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Capital, Power and Knowledge According to Thorstein Veblen: Reinterpreting the Knowledge-Based Economy

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What is "New" in the New Economy?

In recent technological transformations, due to the production and diffusion of information and communication technologies, many economists perceive a radical transformation in the nature of capital and the economy. They see industrial capitalism, under which capital accumulation rested on the accumulation of tangible means of production, giving way to new sources of production and wealth, chiefly knowledge and intelligence. They assert the emergence of a New Economy, alternatively labeled a knowledge-based economy, an "age of access" (Rifkin 2000), a "network economy" (Castells 2000) or a "cognitive capitalism" (Corsani et al. 2002). But how can we account for this transformation; what is really new in the New Economy? If one answers that knowledge now plays an important economic role, it would mean that knowledge did not play that role before.

Analyzing the American economy at the beginning of the twentieth century, Thorstein Veblen contended that knowledge has always been the main productive economic asset. But Veblen also analyzed the ways and means of industrial control by business interests during the era he calls the New Order.[1] He considers that control over industrial knowledge, and over the material means to put this knowledge to use, constitutes the core of capital's earning-capacity as a form of control over the community.

Veblen's works can offer an alternative but rich interpretation of the nature of the knowledge-based economy. From a Veblenian point of view, capitalism's contemporary transformations should not be viewed in terms of new forms of productivity but, rather, in terms of the new ways and means for business interests to extend their control over industrial knowledge.

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This paper will put in perspective the contemporary relevance and analytical power of the Veblenian approach to capital accumulation and how it allows one to understand recent structural transformations associated with the knowledge-based economy. We will introduce Veblen's concept of social productivity and then show how Veblen's articulation of the concept of capital in terms of business control over technological knowledge through tangible and intangible assets integrates power at the center of the capitalization process. Finally, we will show how Veblen's theory allows a new interpretation of actual structural economic transformations.

The Social and Cognitive Nature of Industrial Productivity

In his two papers published in 1908 on the nature of capital, Veblen offers a radically new understanding of the concept. For Veblen (1908a), man has never lived alone. The history of man has been the history of human communities, with more or less cultural continuity over successive generations (518). Any community possesses a body of technological knowledge, a state of the industrial arts that Veblen calls the "immaterial equipment" of the community, and it can be transmitted and augmented only in and by the community at large (520). For Veblen, productivity is social. It is not intrinsic to labor power or capital goods; rather, it arises first and foremost from the community's technology. "In any known phase of culture, this common stock of intangible, technological equipment is relatively large and complex, - i.e., relatively to the capacity of any individual member to create or to use it; and the history of its growth and use is the history of the development of material civilization" (521).

Human efforts, individuals' knowledge and material contrivances can become productive only if they are articulated to the community's immaterial equipment. Capital goods (or tangible assets) materially embody the community's immaterial equipment and are productive only to that effect; they are the material means to put to use the community's technology. If the technology changes, a once-productive material contrivance will simply become obsolete and go to the "junk-heap" because the specific technological expedients it embodies cease to be effective in the industrial community as compared to new methods (1908a, 540).

Capitalization of Tangible and Intangible Assets

Then the question is how can a capital good that embodies social productivity be the source of a private income? Veblen considers that at earlier phases of technological development, the possession of material contrivances that allow an individual to put to use the immaterial equipment of the community does not bestow a differential advantage to its owner, since the material equipment is neither complex nor scarce. Things change with the development of the state of industrial arts and the increased complexity of industrial equipment:

> as the technological development falls into such shape as to require a relatively large unit of material equipment for the effective pursuit

> of industry, or such as otherwise to make the possession of the requisite material equipment a matter of consequence, so as seriously to handicap the individuals who are not without these material means, and to place the current possessors of such equipment at a marked advantage, then the strong arm intervenes, property rights apparently begin to fall into definite shape, the principles of ownership gather force and consistency, and men begin to accumulate capital goods and take measures to make them secure. (1908a, 524)

In a more developed society, the ownership and control of the material contrivances to put to use the community's immaterial equipment becomes a strategy for control over the community. Individuals with the capacity to take advantage of property rights so as to own and accumulate means of production can thus capture and "corner" the usufruct of social productivity. In agrarian societies, those with ownership and control over land can reclaim a part of the usufruct, a rent, because of their strategic advantage. It is only with the industrial revolution and the development of large-scale industry that the ownership of industrial equipment becomes a means of cornering the community's immaterial equipment so as to claim a part of the usufruct. *Capitalism* thus refers to the late period of material civilization, in which ownership of the industrial equipment comes to be the predominant method of engrossing the community's technology and usufruct. The profit obtained by the ownership of capital goods is of the same nature as the rent obtained through the ownership of land. It is an unearned income that arises due to the differential advantages of the vested interests. The capitalization of tangible assets, that is the capitalization of the earning-capacity due to the ownership of capital goods, is determined by "the immaterial industrial expedients which they embody or which their ownership allow their owner to engross" (1908a, 539). Thus, the control over the community through the ownership of the material means necessary to put to use the technology is capitalized. The owner that controls industrial equipment does not participate in production; rather, he specializes in business-related concerns and is disconnected from industrial production. He becomes an absentee owner.

Large business enterprises extend their control over the community by appropriating tangible assets but also by developing *intangible assets*, which are not new forms of productivity, but rather monopolistic capacities in the sphere of distribution. The control over the technological capacity of the community and control of differential gains in the sphere of distribution (*Good Will*, advertising, control over the distribution networks, social conventions) are the two main intangible assets for business enterprises (1908b, 112-124). While Veblen mostly analyzes intangible assets as private capacities for industrial sabotage to emphasize the parasitic nature of business, his overall theory of the evolution of the social structure is about the institutional process of cultural growth in terms of cumulative causation (1898a). In this way, intangible assets are not only direct and indirect predatory means to restrain production, but are also any institutional settings or social structures that provide earning-capacities to business concerns. They can be "habits of life settled by usage, convention, arrogation, legislative action or what not" (1908b, 116), "preferential use of certain facts of human nature — habits, propensities, beliefs, aspirations and necessities" (1908b, 123). Veblen goes further ([1901] 1990, 311): "Whatever ownership touches, and whatever affords ground for pecuniary discretion, may be turned to account for pecuniary gain and may therefore be comprised in the aggregate of pecuniary capital."

Capitalizing Institutional Control and Power

It is possible to synthesize Veblen's thought on capital in three points:

1) The value of an asset, tangible or not, is the capitalized value of its earning-capacity, not of its productivity.
2) Tangible assets are normally serviceable to the community, but their earning capacity is determined according to the extent of control over the community conferred upon the owners of the material means to put to use the community's technology. Tangible assets capitalize differential advantages in the sphere of production.
3) Intangible assets are normally non-serviceable to the community and capitalize differential advantages – such as institutional structures, conventions, legal rules, habits of thought, or *Good Will* – that confer any monopolistic capacity upon business concerns. Intangible assets capitalize differential advantages in the sphere of distribution.

Nevertheless, the capitalization of either tangible or intangible assets rests upon an immaterial factor, which is the extent of the control over the community that the asset secures, be it in the sphere of production or distribution. If this control can be direct, for example through the massive resort to advertising to manipulate the desires and habits of the common man, this control is first and foremost structural, and rests on established social structures and habits of thought.

As Nitzan (1998) or Bichler and Nitzan (2000) argued before us, we should understand that for Veblen the accumulation of capital is not the accumulation of means of production, but, rather, an accumulation of control over the industry and the community. The notion of control, and its corollary notion of power, is intrinsically linked to the concept of capital. While Veblen proposes a very simple definition of capital (1904, 131): "'Capital' means 'capitalized putative earning-capacity', expressed in terms of value," this definition opens a door for an economic analysis in terms of control and power.

Capital does not need to be serviceable; it represents any earning capacity, whatever its origin. The usufruct produced by the industrial system is distributed according to differential advantages due to the ownership of tangible assets and intangible assets. Thus, not only are productive assets capitalized, but any institutional reality is capitalized as well, be it social, legal, political, cultural, psychological, religious, technical, or anything else that can grant an earning capacity. Capitalization is therefore based not only on productivity but on any institutional and structural power that confers control over the community to increase differential gains in the sphere of distribution or, in the words of Veblen, any capacity for vested interests to gain something for nothing.

Thus, it is impossible to confine the concept of capital to the economic sphere. To the contrary, capital is at the core of every social sphere, or rather, it mobilizes every social sphere to achieve differential gains. Capital is not an industrial reality; it is a pecuniary practice that meddles with the whole reality of the community. By defining capital as capitalized putative earning capacity without reference to productivity, Veblen can integrate any institutional form of power in the economy. Only by focusing on power and control over the community can one find the real dynamics of capitalism.

Two serious limits remain in the works of Veblen: (1) to better criticize dominant capital theories of its time, he will emphasize the sabotage power of capital instead of simply analyzing any institutional power to capture an income and (2) Veblen mentions inter-capitalist competition but analyzes the dynamics of power accumulation mostly as if businessmen were a homogeneous class (the leisure class, vested interests or kept classes) working as a group to consolidate its power over the rest of the community. If coalitions and alliances between business enterprises are frequent, strong competition and rivalry for world market shares exist between businessmen. We believe that if one analyzes capitalist competition from a Veblenian point of view, where capital includes first and foremost institutional control and power, we should consider that competition between capitalists is not only a market competition aiming at lowering prices and neither only a monopolistic competition based on product differentiation and mark-up pricing. Rather, it is first and foremost a structural competition mobilizing all of the firms' capacities to influence laws, policies, sense of nationhood, and business network powers to modify the socio-economic power structures, to accrue differential gains.[2]

Reinterpreting with Veblen Contemporary Transformations of Capitalism

Veblen's approach refutes the theory that knowledge is simply a new source of productivity. To the contrary, the cognitive dimension of the economy has always been the source of productivity of any material civilization. However, capital's profitability is not determined by this productivity, but rather by the control over this productivity and over the community at large. How can we thus interpret economic transformations at the turn of this century? Is not the growth in profits since the beginning of the 1990s simply the result of the growth in productivity due to new technologies?

From a Veblenian perspective, a greater industrial productivity due to technical evolution can be profitable for capitalist accumulation only if existing social institutions can subject this new productivity to the control of financiers. Otherwise, greater productivity would produce greater abundance and overproduction, causing a fall in profits. Capital accumulation, understood as the accumulation of control over the productive capacities of the community, should thus translate here to new forms of control over technology and knowledge. Consequently, to give value to knowledge is not a matter of creating knowledge, but rather of how to make knowledge scarce by restricting access to it so that it gains value. A Veblenian interpretation of contemporary transformations will therefore focus, not on the cause of growing productivity, but on identifying socio-institutional transformations that will allow a greater capitalist control over technological capacities and knowledge.

We identify three particular sets of problems on which a Veblenian analysis could focus:

1) How are the legal structures of ownership evolving to enable firms to exert control over knowledge? This question addresses both the extension of intellectual property rights nationally and internationally, and commodification of knowledge creation put in place in industrialized countries through the collaboration of industry and the university.[3]
2) What are the main intangible assets (differential advantages) in the "New" Economy? In addition to intellectual property rights, we need to identify monopolistic capacities at work: concentration through mergers and acquisitions, tax credits and subsidies for R&D, hegemonic discourse and habits of thought about the New Economy, etc.
3) Cui Bono? What are the vested interests with differential advantages? What are the business enterprises with growing earning-capacities due to their privileged control over knowledge?

Those queries are not exclusive to a Veblenian approach, however. The hypothesis of cognitive capitalism,[4] put forth by the Paris Regulation School and Italian Operaists, is also analyzing those new forms of control that allow capitalism to thrive in spite of the emergence of a General Intellect as Marx predicted.[5] The twilight of industrial capitalism is giving way to the dawn of a system of cognitive capitalism, under which, capital, as an earning-capacity, is no longer identified with means of production, but, instead, is identified with means to control the community's cognitive capacities.

Although one could wish to build bridges between advocates of cognitive capitalism and Veblenian Institutionalists, we need to point out a major discrepancy between the two approaches. For the former, we are observing a new phenomenon, a radical transformation in the nature of the capitalist system. For the latter, the non-productive and predatory nature of capital has existed since the beginnings of ownership (Veblen 1898b; 1899; 1908a), but it is with the emergence of corporate capitalism in the late nineteenth century that predatory capital came to maturity. From this perspective, Veblen's vision of capitalism is closer to the one proposed by Fernand Braudel (1979), who differentiates between capitalism and market economy; capitalism being a complex, sophisticated sphere of monopolistic organizations at the top of society, embodied by the haute finance (9, we translate): "At this level, one enters a shadowy zone, a twilight area of activities by the initiated which I believe to lie at the very root of what is understood by the term capitalism; the latter being an accumulation of power (one that bases exchange more on the balance of strength than on the reciprocity of needs), a social parasitism."

Capitalism should not be analyzed through the looking-glass of market competition, but rather, in terms of forms of control over society by the economic elite.

Conclusion

More than a century ago, Veblen argued that capital's earning-capacity was not determined by its productivity, but instead was the result of the control over the community's shared technology. Economic orthodoxies systematically rejected such an argument, wishing instead to explain income distribution from the sphere of production. After a long detour, some economists are just now beginning to admit that the sphere of production is not in itself sufficient to analyze the nature and measure of capital. This admission is painful because it means bringing back to the core of economic analysis the concept of social power — a concept banned since Adam Smith. The economic sphere is thus not a distinct social sphere; rather, it includes all social spheres, and the economic dynamics become impossible to explain without accounting for existing institutional and social dynamics. Economists cannot be just economists anymore.

Notes

1. By *New Order*, Veblen refers to the new business order that emerged in the era of robber barons, when industries organized into corporations, cartels and trusts. This *New Order* is characterized by the collectivization of capital in business enterprises and absentee ownership of corporations.
2. Shimshon Bichler and Jonathan Nitzan (2006), building in part on Veblen's theory of capital, provide an original general theory of power capitalization that examines inter-capitalist competition by analyzing, among other things, *differential accumulation*, that is, the differential distribution of profits between business enterprises. Capital being defined as power, accumulation should be analyzed in differential terms; that is, by understanding why some business enterprises have greater profits than the normal rate of profit in the economy (Nitzan 1998).
3. This process of knowledge commodification got a new boost with the Bayh-Dole Act in 1980 in the United States (Coriat and Orsi 2001; Mowery et al. 2001) and with the different *Technology Transfer Offices* in other industrialized countries (OECD 2003).
4. See for example: Corsani et al. (2002); Rullani (1998); Paulré (2001); Corsani (2002); Moulier-Boutang (2001; 2003); Gorz (2003); Vercellone (2003); and Negri (2005).
5. In the *Grundrisse* (1857-1861), Marx considered that with the development of science and technology, the main productive force would become the *General Intellect* instead of labor-power, and "[w]ith that, production based on exchange value breaks down, and the direct, material production process is stripped of the form of penury and antithesis" (1857-1861: Notebook VII).

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