLEN (2007), p16
[90] The same explanation according to Veblen is not valid in the very first and primitive phases of social development, where a definition of ownership does not yet exist. The propensity for emulation results there in invidious comparison of industrial serviceability.
[91] VEBLEN (2007) p22

and his idea of Evolutionary Economics. The ideas that are advocated by his reasoning are in contrast to both traditional concepts of economic decision modeling. The “economic man” knew his limits at the very inauguration, exhibiting a very narrow scope of mind; the model of man in neoclassicism in a similar manner works by letting man rationally contemplate on the outcomes of his actions, valuing them in terms of their utility and then deciding appropriately. Because of its contrast to reality Veblenite Institutionalism exhibits a model that emphasizes the importance of instincts and habits in economics in order to explain agents’ decisions and mindset.

2.3.2 Cumulative Causation

Problems:	How can a causal relationship be inferred?
	Are historical specificities relevant?
Preceding solution:	basic preconceptions/hypothetico-deductive model
	static/dynamic approach
New solution:	method of cumulative causation

Classicism and Marginalism are static approaches to economics in the sense that they look for universal laws that can be uncovered and made use of without regarding the specificities of time and place. Major disadvantage is their narrow scope of reality and the informational content thereof which is impeded by the quest for taxonomic universality. Resulting explanations are therefore of small explanatory value. The Historical School on the other hand decidedly acknowledges that different economic phases and settings require a detached analysis - sensitive with respect to the specificities; as a result it pursues a narrative, fact-insistent account, observing the various institutions that shape economic phenomena over the course of time. Its explanatory power from begin with is higher, the explanations filled with more informational content. Veblen intently follows into the footsteps of the latter, challenging the applicability of universal laws in economics and the sensibility of a taxonomic approach and also pursues an informal inquiry stressing the cumulative sequence of economic institutions. Veblen identifies the remaining drawback of the Historical School in turn in its inconsistent body: The problem lies in its inability to yield to an evolutionary conception of the narrative account.

Both contemporary theories possess their respective detriments that limit explanatory power; Veblen conceives the method of cumulative causation as a solution which is able to bring forth more realistic explanations, explaining the interdependencies between economic entities and respective phenomena.

The historical school already possesses many of the traits required of an evolutionary economics. It is by far the economic school that took the most influence on the genesis of Institutionalism. Veblen's harshest criticism stems from the diametrically opposed theories, which are seemingly static, deductive, taxonomic and teleological. Most importantly and in stark contrast to those theories, the historical school ventures explicitly on an economics of process[92], on an inquiry of the continuing change in human institutions. However a theory of economics can ask questions as to the nature of change and at the same time be an inorganic science; dealing with matters of development and process does not make a science evolutionary; fact insistence alone is similarly not able to warrant the title.

The difference is a difference of spiritual attitude or point of view in the two contrasted generations of scientists. To put the matter in other words, it is a difference in the basis of valuation of the facts for the scientific purpose, or in the interest from which the facts are appreciated[93].

The older historical school[94] makes use of Hegelian notions of an exfoliation of human spirit that manifests itself in the sequence of culture; thereby it imputes a certain preconception and does not work scientifically.

Inquiry into the cultural development under the guidance of such preconceptions as these has led to generalizations, more or less arbitrary, regarding uniformities of sequence in phenomena,

[92] As do some of the theories of the classicists: Smith, Cairnes and Mill.
[93] VEBLEN (1898), p377
[94] As does Marxism but on its own terms.

while the causes which determine the course of events and which make the uniformity or variation of the sequence have received but scant attention.[95]

The universal (natural) laws of classicism and their adherents also amount to a series of preconceptions. The formulation of any "natural" law must precede a metatheoretical taxonomy as to what end things tend. In the same manner the hypothetico-deductive method only regards an (abstract) normalized scheme, which is to be tested inductively only in accordance to the latter. The resulting theory is biased and does not inquire with respect to cause and effect.

In effect, this preconception imputes to things a tendency to work out what the instructed common sense of the time accepts as the adequate or worthy end of human effort. It is a projection of the accepted ideal of conduct.[96]

Classical enquiries in comparison to the historical approach do most times not adhere to a processual inquiry; the marginal theories are even by credo static inceptions into taxonomic model proper. How do people acquire beliefs? How do institutions emerge and take an influence on the individual? Neoclassicism side steps the problems by assuming given preferences and letting the economic man act rationally – when he makes a decision he acts in accordance with the axioms of utility theory, maximizing the respective utility function. Neoclassical compositions under the banner of rationality can practically be made to fit any possible behavior but lack the capacity to explain economic behavior and phenomena beyond a certain scope. Marginalism cannot give an answer to the question as to what are the causes of preferences. Class positions in Marxism similarly do not assign causes and motivations to individual actions.

So the institution […] is taken into the inquiry not as a factor of growth or an element subject to change, but as one of the primordial and immutable facts of the order of nature, underlying the hedonistic calculus. […] There is no thought either of a conceivable growth of this definitive

[95] VEBLEN (1901) p78
[96] VEBLEN (1898), p382

nineteenth-century institution out of a cruder past or of any conceivable cumulative change in the scope and force of ownership in the present or future. Nor is it conceived that the presence of this institutional element in men's economic relations in any degree affects or disguises the hedonistic calculus, or that its pecuniary conceptions and standards in any degree standardize, color, mitigate, or divert the hedonistic calculator from the direct and unhampered quest of the net sensuous gain. .[97]

Veblen argues in favor of a model that solves this series of problems, not oversimplifying and at the same time explaining the origin of agents' decisions; even if the model of man constantly in pursuit of wealth was true it had to be explained properly (How did the propensity emerge?); since man is subject to an evolutionary process, preferences can in no case be taken as given but have to be unveiled in terms of causal account; everything else (preconceptions!) puts a limit to the explanatory power of a scientific system.

The modern scientist is unwilling to depart from the test of causal relation or quantitative sequence. When he asks the question, Why? He insists on an answer in terms of cause and effect. He wants to reduce his solution of all problems to terms of the conservation of energy or the persistence of quantity.[98]

Veblen requests an account of the pure process of cumulative causation, void of any preconceived notions, taxonomies or ad hoc assumptions. To grasp the persisting force of the changing economic institutions in question the scientist finds its ultimate unit of regress in the terms of how individuals acquire their habits of thought. What regards neoclassical preference functions, only a static disclosure of all influence would be insufficient. Hence this does automatically favor a dynamic approach, since

The active material in which the economic process goes on is the human material of the industrial community. For the purpose of economic science the process of cumulative change that

[97] VEBLEN (1909), p630

[98] VEBLEN (1898), p377 ; "conservation of energy" and "persistence of quantity" date back to the Spencerian persistence of force, i.e. the persistence of an energy to further (human) evolution

is to be accounted for is the sequence of change in the methods of doing things, the methods of dealing with the material means of life.[99]

Cumulative causation as a mode of explanation means a narrative, informal method, outlining over the course of time the changing habits of thought that mould economic dispositions with respect to cause and effect. Such an inquiry involves institutions since they take a decisive influence on the individual. Assumptions concerning man have to be in accordance with Darwinism and human evolution; this entails the demand that any traits attributed have to be dynamic and consistent with natural selection of traits and institutions[100].

In Theory of the Leisure Class Veblen gives causal explanations both of individual agency and of emergent phenomena – i.e. institutions; both are equally involved with the leisure class but neither entity directly possesses explanatory supremacy. The concept of cumulative causation cannot take any specific temporal disposition of man for granted but the very inherent. On an individual level this includes finding a way from the most fundamental unit - his instincts, to the resulting propensities that emerge over time as a result of institutional constraints. Institutions in the same manner are subjected to the detailed inquiry of cumulative causation from their very roots involving simple archaic cultures. One of the ultimate decision which this detailed account of underlying causes and habits in this respect aims for, regards the present day consumer who faces a difficult choice: Buying trinkets of small practical value displaying a high amount of conspicuous expenditure in favor of essential goods for the daily need. Hence an account of all individuals and institutions involved has been given; effects and interconnections between further institutions have been lain out for view as far as the economic sphere is concerned.
Again Veblen's portrayal of the institution of property/ownership might serve as an example: While Classicism makes use of a static concept, Veblen stressed a dynamic order, which admits different definitions of institutions in different phases of history paying attention to specificities:

[99] VEBLEN (1898), p378
[100] See 3.3.3) Darwinism

It has been customary in economic theory, and especially among those economists who adhere with least faltering to the body of modernised classical doctrines, to construe this struggle for wealth as being substantially a struggle for subsistence.[101]

The struggle for wealth or the acquisition of property is only under certain specific conditions a struggle for subsistence. During the early phases of human development where communities can hardly manage to afford a livelihood despite “arduous application of labor”, the assertion is valid. However in later phases where emulation enters as a propensity to react upon[102], the acquisition of property is mainly the result of an invidious display of honor instead of subsistence; this is also the present day form of the institution:
Agents possess goods, in order to gain honor in the community; it dates back to archaic demonstrations of prowess and the concept of private property as the visual display of successful warfare; i.e. booty in the early predatory phases has now been replaced by other goods, of which ownership is associated with honor. On a habit level this involves the propensity for emulation, which continually manifests itself and requires certain specific goods in order to be satisfied.

The formulation of cumulative causation is foremost the result of the preconceptions involved in contemporary economic theories; in getting rid of the latter, corresponding explanations are more unbiased, hence more realistic; it requires a dynamic and historically sensitive framework in order to explain cause and effect of economic phenomena. Marginalism also adheres to a concept that decidedly stops at a certain level of explanation. Given preferences impose a limit of scope on economics that could be broadened. Why should the economic questioning and the search for answers end at a certain point? Cumulative causation aims to state underlying causes of a certain disposition; resulting explanations built from the institutional setup of society are more precise and richer in informational content.

[101] VEBLEN (2007), p21
[102] See also the example in 2.3.1

2.3.3 Darwinism

Problem: -

Preceding Solution: conventional explanations

New solution: Darwinian explanations; cumulative causation

The agenda of implementing an evolutionary method in economics is twofold; for one this means a cumulative method[103]; secondly this also entails the application of the Darwinian principle of natural selection. The latter ultimately is an enhancement to the principle of cumulative causation since it enables the scientist to include further information in his explanations; likewise the inclusion of Darwinist principles is neither taxonomic nor teleological since

…the Darwinian scheme of thought, the continuity sought in and imputed to the facts is a continuity of cause and effect…[104]

Darwinism involves three important aspects[105]: 1) variation - sustained variation (random or purposive) among the members of a species or population. 2) A mechanism of heredity or continuity – a mechanism to pass on the individual characteristics over the course of generations 3) the struggle for existence - better adapted individuals will survive. While Darwinism means selection of individuals in a fixed environment, Veblen hints that an environment consisting of changing institutional elements is also subject to an evolutionary process. The principle of evolutionary selection does not only apply to individuals and groups but also to institutions: they are both result of a selective and adaptive process and a factor furthering selection of individuals according to certain traits:

The evolution of social structure has been a process of natural selection of institutions. The progress which has been and is being made in human institutions and in human character may

[103] this is covered in 2.3.2. Cumulative Causation
[104] VEBLEN (1907), p304
[105] HODGSON (2004), p188

be set down, broadly, to a natural selection of the fittest habits of thought and to a process of enforced adaptation of individuals to an environment which has progressively changed with the growth of the community and with the changing institutions under which men have lived. Institutions are not only themselves the result of a selective and adaptive process which shapes the prevailing or dominant types of spiritual attitude and aptitudes; they are at the same time special methods of life and of human relations, and are therefore in their turn efficient factors of selection. So that the changing institutions in their turn make for a further selection of individuals endowed with the fittest temperament, and a further adaptation of individual temperament and habits to the changing environment through the formation of new institutions.[106]

Institutions are the units of selection in this process of economic evolution. They are passed on to subsequent generations with variations.

The situation of today shapes the institutions of tomorrow through a selective, coercive process, by acting upon men's habitual view of things, and so altering or fortifying a point of view or a mental attitude handed down from the past.[107]

The constraining influence on the institutions is therefore not only immaterial (forces of nature, living conditions) but consists of the very same habits of thought.

The forces which have shaped the development of human life and of social structure are no doubt ultimately reducible to terms of living tissue and material environment; but proximately for the

purpose in hand, these forces may best be stated in terms of an environment, partly human, partly non-human, and a human subject with a more or less definite physical and intellectual constitution.[108]

[106] VEBLEN (2007) p125
[107] VEBLEN (2007), p126
[108] VEBLEN (2007), p162

Only institutions i.e. habits of thought[109] with respect to particular relations and particular functions of the individual and of the community, which are fittest and leave the individual with a competitive advantage, will prevail. Every habit of thought as depicted by the process of cumulative causation manifests itself via selective adaptation. However Institutions are always behind the "requirements" of the present since they are a product of a past process and adapted to past circumstances. The exigencies of life that make for the adaptation and exercise the selection find themselves in a constant process of change and render the latest set of acquired institutions obsolete.

An example regarding the propensity to emulate illustrates the application: The explanation as to how this propensity did emerge and how it does affect economic institutions (e.g. ownership/property), is extended by the introduction of Darwinian dynamics. Veblen distinguishes two different classes of traits common to all men – peaceable traits and predatory traits; in Veblen's opinion emulation only encourages the latter and hence tends to selectively eliminate the peaceable traits. Thus an explanation by cumulative causation (question: How did the institution of property come into being, and how does it affect society?[110]) introduces an additional level of content.

The salient characteristic of the barbarian culture is an unremitting emulation and antagonism between classes and between individuals. This emulative discipline favours those individuals and lines of descent which possess the peaceable savage traits in a relatively slight degree. It therefore tends to eliminate these traits […] Where life is largely a struggle between individuals within the group, the possession of the ancient peaceable traits in a marked degree would hamper an individual in the struggle for life.

The application of the Darwinian method of natural selection is not a solution to a specific problem in the social sciences but rather by value of its additional information a direct addition to the explanatory power of a theory. The notion of cumulative causation is greatly enhanced by the concept of a Darwinian selection of institutions. Not only might such an inquiry find and uncover new laws and questions but foremost it is directed

[109] VEBLEN (2007) p126

[110] This takes reference to the similar examples in 2.3.1 and 2.3.2

towards the goal of systematic explanation of human behavior (under the rule of scarcity of resources). In a similar manner as in biology, a Darwinist explanation enhances the explanatory power when applied in comparison to seemingly loose, static explanations.

2.3.4 Rejection of methodological individualism and collectivism

Problem:	What constitutes the fundamental entity of an explanation?[111]
Preceding solution:	method. collectivism, method. individualism
New solution:	interdependence between institutions and individuals

Methodological individualism means that every phenomenon that is to be explained, has to be explained in terms of the individuals involved - the fundamental unit of explanation is the individual; methodological collectivism asserts the very opposite, namely that the explanations in question are only relying on systematic wholes – structures, institutions and culture. Marxian collectivism, while reducing the individual to the playball of social forces, grants a decisive influence to the latter – this is what the outspoken individualism of Menger refuses to do. Veblen at the very earliest in his Marxist book review rejects both doctrines in their strict application and rather acknowledges the individual's power to choose, but is also well aware of the strong influence of structure.

Human agency is the result of biological and social evolution – its behavior is governed by inherited instincts and the changing socio-cultural environment – i.e. institutions, which have evolved over a certain amount of time; these institutions possess most properties of structural constraints.

The institutions – that is to say the habits of thought – under the guidance of which men live are in this way received from an earlier time; more or less remotely earlier, but in any event they have been elaborated in and received from the past.[112]

[111] Formulated differently: How much influence do institutions have in the explanation of economic phenomena?
This puts the entire problem to a new perspective: While collectivism maintains an overemphasis, methodological individualism maintains an underemphasis.

However an exclusive stress on the structural entity as the fundamental unit of explanation is in not sensible: Veblen knew that institutions were also product of individuals; institutions relied on individuals. Individual behavior could not be explained entirely in terms of social structures.

The growth and mutations of the institutional fabric are an outcome of the conduct of the individual members of the group, since it is out of the experience of the individuals, through the habituation of individuals, that institutions arise; and it is in this same experience that these institutions act to direct and define the aims and end of conduct.[113]

Veblen could also not adopt methodological individualism since the individual is crucially formed and influenced by institutions. Social structures are in turn not entirely explicable in terms of individuals. In Veblen's own words

… an adequate theory of economic conduct, even for statical purposes, cannot be drawn in terms of the individual simply as is the case with the marginal-utility economics because it cannot be drawn in terms of the underlying traits of human nature simply; since the response that goes to make up human conduct takes place under institutional norms and only under stimuli that have an institutional bearing; for the situation that provokes and inhibits action in any given case is itself in great part of institutional, cultural derivation.[114]

As a result both entities exist simultaneously and are subject to a continuous process of evolution in a mutual state of dependence. No fundamental unit possesses explanatory supremacy over the other. Social structures depend upon individuals in their very genesis and existence. They have the power to destroy and uphold them (willingly and unwillingly) and would not exist if individuals ceased to exist. The individual on the other

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[112] VEBLEN(2007), p126
[113] VEBLEN (1909), p629
[114] VEBLEN (1909), p629

hand depends upon social structure in the formulation of its economic interaction. The individual is as formed by institutions as he has the power to form them himself. [115]

The argument can be repeated by analysis of the *Theory of the Leisure Class*, which shows both characteristics, and both interdependent: those of explanatory fundamental individuals, and of explanatory fundamental structure: *Theory of the Leisure Class* gives the individual the power to have aims and interests that decisively influence socio-economic phenomena; human instincts are the driving force hitherto. Of the most fundamental instincts Veblen cites three: The instinct of workmanship - a proclivity for efficient work and tangible results, the parental bent - all propensities of social sympathy (compassion etc.), the bent of idle curiosity – a longing after the new and new knowledge especially. These basic instincts give, as the process of institutional evolution goes on, rise to other dispositions, other habits, which in turn form motivations for human action. In this way for example the basic human habit ("the strongest and most alert and persistent of the economic motives proper"[116]) of emulating other people's achievements is developed; it will lead to the development of the leisure class:

Wherever the circumstances or traditions of life lead to an habitual comparison of one person with another in point of efficiency, the instinct of workmanship works out in an emulative or invidious comparison of persons. The extent to which this result follows depends in some considerable degree on the temperament of the population. In any community where such an invidious comparison of persons is habitually made, visible success becomes an end sought for its

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[115] When *Theory of the Leisure Class* or other works of Institutionalism are regarded as 'holistic' (e.g. RUTHERFORD MALCOLM, Institutions in Economics: *The new and the old institutionalism*, Cambridge University Press 1994, p.38, or JOHN DAVIS, *Handbook of Economic Methodology*, Edward Elgar 1998, p250; BUSH DONALD, *Thorstein Veblen's Economic Aesthetic*, Leonardo, Vol. 11, No. 4 (Autumn, 1978) p2; WILBER/HARRISON (1978)) then this does very often only entail the rejection of a strict methodological individualism due to the focus on holistic entities; Davis who describes Veblen as holistic 'in a particular sense' writes: "The term 'holism' is used to indicate, that society is more than just a group of individual actors, that individuals operate within sets of social conventions and norms that define acceptable objectives and established roles and that these social conventions and roles cannot themselves be fully explained in purely individualistic terms – in other words, to reject reductionist versions of methodological individualism." Ascribing works of Institutionalism to either one of those two directions highly depends on the statements (weak/strong) involved.

[116] VEBLEN(2007), p75

own utility as a basis of esteem. Esteem is gained and dispraise is avoided by putting one's efficiency in evidence[117].

Via its instincts the individual gives rise to the leisure class in the first place - without specifically intending. By its distaste for manual labor and visible success sought for its own utility as basis of esteem, the individual seeks to escape unworthy occupations. Consumption choices are in a similar manner constructed in resemblance to an Individualistic bearing: The individual makes his choice of consumption and occupation according to the alternatives given to him, takes notice of those and chooses adequately e.g. when displaying a certain amount of leisure. What concerns policy recommendations, it is again the individual which can alter its decisions in a certain way so as to change habits and institutions which might result in a more efficient allocation of resources. The entire theory aims to propagate certain institutions that allow for more efficiency so as to use natural resources to their best extent; the individual is crucial to that:

It is of course, on individuals that the system of institutions imposes those conventional standards, ideals, and canons of conduct that make up the community's scheme of life. Scientific inquiry in this field, therefore, must deal with individual conduct and must formulate its theoretical results in terms of individual conduct.[118]

The Leisure Class itself, like every other institution in the theory, on the other hand, is molded by innumerable individuals and possesses the power to coerce and constrain the individual on its own and not with regard to the individuals involved. For obvious reasons many concepts can be considered holistic; they are more than the sum of its parts. If at a certain point in time every the leisure class would suddenly be void of individuals, then it would yet continue to be of influence to the choices of the individual and the respective traits exhibited.

[117] VEBLEN(2007), p16

[118] VEBLEN (1909), p243

The institution of a leisure class hinders cultural development immediately (1) by the inertia proper to the class itself, (2) through its prescriptive example of conspicuous waste and of conservatism, and (3) indirectly through that system of unequal distribution of wealth and sustenance on which the institution itself rests.[119]

In reference to the previously given example of property/ownership a similar proof can be given - the individual is formed by institutions as he in turn has the power to form them himself. Since 'ownership' is a growing institution itself, it possesses a power of its own and can decidedly influence the individual; in changing the object of invidious comparison (from warlike trophies of booty to money) it demonstrates that capability.

[..] as the custom of individual ownership begins to gain consistency, the point of view taken in making the invidious comparison on which private property rests will begin to change.[…] The initial phase of ownership, the phase of acquisition by naïve seizure and conversion, begins to pass into the subsequent stage of an incipient organisation of industry on the basis of private property (in slaves); the horde develops into a more or less self-sufficing industrial community;[120]

On the opposite it is the individual who appropriates to his personal use and creates the institution of ownership in the first place.

The habitual appropriation and consumption of certain slight personal effects goes on without raising the question of ownership; that is to say, the question of a conventional, equitable claim to extraneous things.[121]

Theory of the Leisure Class implements the Veblenite program: Institutions are a product of the individuals of a group, but in turn they have the capacity to affect the wants and preferences of them. Alleged reconciliation between the two fundamental entities of explanation is not able to "solve" the agency-structure problem in a strict sense or admit a

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119 VEBLEN (2007), p136
120 VEBLEN (2007), p23
121 VEBLEN (2007), p21

solution with more explanatory power. However it fundamentally broadens the perspective of economics as to what matters are of decisive influence for decisions under scarcity. Institutionalism does not rest its explanations categorically on one entity what regards economic phenomena, but admits two interdependent units. The interdependencies between both fundamental units in turn also allow the formulation of cumulative causation in the first place.

3. Conclusion

The approach of Veblenite institutionalism is a definitive economic theory which has been conceived in order to account for deficits of contemporary economics theories. Inspired by the explanatory power of evolutionary and genetic science (in the realm of natural phenomena)[122] Evolutionary Economics tried to position itself as an alternative to deductive neoclassical thought, changing the very structure of the given explanations; it features the solution to a series of methodological problems.

Veblen's solution to the agency/structure dichotomy takes care of problems associated with an overemphasis on either explanatory entity. The infinite regress, which is the result of questioning a layer of alleged institution-free-state as insinuated by Menger, stops at the moment of declaring both entities interdependent; furthermore it explains not only, how individual preferences and purposes may change but also how structural entities are influenced by individuals.

Veblen's solution in modeling human decisions however can be seen as an enhancement to rational choice theory. While on the one hand instincts and habits may account for certain behavior, they do not replace the model of rational choice but are a mere addition to it. When an agent is faced with the decision whether to consummate certain goods or not, he is bound to be highly influenced by (e.g.) his propensity for emulation; then he may very well rate alternatives in terms of utility, however incorporating honor into his scheme of valuation. Hence instead of measuring expected future monetary gains and losses, an agent's calculation rests on his gains in terms of invidious distinction.

The method of cumulative causation is questionable. Veblen's positions are hypotheses which he tries to support by evidence he only selects from personal experience and puts into order accordingly; this reality he extends progressively (conspicuous consumption, secondary leisure class, vicarious leisure…), as he puts new data into place. However if evidence does not fit into the constructed model, the hypotheses are rearranged or

[122] PAUL USELDING, *Veblen as Teacher and Thinker in 1896-97: The Hagerty Notes on How the Economist derived his Criticism of the Structure of Classical Economic Theory*, American Journal of Economics and Sociology, Vol. 35, No. 4 (Oct., 1976), p395

discarded. [123] Verification takes more the form of a continuing expansion of the model[124] as it is continually refined. (introduction of aesthetics, discussion of religion, higher learning etc.) This contextual verification does not result in a body of logically consistent conclusions, as does deductive reasoning; regardless of that, it is continually more difficult (as more data is put into according places) to imagine any other explanation than the ones suggested by Veblen.

The alternative solutions suggested to the problems of explanation presented here broadly reflect the belief that an explanation in Economics should contain informationally rich, causal explanations. *Theory of the Leisure Class* as the exponent of that very view is not a general theory and hence does no try to give explanations to any phenomenon a scientist might encounter, however it aims to explain within its limited field of interest – which is the vicinity of the so called Leisure Class. As such it can answer certain questions which Neoclassicism[125] cannot: Whenever a neoclassical agent buys a good then he does so, because he maximizes his utility. Why his utility is maximized by buying a good that has almost no practical value for him cannot be answered. How and by which influences this propensity did emerge is also not of Neoclassicism's concern. *Theory of the Leisure Class* however can put an answer to these questions; the explanatory power of the informal account of "the material means of life" that Veblen proposes, rests in the underlying causes it assigns to certain economic phenomena. [126] "A theory does not explain anything unless it points to an underlying causal mechanism. In the case of individual and human behavior, explanations must thus relate to mechanisms of the human psyche and human interaction and perhaps draw upon psychology, anthropology sociology and other disciplines. This is precisely what many advocates of utility theory refuse to do. They take the utility functions

[123] HARRISON(1978). p76
[124] HARRISON(1978), p77
[125] nor any other contemporary economic theory
[126] See also BLAUG (1980), p13 who hints that economic theories can also be "attempts to uncover causal forces at work in the economic system". Daniel Little calls this a "Galilean" model of social explanation. LITTLE, *Marxism and Method*, http://www.personal.umd.umich.edu/~delittle/resources/Marxism%20and%20method.pdf p5

as given and consign the job of grounding them theoretically to somebody else. By this refusal they indicate that utility theory itself cannot provide a real explanation."[127]

Apart from the fact that Veblenite institutionalism fails to construct a logically consistent body, the increased informational content comes at an additional price. Veblenite institutionalism sees itself unable to make (economic) predictions of any kind or to be of service as a policy guidance instrument; an "economic study of institutions" does content itself with outlining how individuals acquire behavior and habits of thought and what interconnections and phenomena might be a result thereof. *Theory of the Leisure class* forms part of a definitive economic theory which rests its legitimacy on a premise that is in stark contrast to traditional economics.

[127] Hodgson however very much sees the importance of Veblen's contribution foremost in the ability to explain preferences of individuals. HODGSON (2001), p242

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Curriculum Vitae

SIEGMUND SKALAR

geboren 1986 in Salzburg

2005 Matura mit Auszeichnung

2007 Studium der Volkswirtschaft a.d. Universität Wien

Abstract:

As a seminal work of Institutionalism Thorstein Veblen's *Theory of the Leisure Class* is much more than a satiric comment on late 19th century upper society. It features the implementation of Veblen's program of *Evolutionary Economics*, an alternative method of economic theory entirely different to neoclassical economics. The thesis aims to outline the importance of Veblen's *Theory of the Leisure Class* and the implemented program by its ability to solve four methodological problems: causality – or the problem how to devise a scientific explanation in the social sciences; agency/structure – or the problem of the fundamental entity of explanation; decision modeling – the problem of modeling the human capacity for reasoning and decision-making; specificity – or the problem of how to cope with changing social surroundings. The respective problem situation is created by analyzing Veblen's criticism of contemporary economic theories; the problem solutions are being inferred via *Theory of the Leisure Class*. A common characteristic of the solutions is their ability to alter the explanatory power of the resulting economic theory; however the price is its inability to make economic predictions.

Zusammenfassung:

Thorstein Veblen's *Theory of the Leisure Class* ist ein Schlüsselwerk der Institutionenökonomie, die exklusive Vereinnahmung als satirische Gesellschaftskritik ungerechtfertigt. Es implementiert Veblen's Programm von *Evolutionary Economics*, einer Methode ökonomischer Theoriebildung die sich gegen den Neoklassizismus behaupten will. Die Diplomarbeit sucht die Bedeutung von *Theory of the Leisure Class* und dem implementierten Programm in der Fähigkeit, vier fundamentale methodologische Probleme neu zu lösen: causality – oder das Problem wie eine Erklärung in den Sozialwissenschaften auszusehen habe; agency/structure - oder das Problem der fundamentalsten Einheit der Erklärung, decison modeling - das Problem der Modellierung von menschlichem Entscheidungsverhalten; sowie specificity - das Problem der Relativität von Sozialem. Die entsprechende Problemsituation wird dazu aus Veblen's Kritik zeitgenössischer ökonomischer Theorien entwickelt; die neuen Problemlösungen werden aus *Theory of the Leisure Class* abgeleitet. Die Lösungen haben gemeinsam, dass sie die Erklärungskraft einer daraus formulierten ökonomischen Theorie erheblich steigern, sie geht aber zu Lasten der Fertigkeit auch ökonomische Prognosen machen zu können.