Political Economy of Evolution

HOWARD J SHERMAN, University of California, Los Angeles

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POLITICAL ECONOMY OF EVOLUTION

by Howard Sherman (for the Veblen-Commons Award talk)

I was always fascinated by social evolution, so I was happy when I read Veblen’s argument that economics must become an evolutionary science. All institutionalists agree with Veblen’s principle that social analysis must begin with institutions embodying human relationships, rather than with arbitrary laws of psychology. The notion of starting with specific institutions implies different institutions in different times and places, so it implies change and evolution. My own view of evolution, which agrees with Veblen, may be found in Sherman 1995, and in Dugger and Sherman, 2000.

Neoclassical economists deny evolutionary change in basic institutions and concentrate on long-run equilibrium analysis. Institutionalists all agree that there is evolution, but the notion is seldom developed in detail and rarely applied to specific cases. The key to a concrete evolutionary paradigm lies in two dichotomies made by Veblen. These dichotomies indicate the most important questions to ask, but not the answers. The questions must be answered by empirical research for each specific society. The dichotomies are certainly NOT a set of trans-historical and inevitable laws. They are flexible methodological approaches.

TWO DICHOTOMIES

In many of his works, Veblen states a dichotomy between "business" (economic institutions) and "industry" (technology). Business and industry refer
to the specific case of capitalism, but in more general terms, this dichotomy between economic institutions and technology is important in many societies. Sometimes, the institutions promote technology, but in other times and places the institutions hold back technology. The term "technology" is used in the broadest sense, to include not only knowledge and organization, but also the level and quality of labor, capital, and natural resources available to this society.

The fact that the social-economic institutions of society have become an obstacle to further economic development does not necessarily mean that there will be evolutionary change in the institutions. This depends on many favorable circumstances and on the actions of groups of human beings. Veblen makes this clear in his second important dichotomy. There is a sharp distinction and a conflict between vested interests in the institutions and the needs of the common people. The vested interests always resist with all their power any attempt to change the institutions that give them their wealth and power. Only an immense effort of the common people can overcome such resistance. The common people expend that effort if, and only if, there is a clear crisis that is directly harming them. The illustrations below show some of those crises. Even in a crisis, there is nothing written in the stars to day that the common people will triumph over the vested interests even when they try to do so. Thus, there is nothing inevitable about evolutionary change. Major evolutionary change – whether reform or revolution – comes about only if institutions are holding back economic performance, if this is clear to the great majority of the common
people and they are willing to fight about it, and if the strength of the common people can overcome the vested interests.

SKETCH OF EVOLUTION IN THE LIGHT OF THE DICHOTOMIES

For at least a hundred thousand years, the human species existed in small hunting and gathering societies. Unlike capitalism, people worked collectively to hunt and to gather food. Not only was most of the food supply produced collectively, it was also consumed collectively with each person getting their share. Within this set of communal institutions, there was little fixed wealth, most people were roughly equal in income, so there were no social conflicts among classes with competing interests. Men and women were roughly equal in power. Among the earliest hunter-gatherers, there were no extensive wars because there was little wealth to loot. There was also no war to acquire slaves because a slave could not produce more than the slave’s own sustenance. Since prisoners of war were not useful as slaves, they were killed or, in some rare societies, eaten (see, e.g., Dugger and Sherman, 2000).

Neoclassical economists claim there is no alternative to capitalism. One can imagine a philosopher talking to a cannibal king in this early culture. The philosopher asks if it is not bad ethics to eat other people. The king answers “Eating other people is human nature, so scientific analysis shows that cannibalism is the only viable society. There is no alternative.”

The communal institutions, based on the extended family in hunting and gathering activities, seemed eternal. But about 12,000 to 10,000 B.C. in the
Middle East and China in fertile river valleys the Neolithic revolution began. It took thousands of years of transition, but eventually it brought better tools, pottery, farming, and herding. This led to much higher productivity, ability to build big cities, and leisure time for artists to decorate the cities and build beautiful monuments. It also led, however, to the end of egalitarian, communal societies. (A readable book on the transition is Diamond, 1997.)

In Veblen’s terms, the old economic institutions held back further progress. The communal form became obsolete in the face of unequal wealth and the fact that slaves became profitable. Those groups who kept the communal form could not have a rapid increase in productivity.

There was a very long transition with chiefs having more and more power in larger and larger tribes. In Veblen’s terms, this meant continual conflict between the vested interests, who were trying to expand the power of the chief and his close friends, versus the common people, who wished to maintain an equalitarian structure.

External conflicts included warfare by the most powerful tribes, which resulted in large numbers of prisoners who became slaves. This led to hierarchical societies with a ruling elite and a great majority of unfree serfs and slaves. The unfree workers produced what the elite consumed. So the great majority lacked freedom and led a very hard life.

To call this "progress" means to look only at the higher productivity and the excellent conditions of the elite, while ignoring the terrible conditions of the
great majority. Subjective notions like "social progress" exist only in the eye of the beholder and do not help our understanding of these mixed results. It is perfectly true that one can measure the progress of production in a quantifiable manner, but that does not settle the question. First, there are many periods when production and technology go backward, such as after the fall of the Roman empire. So even progress in production is not inevitable, but depends on favorable institutions. Second, the broader concept of "social progress"—that is, progress for the whole society, is not objectively definable. As noted above, the transition from early communal societies to hierarchical societies brought productivity increase, but it also brought slavery. One cannot call that social progress on any objective standard. Third, even more broadly, is modern sculpture as good as Greek sculpture? It depends on the view of the observer.

Evolution Of Slavery And Serfdom

Societies in which most people were held down and coerced to produce a surplus by force were a widespread form in most of the world for more than ten thousand years. In all of the societies in which slavery and serfdom were the main form of labor. However, eventually these economic institutions—which brought rapid progress at their beginnings—began to hold back economic progress. Holding back progress increased the level of social conflict to a high pitch.

For example, in the Roman empire slavery was dominant—though there was also serfdom and every other form of unfree labor. Slavery eventually
became an obstacle to production because slaves broke machinery and frequently used it to revolt, simple uses of land led to exhaustion of the land, and the masters would not stoop to invention because they saw it as a form of work, while ideology said that work was only for slaves. The economic stagnation weakened the empire. The empire fell as a result of slave revolts, fights over power between competing generals, and barbarian invasions. (The end of Rome and its slavery is analyzed in Perry Anderson, 1974).

Rise of Capitalism in England

The fall of the Roman empire led to a couple hundred years of chaos and retrogression of technology, followed by the dominance of serfdom – though some slavery remained. Under serfdom, both serfs and lords grew their crops with self-sufficiency in mind. This meant no commercial crops and no interest in trying new technology. Therefore the institution of serfdom held back growth and technology. In this context, struggles between lords and serfs led through as complex process to the end of feudal services, but to land ownership by the lords with the former serfs leasing the land. Purchasing a lease meant the need for money, which meant commercial crops and attention to new technology. Production for the market meant that capitalism had begun in the British countryside – then it spread to British cities, to the rest of Europe, and then to the rest of the world. (The best discussion of this transition is in Robert Brenner’s work, discussed in the summary of the whole debate on this issue in Wood, 2002).
SLAVERY IN THE US SOUTH

Although capitalism began its rise 500 years ago in England, slavery, serfdom and even communal hunter-gatherers persisted into the late 10th century. In the United States there was still slavery in the South till the Civil War. Like all such societies, the South reveals use of force, whippings, and massacres of those who rebelled. The slaves had hard, short, lives in which they produced a surplus for their masters to live in luxury. Veblen puts the dichotomy in a different way when he speaks of industry, the production of goods, versus exploit, the taking of goods that others have already produced.

On the social level, both slaves and women were treated as property by the white male masters. The masters had sex with as many slaves as they wished. But sex between a woman of the ruling class and a slave was punished with death for the slave.

The slave owners believed that their system was natural, would last forever, was blessed by God, and that there is really no viable alternative. The institutions of slavery, however, held back technology for several reasons. First, slaves sabotage new equipment or break it apart for weapons. Second, land use must be kept simple because only the simplest farming procedures can be supervised. Therefore, land gets used over and over again for the same thing and the land gets exhausted. Third, in ancient Rome – and to a lesser degree in the South before the war – the masters had an ideology that said that all work is for slaves, so many would not stoop to learn technology or make innovations.
There was very little technological advance in US slavery, with the exception of the cotton gin. Agriculture continued to be rather crude and industry grew very, very little in the South under slavery. An additional reason that using slaves in industry was almost impossible was that it was a crime with severe punishments to teach them even to read and write.

While slavery held back economic progress, social conflicts led to it’s end. There were more than a hundred major slave revolts in the South – and the escaped slaves became a major part of the Union army. Northern capitalists and Northern workers competed with slave-produced goods and competed for control of the West. Free farmers also fought with slave owners trying to expand in the West. The result was the Civil War, the bloodiest war by gar of the whole century anywhere in the world, which resulted in the end of slavery. (The dynamic of the US South under slavery are discussed in Genovese, 1976)

**Rise of US Capitalism**

After the Civil War, when capitalism was clearly dominant in the United States, there was rapid technological progress. But there was also instability. Many times in the 19th century, US production went backward, not forward. The Twentieth century saw many downturns, including the Great Depression, lasting ten years till it was ended by war production. The first four years of the 21st century have witnessed a boom turn into a bust, a stock market bubble become a disaster for millions of small investors, and rising unemployment, with even engineers losing many jobs, especially in the computer industry. With industry
going backward, and over 40 million unemployed in the global economy, even Alice could not have imagined a stranger economy for Wonderland.

This series of severe downturns is a dramatic illustration of Veblen’s dichotomy between business and industry. In each expansion, the advance of demand and revenue is limited. This happens because limited wages mean limited consuming power. There are also rising imports due to higher income, which result in lower net exports. Finally, rising taxes lower government deficit spending and may turn it into a surplus, which removes money from the economy and lowers demand. At the same time in every expansion costs are rising, including higher raw materials prices, higher interest rates, and higher taxes. Thus, the system tends to produce one recession after the other.

My work on the business cycle (see, e.g., Sherman, 1991 and 2003), shows this process in detail and finds that booms and busts are endogenous to capitalism. Though outside shocks play a role, they themselves are mostly endogenous effects of the world system of capitalism – so they are “outside” shocks only to the degree of narrowness of the model.

As shown above, in each expansion, the increase of demand is limited, while costs keep rising. As a result, profits reach a peak, usually six to nine months before the cycle peak. The profit decline causes a decline -- after a time lag -- in corporate investment, which is the immediate cause of the contraction. The opposite process then begins, eventually leading to another expansion. This unstable system causes continuous uncertainty among all parts of the population
and leads -- in addition to cyclical unemployment and bankruptcy -- to all kinds of psychological problems as well as cyclical increase in crime.

On the global level, capitalism has been the dominant way of life in most of the world for only a few centuries – and less in the Third World countries. It has at least two great achievements. It brought the industrial revolution, which has multiplied production and productivity to an amazing extent. Furthermore, it freed workers from extra-economic force. On the other hand, there is extreme inequality in all capitalist countries, with each worker producing a surplus that forms the profits of the capitalist (for data on inequality, see Mishel, 1999). In the rich United States about 14 percent live in poverty, and the percentage is much higher in the neo-colonial world. There are enough resources for decent health care for all, but even in the United States there are 45 million people without health insurance. There is discrimination against women and minorities (on sexist discrimination, see Deckard, 1983; on racist discrimination, see Reich,1980). There is environmental devastation. Moreover, all of this is under the frightening shadow of instability, which holds back production and innovation as described above. The details of each of the specific problems of a capitalist system are described in Sherman, 1987, so they need not be restated here.

Finally, there is war. It was shown above that war has gone through many different forms as there have been different institutions dominant in society. Prehistoric peoples had no sustained wars because they had almost no wealth to loot and productivity was too low to make slaves profitable. Under
slavery, war was conducted to get the wealth of great cities, to get land for new plantations, and to get slaves. Feudal wars similarly focused on taking over manors with their land and serfs. Under capitalism, every major country has shown imperialist tendencies to control other countries through outright colonization or by purely economic means. In recent decades, colonies have been ended, except for the new occupation of Iraq and Afghanistan. Within this context of the fight to control as much of the world as possible one way or another, there have been many wars, such as the First and Second World wars, fought mainly between capitalist powers for ascendancy. There have also been many wars fought by each colony or semi-colony to free itself from dominance. Many have succeeded in freeing themselves from outright political dominance, but few have succeeded in freeing themselves from economic dominance. To our everlasting credit, one of the first great wars of liberation was the American Revolution against England. It is too bad that the United States, as the most powerful capitalist country, has been on the other side in so many recent wars, such as Vietnam and Iraq. Veblen focused on the rhetoric of patriotism in the media, so he would have been fascinated by the weapons of mass deception in the Iraqi war and the insistence that mythical weapons will exist in Iraq.

The problem of instability and stagnation or decline caused by capitalist institutions does NOT automatically end the system. But it does exacerbate conflicts between the vested interests and the common people. Thus, the Great Depression witnessed some of the most severe conflicts in US history since the
Civil War. Those conflicts led to a large number of major reforms, called the New Deal. Thus, both of Veblen’s dichotomies – industry versus business and conflicts between vested interests and the common people have shaped the evolution of capitalism.

In the modern United States, the ”common people” include professionals such as engineers, programmers and teachers; skilled workers, such as plumbers; average employees; and the unskilled. People such as low-paid managers and small shop keepers may be on either side, depending on the issue. And there are all varieties of manufacturing, trading, and financial capitalists, often with different interests on various issues.

It should be emphasized that day-to-day struggles between the vested interests and the common people may be severe, but do not jeopardize the system. The system is jeopardized only when the first dichotomy, institutions holding back economic performance, is the underlying reason for the clashes, as in mature feudal Europe or the ending of slavery in the United States.

In capitalist countries with democratic political forms, such as the United States, the fight between the vested interests and the common people plays itself out in both electoral and other venues. In recent years, it has become clearer than ever -- in several scandals -- that the large corporations do not stick to the rules. They rather attempt to manipulate the political process as well as the economic process for their own illegitimate gain. Moreover, political campaigns are getting more and more expensive, so pressures to raise money by
coziness with business become ever greater. In the 2000 election, the two major political parties spent three billion dollars, not counting political action committees.

The media are the source of most of our information and are owned by huge corporations (the best in depth study is McChesney, 1999. For several reasons, the media emphasize that all politicians are corrupt and all politics is just a game for personal gain -- and that there is no alternative to the present political-economic system. Whatever people think of the economic system, most are convinced that their vote will have no effect on any basic issue. Most common people are immersed in personal issues for survival, so they feel they have no time for politics, especially since politics is a dirty and irrelevant business. As a result, only half the people voted in the 2000 presidential elections -- and far less in the 2002 congressional elections -- with only pitiful numbers voting in local elections in most cases. Those who do vote are the affluent, while the lower half of the population by income do not vote for the most part. The unemployed do not vote and those on welfare do not vote in any but the smallest numbers. So it is the affluent and the rich that determine elections. Thus most capitalist countries have the forms of democratic rule, but the reality is rule by an oligarchy (see the detailed discussion and empirical data in Sherman, 1987).

The media usually do not challenge false information given out by the vested interests. For example, the United States used the weapons of mass
deception as a tool for going to war on Iraq -- no weapons of mass destruction have been found. Yet the US media have not emphasized the fact that the President took the U.S. to war on the basis of a falsehood.

A scholarly survey found the following misperceptions among the public: 22 percent think that weapons of mass destruction have been found; 48 percent think that there is good evidence that Al Quada is based in Iraq; and 25 percent think that world opinion supported our invasion of Iraq. The higher the number of misperceptions, the greater was the support for the war. Moreover, these misperceptions are closely related to the news source that they used. For example, Fox news, which is conservative controlled, had listeners with the most misperceptions, so 80 percent of its listeners (those for whom Fox was their main source of news) believed one of those three misperceptions. Yet only 23 percent of listeners to National Public Radio (those for whom it was their main source of news) had at least one misperception. So the media do very little to correct misperceptions spread by the vested interests – and those who are most tightly controlled are worse than the others (source: NIPA survey, 2003).

If political democracy is limited by the institutions of capitalism, economic democracy is almost non-existent under capitalist institutions. In the boom of the late 1990s, it was fashionable to say that the economy was controlled by millions of small investors, directly or through pension funds. The reality was painfully clear in the following recession when these small investors, directly or indirectly, lost much of their savings. Those with pension funds are controlled by
the stock market, not vice versa. They certainly exercise no control over the giant corporations.

Within the giant corporations, control is exercised by a small group of directors, top executive officers, and big investors (often all the same people with different hats). This small group at the top of the corporation may hire and fire whom they wish, may promote or demote employees as they wish, may shift the enterprise to an entirely different place if they wish, may invest or not in expansion, or may reduce production and fire many people. Thus, the United States has industrial dictatorship, not industrial democracy. The huge mass of employees have nothing to do with the basic decisions. Their wishes become a factor for consideration only when they organize and fight for their interests.

SUMMARY OF VEBLEN’S APPROACH TO SOCIAL EVOLUTION

The first two dichotomies provide the bare bones of Veblen’s approach to evolution. First, in some societies under certain conditions -- but not inevitably -- economic institutions hold back the advance of technology and growth of capital. Second, in some societies under certain conditions – but not inevitably – these tensions between economic institutions and technology lead to an exacerbation of social conflicts. These conflicts between the common people (who wish a better life) and the vested interests (who wish to protect the present institutions) determine the direction of society. It should be noted that both sides are usually complex coalitions, with the common people in partnership with some who perceive a vested interest in a new type of economic institution.
Third, in some societies under some conditions – but not inevitably -- these conflicts may lead to victory by those desiring change. Then the conflicts may sometimes lead to gradual change and reforms, but may sometimes lead to rapid change and revolution.

THIRD DICHOTOMY: BARBARISM VERSUS DEMOCRACY

Veblen says that the future can not be predicted in detail, but he is certain that capitalism will run its course and end like previous societies – given the present trends in capitalism. But after that, the new society will depend on human decisions, so it is not predetermined nor is it inevitable. He states over and over again that the end of capitalism may lead to an awful society of barbarism – or it may lead to a new and better society. What happens depends on us.

He does indicate what his preferences would be if there is to emerge a better society – which we may or may not choose. He seems to pose a great increase in democracy as the opposite to capitalism or barbarism. In The Engineers and the Price System, he speaks of the engineers taking over as the democratically elected representatives of the common employees, ousting the vested interests. Thus, it appears that for Veblen, THE ALTERNATIVE TO CAPITALISM IS DEMOCRACY.

Veblen advocates both political democracy and economic democracy. Veblen’s concept of economic democracy is also emphasized in the way he discusses the “instinct for workmanship.” Whether this is an inherited instinct or
a culturally conditioned habit (as I believe), the desire to do good work in the economy is shown by Veblen to be contrary to the imperious dictates of the capitalist owners who distort the desire to do good work according to the need for profit. Veblen clearly favors the desire to do good work over the needs of profit-making, industrial progress over obstacles put up by business institutions, and economic democracy to employer dictatorship.

In US history, there have been successful struggles for more political democracy by women, minorities, and others. But there have also been struggles for economic democracy, which are illuminating. First, there are enterprises owned and run by their employees, for example, Avis-Rent-A-Car. Second, in the 1930s most radio stations were run as non-profit educational media by the universities, but they were then commercialized after a hard fight (see the fascinating story in McChesney, 1999).

Third, struggles in the early 1900s won control of many public utilities for the public’s democratically chosen representatives or their appointees. For example, the Los Angeles Department of Water and Power provides water and electricity at lower prices than the private utilities – and had no trouble in the recent energy crisis.

Fourth, in the media, there is also democratic control in some radio stations that are non-profit and owned by their subscribers, such as KPFK in Los Angeles. Fifth, there is also another form of democratic ownership in the media with National Public Radio and the Public Broadcasting System in television in the
United States or the British Broadcasting Corporation in England. Sixth, there are all the public schools and universities in the education system, many of which are free to students – so this is public provision of a free service. Seventh, there is some public provision of free health care, such as Medicaid and partly free care such as Medicare in the United States -- though most industrialized countries have far more free care.

To generalize, the kind of democratic economic system suggested by Veblen in The Engineers and the Price System can take many forms. Control can be in a board of directors consisting of engineers and other professionals, or may consist of representatives of all employees, or may consist of publicly elected or publicly appointed representatives. An election for the board of directors by all the employees usually results in the employees electing many engineers and other professionals to the board – so it does not matter as much as expected whether the board is elected by professionals or common employees or both (at least, that was the experience of the Yugoslav Worker’s Councils).

Different industries would probably have different proportions of employee representatives and public representatives. The public representatives are needed to represent certain important public interests, such as environmental controls. Public representatives in enough major corporations are also the only way to ensure sufficient national planning to end the cycle of boom and bust.
Some people argue for national and international regulation of global corporations. Regulation, however, can be evaded if there is direct or indirect control by vested interests, so it is not as effective as employee or public ownership.

WHY VEBLEN'S DICHOTOMIES ARE SUBVERSIVE

Veblen's view of evolution and its dichotomies is very subversive – and is completely opposed to the neoclassical notion of eternal psychological laws, the tendency to equilibrium, and the notion that there is no alternative to capitalism. For example, Veblen shows that the collective fishing economy of the Trobriand islanders is completely different than capitalism and had different laws of development.

The first dichotomy – business versus industry – reveals that there are times in various societies, including capitalism, when the economic institutions hold back economic performance. So instead of being an eternal, optimal set of institutions, capitalism actually sabotages production at certain times and may be replaced by other systems.

The second dichotomy – vested interests versus common people – reveals the deep gulf that exists in our society (and many previous ones) between the interests of the elite and the interests of the common people. Sometimes, as in the New Deal, the common people score a victory after hard fights, but very often – as in the Bush administration – the vested interests score one victory
after another. Veblen’s dichotomy is a moral imperative for everyone to declare which side they are on.

The third dichotomy poses the choice between barbarism and a radically better democratic society. The desire of the vested interests to preserve the status quo leads to barbarism. The desire of the common people for a better life may perhaps lead to a more democratic society in both the political and economic spheres.

CONCLUSIONS

Whenever an economist publishes anything or teaches anything, it is important to keep in mind Veblen’s evolutionary approach, including the three dichotomies.

Whenever an economist publishes or teaches anything, it will help either the vested interests or the common people. This fact forces all of us to answer the question every day: Which side are you on?

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