Towards a heterodox economic theory of poverty production

by

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Abstract

This thesis examines the contributions of three major figures in heterodox economic thought - Thorstein Veblen, Joan Robinson and Michał Kalecki - to the identification of what Else Øyen describes as 'poverty producing processes'. It is argued that to date no distinct heterodox theory of the causes and consequences of poverty exists. This is surprising, not least because questions of social power, asymmetrical access to resources, and inequality are among the core themes in heterodox thought. This thesis demonstrates that Robinson, Kalecki and Veblen have devoted considerable time and effort to the investigation of poverty-related issues. Combined, they have discussed four key processes that contribute to poverty production: conspicuous consumption, mark-up pricing, industrial sabotage and hegemonic policy-making. This thesis suggests that these four core processes amount to a distinct heterodox perspective on poverty production, and may serve as a basis for a comprehensive enquiry into the causes of poverty in advanced capitalism. Being in essence a history of economic thought analysis of post-Keynesian and institutionalist theorising on poverty, this thesis contributes to economic poverty research, the history of economic thought and the development of an integrated heterodox approach.

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1 Introduction

> The only reason, the only excuse, for the study of economic theory is to make this world a better place in which to live. (Mitchell, quoted in: Ramstad, 1989, p. 762)

This is, condensed in one sentence, the major motivation for indulging in the daunting task of doing theoretical research on poverty. It is also the only excuse I can bring to my defence for hiding for a good three years behind innumerable books and so ignoring the dictum that 'an ounce of action is worth a ton of theory'. For I do honestly believe that action in order to be successful has much to gain from well-founded theory. But why, out of all the pressing problems we face in modern capitalism, did I choose to work on poverty? This is the question I will set out to answer in the next section.

1.1 Why do research on poverty?

I grew up in a very conventional Austrian family. We had a car, we had a house (even if in reality it was owned by the bank), we were properly clothed and we had a TV. Yet, for most of my life my family would have been considered poor according to contemporary standards. Despite appearances - for an outside observer we probably looked much like any other middle class family - there were times when my parents did not know on Friday where to take the money from to buy food on Monday and there was a time when we almost ended up losing our home. None of these circumstances would have been suspected by either my class mates or our neighbours. Our poverty was almost invisible from the outside.

Two aspects of this experience were particularly formative for me:

Firstly, the first-hand experience of how much suffering this relative (and at times also absolute) poverty entails, however well masked it is. I realised that even if we were much better off than the starving people in parts of the African continent, we were very far from being well off. And I perceived it as cynical to hear people playing down poverty in modern capitalism. It never felt that way. Poverty, in my experience, is a manifest and often very painful problem, even in advanced capitalist welfare states such as Austria.

Secondly, I witnessed a very irritating paradox: my parents, being self-employed, for most of the time worked more than the average full-time job and earned less. Yet, they still believed that everyone can get rich if only they worked hard enough. Witnessing my parents' financial and professional situation for many years, I could not be quite convinced by this idea and soon started to enquire into other influence factors residing outside of the poor individual itself.

These two realisations laid the foundations for what now finds its preliminary culmination in the present thesis: a vivid interest in the comprehensive explanation of poverty in advanced capitalism.

Current poverty statistics confirm the ongoing societal relevance of what may otherwise be considered my own personal project: according to data from EU-SILC 16.4% of the population of the 27 EU member states lived in poverty in 2010. The United Kingdom's poverty rate lies slightly above the EU average at 17.1%. The fact of still having about one-sixth of the population living in poverty despite impressive economic development over the last 100 years certainly confirms the need to thoroughly enquire into the reasons for the perseverance of this phenomenon. Any analysis of poverty, however, needs to be clear on how the problem is actually conceptualised. This is what I will clarify in the next section.

1.2 Defining poverty

This subchapter will first set forth the conceptual differences between absolute and relative definitions of poverty. It will then go on to explore Amartya Sen's attempt at formulating a comprehensive measure, combining absolute and relative elements, the capabilities approach. Based upon these analyses, I will finally state the case for adopting a relative definition of poverty as the conceptual basis of the present study.

Poverty research, in its beginnings, was built upon a so-called absolute measure of poverty. Charles Booth, one of the UK's pioneers working on poverty, in 1899 defined as poor families with a weekly income of 18s to 21s. All those families with a lower weekly income than 18s were considered to be very poor. Poor people, in Booth's understanding, were struggling to make ends meet but able to cope somehow, whereas very poor people lived in a permanent state of unfulfilled needs. From what is known today, Booth seems to have calculated his poverty threshold of 18s per week from the average income of 30 families he considered to be poor. This income threshold is not adjusted according to family size, but seems to presuppose an average family (Holman, 1978, p. 3). Booth's definition of poverty can thus be said to be on the one hand very arbitrary - calculating the average income of 30 poor families living in East London can hardly be taken as representative - and on the other hand, taken its complete ignorance of different family structures, rather imprecise.

Consequently, Seebohm Rowntree who, inspired by Booth, conducted a comprehensive survey of poverty in York aimed at a more precise and less arbitrary definition of poverty. Trying to calculate an absolute subsistence minimum, he posited that poor households need to spend income on food, rent and certain basic household expenditures. He then proceeded to calculate the amount of money needed for food by relying on Atwater's suggestion that a man working under moderate physical strain needs 3500 calories a day to survive. Next, he devised a diet ensuring a sufficient daily calorie intake and priced the necessary ingredients in the cheapest shops in town. Thus, he calculated that the weekly cash requirement for food was 3s 3d for a man, 2s 9d for a woman and between 2s 7d and 2s 1d for children. To this he added average housing costs resulting from his survey data plus something extra for fuel, clothing etc. The resulting grand total constituted Rowntree's poverty line. Unlike Booth, it needs to be stressed, Rowntree adjusted the poverty threshold to family structure and size (Holman, 1978, pp. 4-6). Thus, in certain respects, his definition of poverty is indeed less arbitrary than Booth's. Nonetheless, critics point out that his definition as well, despite holding up the appearance of objectivity, is biased by numerous arbitrary judgements. On top of that it does not take into account the reality of the poor (ibid., p. 10). Rowntree himself concedes that the poor would most probably lack the nutritional knowledge necessary to devise the diet he proposes. Besides that, this diet was not aimed at feeding people well, but rather at providing for some bare subsistence minimum. Furthermore, Rowntree does not allow for any expenditure on leisure or community activities or even to buy furniture (ibid., pp. 7-8). It is thus highly unlikely that people would actually be able to live of the subsistence minimum proposed by Rowntree.

The subsistence approach to poverty, pioneered in the UK by Booth and Rowntree, consequently, in the course of time, came heavily under attack. Nevertheless, in some contemporary variations it continued to be used and is still in use today. Official US poverty statistics, for example, still rely on an absolute poverty threshold calculated in 1963 by Mollie Orshansky[1] (Slesnick, 1993, p. 3).

One of the most influential critics of the subsistence approach to poverty was the British sociologist Peter Townsend. Townsend fervently criticised the subsistence approach for being inflicted with all sorts of methodological problems in its attempts at defining an absolute poverty threshold (for a detailed discussion see Townsend, 1962). He argues convincingly that it is impossible to scientifically devise objective minima even for nutritional requirements, let alone allowances for clothing and other human needs (ibid.,

[1] The actual values of the US poverty threshold, of course, are adjusted for inflation.

215ff). To put it in Townsend's words:

> Poverty is a dynamic, not a static, concept. Man is not a Robinson Crusoe living on a desert island. He is a social animal entangled in a web of relationships – at work and in family and community – which exert complex and changing pressures to which he must respond, as much in his consumption of goods and services as in any other aspect of his behaviour. And there is no list of the absolute necessities of life to maintain even physical efficiency or health which applies at any time and in any society, without reference to the structure, organization, physical environment and available resources of that society. (Townsend, 1962, p. 219)

Townsend thus never tired of arguing that a conceptualisation of poverty needs to take account of "the conventions sanctioning membership of [the] community" (Townsend, 1954, p. 133) to which one belongs. The attainment of an absolute subsistence minimum, in his understanding, is not sufficient to be considered as non-poor . On top of being able to physically survive individuals are expected to be able to participate in the social life and live up to the social conventions of their respective communities. Townsend thus proposes an alternative conceptualisation of poverty, which came to be known as the relative approach to poverty (Townsend, 1962). He defines poverty as follows:

> Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved, in the societies in which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities. (Townsend, 1979, p. 31)

Critics of the relative approach often argue that it reduces poverty to just another word for inequality (Sen, 1983, p. 156). This criticism is eloquently countered by Townsend who points out that in order to be considered poor it is not sufficient simply to earn less than others. The relative lack of resources must be so pronounced as to prevent full participation in social life (Townsend, 2006, p. 6). In his paper *A Sociological Approach to* *the Measurement of Poverty* Townsend (1985) explains how a relative poverty threshold can be established:

> There seems to be not just a continuum of deprivation in accordance with ranked income (or total resources). Below an approximate threshold of income, deprivation seems to intensify, accelerate or multiply disproportionately. It is as if people strive to conform with what is expected of them when income shrinks (they economise in what they do but still undertake the same activities) but once it shrinks below a particular level they withdraw (or withdraw their children) from fulfilling certain social obligations or well-established customs or activities. They no longer meet friends, children are occasionally absent from school, heating is turned off, conventional diets are no longer regularly observed, visitors are not longer invited into the home, ill-health and disability become more common. (Townsend, 1985, p. 662)

He goes on to point out, however, that "the existence of such a threshold has [not] yet been systematically demonstrated" (ibid., p. 662). Further work would be needed in order to empirically confirm the existence of a nonarbitrary relative poverty line. Townsend repeated this concession 20 years later in his short article *What Is Poverty? An Historical Perspective* (Townsend, 2006, p. 6), thus showing that the problem remains unsolved. It is most likely because of this lack of better funded alternatives that measures of relative poverty usually rely on some percentage of median income as a proxy for the establishment of a relative poverty line. Townsend has complemented his discussion of income poverty with the concept of relative deprivation (Spicker, Leguizamon-Alvarez and Gordon, 2006, p. 49). Consequently, it has been pointed out in the literature that

> In order to measure poverty accurately, it is necessary to measure both resources and deprivation. Following Townsend (1979), poor people/households have increasingly been identified as those who both have a low 'standard of living' and low resources (e.g. Callan et al. 1993). (ibid., p. 49)

The above mentioned operational problems notwithstanding, the relative conceptualisation of poverty has one considerable advantage over the absolute approach: it gives far more consideration to the multidimensionality of human needs (Holman, 1978, pp. 12-14). Consequently, it came to be the dominant approach in use for the measurement of poverty in advanced capitalism. The official EU poverty threshold of 60% of median income, for example, can be attributed to this group of poverty measures. Fully in line with Townsend's stress on the relevance of both income and deprivation measures, the EU complements this measure by an indicator of material deprivation, the material deprivation rate. The material deprivation rate defines poverty as the inability to afford at least three out of nine items (Eurostat, 2014):

1. to pay their rent, mortgage or utility bills;
2. to keep their home adequately warm;
3. to face unexpected expenses;
4. to eat meat or proteins regularly;
5. to go on holiday;
6. a television set;
7. a washing machine;
8. a car;
9. a telephone.

However, the relative approach does not escape criticism either. The most prominent critic of a purely relative definition of poverty probably is Nobel laureate Amartya Sen. Sen acknowledges the necessity to introduce a relative element in the conceptualisation of poverty, yet still tries to retain "an irreducible absolutist core in the idea of poverty" (Sen, 1983, p. 159). In order to achieve this he formulated his capabilities approach to the definition and measurement of poverty. This approach, Sen argues, occupies middle ground between the two extremes of absolute and relative poverty (ibid., p. 153).

Poverty, according to Sen, can be defined as a lack of capabilities to achieve certain necessary functionings (Sen, 1983, p. 160). Capabilities in this context should neither be confounded with the ownership of specific goods nor with utility, as

> the constituent part of the standard of living is not the good, nor its characteristics, but the ability to do various things using that good or those characteristics, and it is that ability rather than the mental reaction to that ability in the form of happiness that, in this view, reflects the standard of living. (ibid., p. 160)

In the realm of basic capabilities to function, Sen argues, poverty needs to be understood as an absolute concept (ibid., p. 161). A certain minimum level of capabilities exists which individuals should be able to achieve, irrespective of the level of capabilities achieved by other members of the same community (ibid., p. 159). These capabilities, Sen argues,

> can vary from such elementary physical ones as being well-nourished, being adequately clothed and sheltered, avoiding preventable morbidity, etc., to more complex social achievements such as taking part in the life of the community, being able to appear in public without shame, and so on. (Sen, 1992, p. 110)

The appropriate way to attain these capabilities, contrary to the capability itself is relative to the specific community in question. Considerable differences exist between communities as to what commodities are needed in order to achieve a certain capability. And the amount of goods necessary to attain a certain minimum standard of capabilities tends to increase the wealthier a society becomes (Sen, 1983, pp. 161-163). Besides intercommunal differences in the amount of money necessary to reach a certain standard, Sen also stresses important interpersonal differences: chronically ill, old, or handicapped people, for example, may need a higher income to attain the same level of capabilities to function than a healthy 20 year old. Physically hard working people have a higher daily calorie requirement and thus need more money to buy food than people in office jobs (ibid., p. 168). This list probably could be extended infinitely. Thus, poverty, in Sen's understanding, has an important relative component, but always refers back to a list of capabilities defined in absolute terms. Even this absolute core, however, it needs to be stressed, is far more generous than the subsistence minima defined by Booth and Rowntree.

Interestingly enough, however, despite considerable theoretical interest in Sen's capabilities approach the dominant approach to the measurement of poverty in policy as well as in empirical research still appears to be some version of the relative poverty threshold pioneered by Townsend. I too have decided, in the context of this dissertation, to adopt a relative understanding of poverty. There are three main reasons underlying this decision:

1. Adopting a relative understanding of poverty ensures conceptual compatibility with great parts of contemporary research on poverty.

2. With regard to future empirical research conceptual compatibility with official poverty statistics is advisable. As I have pointed out above, the official poverty threshold adopted by the EU relies on a relative definition of poverty.

3. A relative understanding of poverty can be argued to be backed by Kalecki's, Veblen's and Robinson's writings. Robinson (Robinson and Eatwell, 1974, pp. 204, 308-309) and Veblen (Veblen, 1998 [1899]; Veblen, 1932 [1904], pp. 177-178) are indeed quite explicit in their adherence to a relative understanding of poverty. Kalecki, to my knowledge, does not explicitly take position on this question.

I will thus build the following analysis on a relative understanding of poverty, poor people being defined as not being able to fully participate in the life of the community due to low income and/or material deprivation.

1.3 Poverty production

A novel approach to the analysis of poverty has been introduced by Norwegian poverty researcher Else Øyen. She observes that whilst the enquiry into the causes and effects of poverty has always been part of poverty research very little is known as to "the common nature of the causes and the way they interrelate" (Øyen, 2004b, p. 305). Thus she proposes the concept of poverty production as a means of organising the confusing multiplicity of causes. The aim of this approach is to identify poverty producing actors and processes, a poverty producing process being defined as:

> (a) an enduring phenomenon, (b) that follows a repetitive pattern, (c) where certain actors behave in such a way that poverty increases or is sustained, and (d) where the victims/poor people are placed within a structure that gives few or no opportunities to change the situation. (Øyen 2004 quoted in Spicker, Leguizamon-Alvarez and Gordon, 2006, p. 157)

This approach, according to Øyen, implies a shift in the focus of poverty research in at least three respects: firstly, it re-embeds poverty research into research into the functioning of society as a whole and thus brings into focus the symbiosis of the poor and the non-poor parts of society. Mainstream poverty research almost exclusively focuses on an analysis of the lives of the poor, taking very little account of the interrelations between the poor and the non-poor. Secondly, the analysis of poverty production starts from a conflictual model of society, that is explicitly acknowledges conflicts of interests between different social groups. Mainstream poverty research, on the other hand, builds upon a harmony model of society, assuming that it is in everyone's interest to abolish poverty. Thirdly, the poverty production approach brings into focus those agents and those actions who create and sustain poverty (Øyen, 2004b). Consequently, it forces the researcher to be very concrete rather than to contend herself with locating the causes of poverty in such general phenomena as

> evil forces, personal greed, moral decay, paternalism, historical determinism, capitalism, globalisation, and the spirit of multi-national corporations. (ibid., p. 305)

In identifying the actors benefiting from and causing poverty, Øyen proposes to use human rights language and to distinguish between first-order, second-order and third-order perpetrators (Øyen, 2004b, pp. 306-307). She illustrates this with the example of an African mining company offering problematic working and living conditions to their employees:

> Within this mode of analysis the first-line perpetrator in this fairly simple example is the management of the industry that gives the orders. The second-line perpetrators are the members of the board of the company. The third-line perpetrators are the shareholders and their persistent demand that their investments give the best possible return. Removed from the direct line of perpetration, but still part of the poverty producing process, is a government that refrains from interfering in the mining industry on behalf of its citizens. (ibid., p. 307)

"Poverty production", Øyen stresses, "takes place on all levels of society" (ibid., p. 306).

A further way to distinguish between different types of poverty production is according to the level of intentionality of the respective poverty producing actors. Øyen differentiates between direct, or intended, poverty production on the one hand and unintentional poverty production on the other hand (ibid., p. 308).

The greatest part of poverty production, she holds, is unintentional in that it is the unintended by-product of processes aiming at the achievement of some other goal (ibid., p. 308). Examples listed by Øyen are public spaces as well as social norms and institutions designed to serve the interests of the non-poor majority population without taking account of the adverse effects these may have on the poor parts of the population. A precondition for changing these poverty producing processes would be to raise public awareness of their harmful consequences (ibid., p. 308).

The situation is very different in the case of direct poverty production. This category comprises all those situations in which the respective actors consciously and deliberately produce poverty in order to further their own interests (ibid., p. 309). As examples Øyen names "dictators and elites whose power is built on uneducated and poor people who cannot mobilise resistance" (ibid., p. 309).

Although Øyen's focus evidently lies on developing countries, the concept of poverty production undoubtedly is general enough also to be applied to poverty in advanced capitalist nations. In fact, the poverty production approach promises to be very fruitful as a means to support social policy-making in these countries, as knowledge about poverty production provides an essential precondition for successful poverty reduction. As long as poverty production continues unhindered, policies aiming at poverty reduction can be little more than a fight against windmills.

Despite its importance, "poverty production is an underresearched field" (Spicker, Leguizamon-Alvarez and Gordon, 2006, p. 157). The concept has hardly been taken up in poverty research and Else Øyen herself has retired from active research and thus discontinued her work on the subject as well. What little further research there is primarily focuses on underdeveloped countries on the South-American continent. In the abstract to a paper presented at a conference in 2004 Øyen puts forward three reasons why poverty production has so far been ignored in academic and policy discourses (Øyen, 2004a): Firstly, out of a simple lack of knowledge about poverty producing processes. Secondly, due to the influence of strong vested interests who benefit from poverty production and are opposed to the public exposure of their activities. Thirdly, enquiry into poverty production is often associated with "the radical left" (ibid.) and is consequently presented as being ideologically biased and not to be taken seriously.

Thus, there is still a long way to go until we can hope to have accomplished a comprehensive and well-established analysis of poverty production. One particularly promising way forward for the fruitful implementation of the poverty production approach, I want to argue, is its integration into economic poverty research. Whilst not employing the terminology proposed by Øyen, several heterodox traditions in economics, most notably Marxism, institutionalism and post-Keynesian economics, can indeed be shown to follow a 'poverty production approach' in the sense of showing that poverty plays a functional role in modern capitalism rather than being an unfortunate by-product. The detailed discussion of my proposed mode of integration will be the subject of the next section.

1.4 Integrating poverty production into economic poverty research

Neoclassical economics defines itself as the discipline which studies the allocation of scarce means to alternative ends. The neoclassical economist tries to optimise resource allocation under constraints. The aim of this endeavour is Pareto efficiency, which is defined as a state in which no one could be made better off without making someone else worse off. Reaching this state is the ultimate goal of neoclassical economics. Pareto efficiency does not, however, make any normative claims about distribution: a state in which one person controls all resources while the rest of the population does not have access to any resources at all can be Pareto efficient as well. Economics so defined, thus, is not interested in matters of distributive justice and poverty. These issues are relevant only insofar as they constrain the efficiency of resource utilisation. According to the neoclassical paradigm, efficiency is accomplished when everybody gets according to their input.

Institutional economists have agreed on a very different definition of the subject of economics: they argue that economics is “the science of social provisioning” (Dugger, 1996, p. 31). This term has been introduced by Allan Gruchy and describes the way in which “every society must decide what to produce, how to produce it and how to distribute it” (Stabile and Dodge, 1987, p. xii). The neoclassical evaluation criterion of Pareto efficiency is substituted by the criterion of ‘social efficiency’:

> Social efficiency is measured in real, rather than in pecuniary, terms. Efficiency is identified with the consequences, in terms of serviceability and reasonableness, of the application of particular policies to specific problems. It is a matter of how well the community can be made to work for its inhabitants; the extent to which productive participation, the realization of potential, the nurture and protection of the vulnerable and the powerless is

> facilitated; and the extent to which polarization and isolation is thwarted. (Miller, 1995, p. 126)

Institutionalist economists thus are per definitionem much more concerned about matters of distributive justice and poverty than their neoclassical colleagues. The task of the economist, from their point of view, is to analyse the "processes that expand or retard social provisioning" (Dugger, 1996, p. 36) in order to give policy advice. As this thesis is devoted to a theoretical enquiry into poverty, those processes that retard social provisioning are most relevant to the present analysis. Following the above definition by Gruchy these span not only the sphere of distribution but the sphere of production as well. It would thus be misleading to speak of theories of income distribution. Questions of income distribution are part of the problem but do not exhaust it. I thus want to suggest that the analysis of those processes which retard social provisioning be operationalised through the above discussed concept of poverty producing processes.

The concept of poverty production perfectly complements the institutionalist concept of 'social provisioning': Apart from delineating a specific part of the social provisioning process, it refers to group conflict (that some people or groups gain from producing poverty) and the concept of power (that some people are in the position to produce poverty). Additionally, poverty production is a dialectical concept that points on the one hand to the necessity of investigating into structural causes of poverty, and on the other hand helps identify those actors or groups of actors who are responsible for causing or enhancing poverty. It is a concept which well serves the institutionalist ambition to develop an analysis of social processes that goes beyond the predominant structure-agency dichotomy. Introducing 'poverty production' into their analysis can provide institutional economists with a powerful tool for enquiring into the social problems of our time. It re-introduces poverty as a central concern in economic theory and gives due regard to the observation that an analysis of poverty needs to go beyond mere enquiry into distribution.

However, although poverty and distribution have always been central to institutional thought no coherent institutional explanation exists. I would argue that this is at least in part due to the focus of their research: While trying to overcome the micro-macro-dichotomy in economics, institutionalist thought still is far better developed on micro issues. Institutionalists have focused on the explanation of institutional change, power structures and consumer choices. Macroeconomic relations are analysed in a rather ad-hoc fashion. In order to develop a heterodox economic theory of poverty production it seems expedient to complement institutional economics with a theory that has a more macroeconomic focus. Post-Keynesian economics, while sharing most of the basic assumptions of institutionalism is very strong on macroeconomic analysis. However, it remains rather sketchy on the microeconomic level. I will thus investigate whether, when taken together, institutional economists and post-Keynesian economists have developed the basis for a heterodox economic theory of poverty production.

1.5 Research method

This section will explain the two key methodological decisions taken in this thesis: the choice of the appropriate approach to the history of economic thought on the one hand and the selection of the authors to be included on the other hand.

History of thought

As outlined above, the aim of this thesis is the development of a heterodox economic theory of poverty production. Theory development can have two starting points: new, so far insufficiently explained empirical observations or conceived (analytical) weaknesses of existing theories. I have opted for the second starting point. My aim is to contribute to the further development of a heterodox theory of poverty through re-focusing and tackling a few of the weaknesses of institutionalist and post-Keynesian theories. In order to do so, I will go back to the works of first generation institutionalist and post-Keynesian theorists. My work can thus be understood as an exercise in the history of economic thought.

History of thought is often conceived to fall into two categories: contextual (also called 'intellectual history' - IH) and analytical (also called 'history of economic analysis' - HEA) (Dow, 2002, p. 320).

> The former, according to A.M.C. Waterman (1998, 304), represents "an attempt to discover some features of the past as it really was," while the latter is designed to "trace the lines of descent to leading analytical themes in economics and to study intellectual connections between the different lines," or doctrinal history. One way of putting the distinction is that IH offers a historical reconstruction, while HEA offers a rational reconstruction (Blaug 1990; Winch 1998, 355). (ibid., p. 320)

These two categories are understood as two fully separate fields of research. History of thought in mainstream economics mostly belongs to the second category. The mainstream of the profession builds on an ahistorical understanding of theory building and accordingly is interested in past economic thought only insofar as it can be integrated into their theories (e.g. the neoclassical-Keynesian synthesis, which Joan Robinson tellingly called 'bastard Keynesianism' and the New Institutional Economics).

Institutionalism, Post-Keynesianism and other heterodox economic schools build on a very different understanding of theory: they stress that theories always are a product of their time and thus must be analysed in their historical context. Accordingly, heterodox economists are more inclined to follow a contextual approach to the history of economic thought. A purely contextual approach, however, would become problematic as soon as theory development is concerned. This is no issue in mainstream economics, where the history of economic thought is considered as a separate discipline, largely irrelevant for most practitioners of economics. It is more of a problem, however, in heterodox economics, where the history of economic thought is considered to be an integrative part of the discipline and of theory development. A purely contextual approach in this case would hinder theory development. A history of ideas in heterodox economics thus needs to contain analytical as well as contextual elements. It needs to be analytical because theory development always rests on abstraction and builds on past ideas. And it needs to be contextual in order to avoid falling into the trap of over-generalised, empirically irrelevant theory building. Heterodox economists thus had to find a way to reconcile their belief in the historicity of knowledge and the necessity to build their theories on past knowledge. They developed a tradition in the history of economic thought that does not fit into either of the two above mentioned categories (Dow, 2002, pp. 320-321, 330-333). The following statement by Sheila Dow, although focused on Post-Keynesian economics, well describes the overall heterodox position:

> While history of thought is pursued primarily to inform modern economics (and thus is not IH), this goal is seen as being best served by building up a historian's understanding of older texts (and thus not HEA). While it may be argued that some of this is done well and some badly, like anything else, the point to be made here is that post-Keynesian history of thought does not allow for a separation between history and economies in the manner entailed by the IH/HEA distinction. It consists of a "looking backward in order to look forward." (ibid., p. 321)

This heterodox economic tradition of dealing with the history of thought is the context in which I would like the present thesis to be understood. Although my work will be based on a historical literature analysis I want to emphasize that I do not intend to stop there – my aim is "to use and transcend and not merely to rehearse the old" (Warren J. Samuels quoted in Wilber and Harrison, 1978, p. 79), as Samuels has put it.

In practical terms this approach has five major consequences for theory building: First, theorists always need to contextualise their work and lay open the presumptions on which they build. Second, this includes explicitly stating the epistemological and methodological foundations. Third, when trying to apply an existent theory to a new case, applicability (particularly with regard to the basic assumptions) has to be checked. Fourth, the validity of an existent theory for a new case can only be established empirically. Fifth, the consideration of new cases leads to a reconsideration and further refinement of the theory.

The explicit discussion of the philosophical foundations is particularly important when it comes to synthesising two (or more) theories. It certainly is possible to integrate theories that are based on very different philosophical premises (see for example the neoclassical-Keynesian synthesis in mainstream macroeconomics), but such an approach is bound to violate the basic premises of one of the two theories. Such a construct is an integration of external concepts into a dominant theory rather than a synthesis of two theories on an equal footing. In order to be able to reach a real synthesis, the respective theories must have sufficiently similar philosophical foundations (epistemological and methodological).

Choice of theorists

As it is not feasible, in the context of this dissertation, to examine in detail the whole post-Keynesian and institutionalist literature a preselection of the most relevant theorists had to be made. I have made the ultimate goal of this thesis, namely the synthesis of post-Keynesian and institutionalist thought in order to develop a heterodox economic theory of poverty production, the guiding criterion in the choice of theorists. The selection process was effectuated in two steps: I have first compiled a list of those post-Keynesians and institutionalists who have a strong interest in issues of poverty and income distribution. Out of these theorists I have then opted for those post-Keynesian theorists whose approach I regarded as being most consistent with and complementary to institutional economics and vice versa. The original result of this exercise was to include Thorstein Veblen and John Commons on the institutionalist side and Michał Kalecki as well as Joan Robinson on the post-Keynesian side. Further on in the research process it turned out that whilst my original evaluation was correct as far as the compatibility of Veblen, Kalecki and Robinson is concerned, Commons did not fit in well with the others in terms of both research focus and approach. Thus, I decided to concentrate on the other three authors.

On top of their general concern for questions of distributive justice and poverty, Veblen, Kalecki and Robinson share three commonalities which make their research a particularly suitable starting point for an analysis of poverty production: Firstly, they incorporate power in their theories. Secondly, they share a conflictual outlook on social dynamics, as opposed to the harmony-myth of neoclassical economics. Thirdly, they build on sufficiently similar epistemological and methodological foundations to be combinable.

This approach has the drawback of not including most younger theoretical developments. It also has a number of advantages, however, which by far outweigh its downsides: Firstly, post-Keynesians as well as institutionalists still draw heavily on the works of their founders. Secondly, the decision to return to first generation theorists, in the case of the post-Keynesians, stems from the observation that their work had a stronger politico-economic perspective than their successors' who came to rely increasingly on elegant mathematical modelling. In the case of evolutionary institutionalism the reason for this move lies in the fact that the focus of later generations has been a strongly empirical one so that most theoretical insights can already be found in the work of the first generation and in particular Thorstein Veblen.

1.6 Research question

This thesis aims to answer the following research question: What heterodox economic theory of poverty production can be deduced from the theories of Veblen, Kalecki and Robinson?

This overall research question can be split further into two sub-questions:

1. What poverty producing processes are described in the work of Veblen, Kalecki and Robinson and do they overlap?

2. Can these different processes be synthesised into a theory of poverty production?

Question one will be answered in chapters four to seven, question two will be the subject of chapter eight.

1.7 Original contribution

This thesis, I want to argue has three distinct original contributions to make: it contributes to economic poverty research, to the history of economic thought and to the development of an integrated heterodox economic approach.

Economic poverty research

Economic poverty research is predominantly an empirical discipline, with some notable theoretical exceptions. Theoretical contributions to poverty research in mainstream economics are largely behaviouristic, locating the causes of poverty in the sphere of unfavourable individual behaviour. Post-Keynesian and institutionalist contributions, while providing a more multidimensional analysis, still suffer from being very partial and fragmented. This thesis contributes a synthesis of a number of previously distinct theoretical strands, thus providing a more comprehensive analysis. On top of that, it introduces a novel theoretical framework - the analysis of poverty producing processes - thus proposing a promising new tool for the comprehensive analysis of poverty in advanced capitalism.

History of economic thought

In the history of economic thought literature this thesis contributes to analyses of the theoretical legacy of Veblen, Kalecki and Robinson. It is based on an extensive reading of primary literature by the three authors and thus in part also covers difficult to access and seldom quoted works. On top of that, the very detailed and thorough analysis necessitated by the aim to on the one hand detect all major poverty producing processes and on the other hand compare and contrast the contributions of the different authors enabled me to work out theoretical details which have so far been overlooked in the post-Keynesian and institutionalist history of economic thought literature. This thesis thus contributes new insights into some theoretical details of post-Keynesian and institutionalist analysis, such as Veblenian pricing theory, Kaleckian analysis of consumption and differences between Robinson's and Kalecki's understanding of mark-up pricing theory.

The development of an integrated heterodox approach

Several attempts have been made in the post-Keynesian and institutionalist literature to achieve a synthesis of the two approaches (see for example Brazelton, 1981; Dillard, 1980; Eichner, 1985; Hodgson, 1989; Keller, 1983; Wilber and Jameson, 1983; Todorova, 2009). None of them, to my knowledge, have attempted a synthesis of Veblenian institutionalism and the Kaleckian/Robinsonian tradition in post-Keynesian economics. In elaborating on the differences and complementarities between the works of Robinson, Kalecki and Veblen, this thesis opens up a new and promising direction for the development of an integrated heterodox economic approach.

1.8 Structure of the argument

The argument of this thesis can be said broadly to unfold in three steps: chapters 2 and 3 set the scene for the rest of the argument, chapters 4 to 7 discuss in detail major poverty producing processes deduced from the works of Robinson, Kalecki and Veblen and chapters 8 and 9, finally, present a preliminary synthesis, resume and point out ways to go to further develop the poverty production framework outlined in this thesis.

Chapter 2 reviews the state of the art in economic poverty research. It evaluates mainstream economic, Marxist and post-Keynesian and institutional contributions and argues that the latter two provide the most promising starting point for a multidimensional analysis of poverty. Nevertheless, it is argued, much more work still needs to be done in order to arrive at a comprehensive theoretical framework for economic poverty research.

Chapter 3 takes us one step further towards the development of a post-Keynesian institutionalist theory of poverty production in that it expounds the philosophical foundations underlying Veblen's, Robinson's and Kalecki's work. It is demonstrated that all three authors can be said to broadly build on the same philosophical foundations, namely historicity, openness, holism and interdisciplinarity. Their approaches are thus shown to be compatible on the philosophical level - a precondition for the theoretical synthesis developed in chapter 8.

Chapter 4 constitutes the first of four chapters analysing in detail specific poverty producing processes. The poverty producing process in focus in this chapter is conspicuous consumption. The concept of conspicuous consumption is first traced back to the work of Thorstein Veblen and then complemented by Robinson's analysis of the adverse social effects of unregulated consumption. Finally, two special cases are examined: Toporowski's analysis of the highly disruptive effects of conspicuous consumption on supply-restrained markets on the one hand, and the contemporary literature on the interrelation between conspicuous consumption and household debt on the other hand. It is shown that conspicuous consumption constitutes a powerful poverty producing process according to Øyen's definition presented above.

Chapter 5 closely connects to the argument developed in chapter 4 in that it analyses the poverty producing effects located in the pricing mechanism on capitalist markets. Starting from the observation that the great majority of firms in advanced capitalism operate on oligopolistic markets, the focus lies on Kalecki's theory of mark-up pricing. It is shown that the determination of the mark-up is an important locus of distributive struggle and thus of great importance for poverty production. Even more so, as in this framework entrepreneurs, through their pricing decisions, can be shown to have the final say on the level of real wages.

Chapter 6 scrutinises a further poverty producing process originating in the work of

Thorstein Veblen: industrial sabotage. Industrial sabotage, according to Veblen, constitutes the single most important hindrance to social provisioning in advanced capitalism. I argue that the most common strategy of industrial sabotage in use today might well be the so-called 'planned obsolescence' of goods, an industrial strategy not foreseen by Veblen himself but discussed later on by Robinson. Unlike older Veblenian interpretations of the concept, the strategy of planned obsolescence is shown to be compatible with a post-Keynesian mark-up pricing framework and thus contributes a further piece to the framework of analysis developed in this thesis.

Chapter 7 introduces hegemonic policy-making as a very particular poverty producing process. Of the four poverty producing processes discussed in this thesis, this is the only one which does not directly refer to one specific process. Rather, it is used as an umbrella term to cover all poverty production resulting from hegemonic influences on public policy-making. Wide-spread examples of this phenomenon are the strong political focus on inflation targeting at the expense of active employment policy as well as regressive taxation. These poverty producing processes, it is argued, need to be taken into account in order to complement the other processes' focus on the private sector. As was pointed out above, poverty production takes place on all levels and in all sectors of society.

Chapter 8 wraps up the analysis of the foregoing chapters and provides answers to three key questions: Can Kalecki's, Robinson's and Veblen's theories be synthesised into a coherent theory of poverty production? What are the differences between this poverty production approach and mainstream economic and Marxist poverty research? And finally, what are the most promising routes for further research in order to enhance and strengthen the new approach?

Chapter 9 concludes.

2 Literature review

In this chapter I will attempt to briefly summarise the state of the art in economic poverty research. The start will be made by an exposition of empirical and theoretical contributions to mainstream economic thinking. Next follows a short discussion of the Marxian view of poverty, focusing particularly on the mode of production, social stratification and the role of the state. The third part of this chapter presents an overview of the analyses of poverty to be found in other heterodox traditions. Finally, a short section will investigate contributions dealing with the nexus between poverty and the welfare state. Due to the sheer scope of economic poverty research this review cannot claim to be exhaustive. Despite its limitations, however, I believe this literature review to be sufficiently comprehensive to allow some general conclusions to be drawn. Most importantly, it will be shown that, despite effort being made to theoretically understand poverty, no comprehensive analysis of poverty seems to be available in the literature. Moreover, it will be argued that post-Keynesian and institutionalist approaches share the advantage of being able to combine a diversity of explanatory dimensions, such as agency, institutions and structural constraints. We will thus see that these approaches provide a good starting point for a comprehensive theoretical exploration of poverty.

2.1 Mainstream economics

This section provides a brief overview of mainstream economic thinking on poverty. To this aim it is divided in five subsections, each covering one major thematic bloc arising from the literature. First, the vast amount of literature enquiring into the interrelation between economic growth and poverty will be reviewed. Second follows an overview of the literature discussing the explanatory value of other macroeconomic variables, e.g. unemployment and increasing earnings inequality, for the understanding of poverty. Third, a very small part of the literature considers questions concerning exclusion from consumption and the role of prices and inflation. Despite being far from well established in the mainstream this provides an interesting link to the main argument of this thesis (see particularly chapters 4 and 5) and will thus be included in this review. Fourth, a recurrent topic in the mainstream literature are questions regarding the influence of different fiscal policies on poverty. Last but not least, while the focus of the major part of the above cited literature is empirical - with some notable exceptions which will be highlighted in the relevant section - the last part of this subchapter will show that most theoretical attempts at explanation start from behaviouristic premises. Poverty, according to these approaches, can be explained by behavioural differences between the poor and the non-poor. A number of different analyses along these lines will be discussed.

Let me conclude this overview with one important caveat: The lion's share of the discussion of poverty related questions in the mainstream literature, I would argue, concerns the measurement of poverty[1]. Nearly all of these papers refer to Sen's 1976 paper *Poverty: An Ordinal Approach to Measurement* in which he proposes a new way of measuring poverty. Despite being so important in terms of scope, this vast literature will not be included in this review for two reasons:

Firstly, because discussions of the measurement of poverty, important as they may be for empirical studies, do not provide much to relate to in a theoretical analysis. On top of that, most empirical studies ignore this measurement discourse and continue to rely on exactly those traditional poverty measures, such as the head-count ratio, which Sen

[1] see for example Atkinson (1987); Blackorby and Donaldson (1980); Chakravarty (1983a); Chakravarty (1983b); Foster, Greer and Thorbecke (1984); Foster and Shorrocks (1988); Foster and Shorrocks (1991); Kakwani (1980); Ravallion (1996); Sen (1976); Takayama (1979); Thon (1983). For a good review article see Seidl (1988).

aimed to replace in his seminal paper.

Secondly, the measurement literature is largely technical in nature, focusing on the discussion of very specific problems arising from different ways of econometric modelling. This tendency reinforces the limited link to the main part of this thesis which aims at avoiding mathematical formalisation.

2.1.1 Economic growth and poverty

Since the publication of Kuznets' seminal article *Economic Growth and Income Inequality* in 1955 the question of the relationship between economic growth and inequality has been the subject of a vast and ever growing literature. I would argue that, apart from measurement issues, it can be considered as the single most researched question in mainstream economic poverty research.

Kuznets' original argument reads as follows: studying historical data on the United States, England and Germany, Kuznets observed a changing relationship between economic growth and income inequality over different phases of industrial development (Kuznets, 1955, p. 18):

> One might thus assume a long swing in the inequality characterizing the secular income structure: widening in the early phases of economic growth when the transition from the pre-industrial to the industrial civilization was most rapid; becoming stabilized for a while; and then narrowing in the later phases. (ibid., p. 18)

In other words, Kuznets argued that a temporary increase in inequality during the process of industrialisation will be followed by a long-term decrease in inequality as economic growth continues. He presents some empirical justification for this argument, always stressing, however, that, due to the limited availability of data

> The paper is perhaps 5 per cent empirical information and 95 per cent speculation, some of it possibly tainted by wishful thinking. (ibid., p. 26)

Nonetheless, he argues, keeping in mind these caveats, "little harm and much good may result" (Kuznets, 1955, p. 26) from further enquiry into the questions opened up by his paper.

Let us now return to Kuznets' main argument. The observation of a decrease in income inequality in developed economies, he argues, is a puzzle because there are at least two forces working in the opposite direction (ibid., p. 7):

1. Differences in savings-propensity between high-income and low-income groups (only the rich save) result in an increasing concentration of wealth in the hands of the higher-income groups. This in turn can be expected to generate even higher future income and thus increasing inequality (ibid., p. 7).

2. Industrial development results in a "shift away from agriculture, a process usually referred to as industrialization and urbanization" (ibid., p. 7). This yields two potential increases in inequality: First, the general level of income tends to be higher in urban areas than in rural areas. Second, the income distribution within the urban population tends to be more unequal than within the rural population. Urbanisation thus can safely be expected to increase overall income inequality (ibid., pp. 7-8).

Yet, despite these forces working in the opposite direction, Kuznets observes a trend towards decreasing inequality. In order to account for this, Kuznets presents four groups of factors which may counteract the inequality increasing effects of the above-mentioned trends:

1. Economic and social policy aimed at counteracting or limiting the processes of income concentration (ibid., pp. 8-9).

2. Due to superior possibilities of birth-control, the rich as a group are growing much more slowly than the poor. Thus, they make up an ever smaller percentage of the total population (ibid., pp. 9-10).

3. Rapid technological change makes it more difficult for the possessing classes to preserve their business advantage and opens up possibilities for new entrants (Kuznets, 1955, p. 10).

4. Even the upper-income brackets depend to a large extent on service income, which, as Kuznets points out, for a number of reasons is likely to increase less for high-income groups than for low-income groups (ibid., pp. 10-11).

Taken together, these four trends may be strong enough to offset the inequality increasing effects of the increasing concentration of savings and urbanisation. Nonetheless, Kuznets is quick to stress that

> Yet while the discussion answers the original question, it yields no determinate answer as to whether the trend in income shares of upper groups is upward, downward, or constant. Even for the specific question discussed, a determinate answer depends upon the relative balance of factors – continuous concentration of savings making for an increasing share, and the offsetting forces tending to cancel this effect. To tell what the trend of upper-income shares is likely to be, we need to know much more about the weights of these conflicting pressures. (ibid., p. 11)

It is thus hard to determine exactly the cumulative effect of economic growth. However, the empirical data presented by Kuznets suggest that the overall effect of economic growth has been to reduce inequality (ibid., p. 4). This has been made the starting point for numerous analyses arguing that we need economic growth in order to decrease poverty and inequality.

The validity of this argument, however, has been questioned by more recent empirical studies showing a weakening of the negative correlation between growth and poverty since the 1980s (see for example Blank et al., 1993; Danziger and Gottschalk, 1986). Nonetheless the proponents of the argument that 'a rising tide lifts all boats' still retain dominance.

2.1.2 Other macroeconomic variables

Apart from general economic growth levels the major influence on poverty rates discussed in the literature certainly is unemployment. In an economic system in which the largest part of the population is financially dependent on wage labour, unemployment is likely to bear a high risk of falling into poverty, even though most advanced economies offer some sort of unemployment insurance. Thus, the strong interest in unemployment as explanatory variable for poverty is hardly surprising.

One particularly important publication analysing - amongst other macroeconomic factors - the correlation between unemployment and poverty is Blank and Blinder's often cited book chapter *Macroeconomics, Income Distribution, and Poverty* which has been published in 1986. Using data covering the US economy between 1959 and 1983, the authors estimate that every one percent increase in "prime-age male unemployment" (Blank and Blinder, 1986, p. 188) is accompanied by a 0.7 percent increase in poverty. This positive correlation is shown to be even stronger in the long-run, increasing to a 1.1 percent increase in poverty rates per 1 percent rise in unemployment (ibid., p. 188). Unemployment, the authors conclude, "is a regressive tax" (ibid., p. 184), redistributing income from the poor to the rich strata of society.

> High unemployment has significant and systematically regressive effects on the distribution of income: the poorer the group, the worse it fares when unemployment rises. (ibid., p. 187)

Yet, the severity of the negative effects of unemployment not only depends on socio-economic status, but is also correlated with differences in age, race and sex (ibid., pp. 190-191). Blank and Blinder show that non-white males are most severely affected by increasing unemployment, with their group-specific unemployment rate rising "over three times more than base-level unemployment rates" (ibid., p. 190). White women, in contrast, are least hit by increasing unemployment levels. This, the authors argue, can at least partly be explained by what they call the "discouraged worker effect"(ibid., p. 191), that is, women voluntarily dropping out of the labour market in times of increasing unemployment. Non-white women and white males occupy intermediary positions in terms of sensitivity to changes in unemployment levels (Blank and Blinder, 1986, p. 191). Summing up, there is strong empirical evidence that unemployment is not only 'a regressive tax' but also casts a greater burden on minority groups, particularly non-white men.

The importance of general unemployment levels as explanatory variable in the analysis of poverty has also been highlighted by Tobin (1994) and Atkinson (1998). Referring to empirical work by Hagenaars et al., Atkinson points towards a further aspect that should not be overlooked in an analysis of the poverty producing effects of unemployment: The same unemployment level, he argues, can have very different effects on poverty depending on the distribution of employment between households (Atkinson, 1998, pp. 75-76).

> Poverty rates are lower (except in Luxembourg) in two earner households. The difference between one- and two-earner households is, however, less (apart from Belgium) than that between one-earner and no-earner households. A change in the labour market which leads to x one-earner households becoming no-earner households and x one-earner households becoming two-earner households is neutral as far as total employment is concerned, but not necessarily neutral as far as poverty is concerned. (ibid., p. 75)

Thus, focusing on the overall level of unemployment only, without taking account of the distribution of employment, may conceal important information for the understanding of changes in poverty levels.

Another important issue to be considered when analysing the correlation between unemployment and poverty is the availability of poor people for the labour market. Danziger and Gottschalk (1986) argue that the anti-poverty effects of rising employment levels are limited by the fact that two-thirds of poor households "have weak attachment to the labor force" (Danziger and Gottschalk, 1986, p. 405). That means,

> because only about one-third of poor households have heads who are expected to work, most poor households will not benefit from improved labor market conditions. (ibid., p. 410)

Nonetheless, statistically significant effects of unemployment on poverty have been demonstrated. However, similar to what has been said for economic growth, the effect of unemployment seems to have diminished since the 1980s (Atkinson, 1998, pp. 80-81). Atkinson shows that

> a number of the European Union countries have not experienced the rise in poverty of the magnitude which might be expected given the rise in unemployment. (ibid., p. 76) [...] Both the UK and Sweden have larger increases in poverty than expected; Germany is very close to the prediction; and all the other five countries have a much smaller increase in poverty than expected, including four with no increase (or a fall). (ibid., p. 77)

Nevertheless, he urges the Europeans not to become too complacent regarding unemployment levels. Unemployment, Atkinson holds, still remains an important factor to take into account (ibid., p. 77).

In addition to insufficient economic growth and unemployment a third hypothesis advanced in mainstream poverty research is the explanation of increasing earnings inequality by a phenomenon referred to as 'skill-biased technological change' (see for example Goos, Manning and Salomons, 2009, p. 58). The argument goes as follows: Over the last decades technological change has resulted in a shift of the demand for labour in favour of highly-skilled workers. As a result of this shift, the wages of high-skill workers have increased, whilst the wages of low-skill workers have decreased. This simple supply-and-demand argument is by far the most cited explanation of the increase in earnings inequality since the 1980s (Ackerman, 2000, p. 3). Nevertheless, some critical voices have been raised as well. Atkinson, for example, while accepting the general supply-and-demand framework, argues that analysis should not stop there. He points out the relative impoverishment of contemporary research and advocates the return to earlier works which also included non-market factors into the analysis (Atkinson, 1997, pp. 309-310).

> The present-day hegemony of the supply and demand story contrasts markedly with earlier writing on wage differentials, where there has been a creative tension between market force and alternative explanations of wage differentials.

> (Atkinson, 1997, p. 309) [...] It seems to me that these alternative approaches have merits which have been too hastily discounted by supply and demand theorists. There are good grounds to try and build bridges. (ibid., p. 310)

The result, he suggests, should be the enrichment of the supply-and-demand framework with non-market variables such as social norms (ibid., p. 310).

Another critique of the skill-biased technological change model has been formulated by Goos, Manning and Salomons who put forward the argument that the shift in labour demand has been from "employment in the middle of the distribution (manufacturing and routine office jobs)" (Goos, Manning and Salomons, 2009, p. 58) to both the high-skilled and the lowest-skilled employments, rather than from the low-skilled to the highly-skilled. Thus, they argue, the trend which has been observed in many advanced capitalist nations over the last decade should correctly be defined as "job polarization" (ibid., p. 58).

Notwithstanding the disagreements over the details of the analysis, all of these studies agree on one important stylised fact, namely that the increasing earnings inequality witnessed throughout the last decades is one of the key explanatory variables for the simultaneous increase in poverty rates.

2.1.3 Consumption, prices and inflation

A third thematic block which is explored in mainstream economic poverty research is the correlation between consumption, prices, inflation and poverty. This strand of thought is certainly less well developed than the ones discussed above but nonetheless expounds some interesting and important ideas. On top of that we will see that a number of the ideas presented here have been discussed in some detail by Veblen, Kalecki and Robinson. I will thus come back to these issues in the main part of the thesis.

In *The Role of Prices in Measuring the Poor's Living Standards* Broda, Leibtag and Weinstein (2009) point out that since the early 1960s "numerous researchers have confirmed that the poor indeed pay more than households of higher income for the goods and services they purchase" (Broda, Leibtag and Weinstein, 2009, p. 77). They then go on to argue that these results were biased by measurement errors and insufficient data. Using a big and highly detailed dataset containing "actual purchases of around 40,000 households" (Broda, Leibtag and Weinstein, 2009, p. 78) they are optimistic to be able to overcome the methodological weaknesses of previous studies. They re-evaluate the question as to whether poor households pay more for the same goods than better-off households and come to the following conclusion:

> we show that poor households systematically pay less than richer households for identical goods. The poor pay less in part because they shop in cheaper stores and in part because they pay less for the same goods even in the same store. (ibid., p. 78)

These results directly contradict the established wisdom of the time arguing that for a number of reasons (e.g. fewer discount stores in poor areas) poor people actually have to pay more (ibid., p. 77). Thus, they re-open the question as to the correlation between poverty and the prices paid for consumption.

Irrespective of the question of price differentials for consumption by poor and rich people Tony Atkinson argues that general influences on prices may in effect restrain poor people's access to specific consumption goods and thus lower their living standards (Atkinson, 1998, pp. 88-92). He stresses that

> The conditions under which goods are supplied is an aspect which is overlooked in the analysis of poverty. The decisions of firms about the prices and availability of products determine whether or not the poor are excluded from consumption. (ibid., p. 69)

Starting from the assumption of a profit maximising monopolist Atkinson points out that the monopolist may find it profitable to supply less at a higher price and thus exclude poor people from consumption. This tendency may be reinforced in times of a general rise in living standards when demand by higher income groups increases (ibid., pp. 88-89). He concludes that

> In this way, we have made a – perhaps unexpected – connection between the theory of imperfect competition and the idea of exclusion which one finds in the poverty literature. (Atkinson, 1998, p. 89)

This connection, as we will see, contrary to its marginal position in mainstream economics, is a major focus of Kalecki's, Robinson's and Veblen's work. The same holds true with respect to a second issue raised by Atkinson:

> People may be excluded from the market not just by price but because the goods they would choose to buy are simply no longer available. There are limitations on the range of goods which are available. (ibid., p. 92)

Atkinson does not go into the details of this analysis but stresses the fact that the possibility of such negative side-effects of economic development needs to be taken into account (ibid., p. 99).

"The main point of this account", Atkinson argues, "is to demonstrate the need to consider the conditions under which goods are supplied" (ibid., pp. 98-99). This, it will be shown in the main part of this thesis, has been achieved in post-Keynesian and institutionalist economics.

Given the importance of prices for the standard of living of poor people one might expect inflation to be correlated with poverty too. This question has been explored in a number of empirical studies, most notably in Blank and Blinder's *Macroeconomics, Income Distribution and Poverty* (1986). The authors show that inflation actually has very little statistically significant effects on income distribution and what little significant effects there can be found suggest that "inflation is a somewhat progressive tax" (Blank and Blinder, 1986, p. 188). That is, inflation tends to redistribute income from wealthy people to poor people. Blank and Blinder's seminal study, however, dates back to 1986. As has been mentioned above, some economic dynamics appear to have changed considerably over the last decades. Thus it would be important to re-evaluate these findings in light of the current economic situation.

Summing up, I would argue that whilst some authors have pointed out the relevance of questions of price and consumption in the analysis of poverty, much more work needs to be done in order to achieve a comprehensive analysis of these matters.

2.1.4 Fiscal policy

For the sake of completeness another explanatory variable needs to be mentioned: the role of public policy in the creation of poverty. This certainly does not seem to constitute a major focus of mainstream economic poverty research. Nonetheless it has been discussed by some authors, most notably Atkinson (1997) and Blank and Blinder (1986).

Atkinson's analysis focuses on empirically establishing the relevance of taxes and transfers for explaining changes in the poverty rate. He shows that increases in post-tax income inequality in the second half of the 1980s have been far more pronounced than increases in pre-transfer income inequality (Atkinson, 1997, p. 306). Thus, he concludes that

> it is not just the dispersion of labour income that we need to understand - important though that is - and it is not just private incomes that need to be considered. The determinants of public redistribution are part of what has to be explained. (ibid., p. 307)

This finding prompts him to argue for interdisciplinary analysis, integrating insights on the behaviour of public bodies from political science. Unfortunately, staying true to the economist that he is, Atkinson quickly narrows down political science to public choice theory (ibid., p. 315).

Blank and Blinder, on the other hand, skip the background discussion and jump directly to an empirical analysis of the redistributive effects of changes in taxation (Blank and Blinder, 1986, p. 198). They focus on changes of the tax structure in the US between 1950 and 1983. Scrutinising in detail changes in tax structure on the federal, state and local level, the authors come to the conclusion that, primarily due to increases in payroll taxes, the tax system has become more regressive and thus "the tax burden on the poor has become greater" (ibid., p. 203).

Thus, both Atkinson and Blank and Blinder univocally come to the conclusion that the redistributive effect of public policy has declined.

Most of the authors discussed so far have followed a strictly empirical approach with little consideration of theory. Two notable exceptions were Kuznets and Atkinson whose analyses included both theory and empirical data. Apart from these, the great majority of theoretical analyses to be found in mainstream economic poverty research may be subsumed under the umbrella of behaviouristic theories. In the final part of this subchapter I will thus review three of those behaviouristic explanations of poverty.

2.1.5 Behaviouristic theories

The classical mainstream economic explanation of income differentials and thus poverty is marginal productivity theory. According to this theory everyone's earnings correspond to the value of their input to the production process. As marginal productivity cannot be measured directly, it is indirectly derived via the wages received. Thus, the marginal productivity theory of income distribution can be criticised for relying on a purely circular argument, marginal productivity being the determinant of relative incomes, while at the same time being approximated by the existing distribution of income. Rather than providing us with a theoretically valid explanation of poverty, marginal productivity theory simply appears to assume that at any point of time the distribution of income is determined by some mythical variable called 'marginal productivity', a variable which unfortunately can never directly be measured. Marginal productivity theory also can be said to contain an important normative element as an income distribution corresponding to differences in marginal productive input is defined as a just distribution. Consequently, as the underlying argument is circular, income distribution can per definition never be anything else than just. Marginal productivity theory thus serves perfectly well as a fig leave covering and legitimating whatever income distribution may be in place at any point of time. It does not, however, provide us with a theoretically valid answer to the question it is set out to answer (Hamilton, 1967, pp. 315-316).

This marginal productivity argument is a prime example of a behaviouristic theory of poverty. On the following pages I will provide an overview of three more recent variations of the behaviouristic theme in mainstream economic poverty research. These contributions, whilst sharing some common ground with general marginal productivity theory, all introduce some distinct element into the analysis.

By far the most prominent author offering a behaviouristic explanation of poverty is George Akerlof (2002). In his speech on the occasion of receiving the Bank of Sweden Price in Economic Science in Memory of Alfred Nobel he puts forward the following explanation of the enduring income disparities between African-Americans and the white majority population. Starting from the observation that the African-American poverty rate is three times higher than the white poverty rate, he argues that standard economic theory is incapable of convincingly explaining the weak economic position of African-Americans (Akerlof, 2002, pp. 426-427). He then goes on to expound a "theory of minority poverty" (ibid., p. 427) he has developed in cooperation with Rachel E. Kranton. According to this theory the "dispossessed races and classes face a Hobbesian choice" (ibid., p. 427): they can either decide to assimilate into the majority culture or develop an alternative identity. Choosing to adapt to majority culture, according to Akerlof and Kranton, can be very costly psychologically and socially in cases where family and friends do not choose to do the same (ibid., p. 427). In addition to that it has the disadvantage "that full acceptance by members of the dominant culture is unlikely" (ibid., p. 427). Thus, there lies a great appeal for members of the minority in going for the second option of developing an alternative cultural identity. This identity, however, according to Akerlof and Kranton constitutes itself in opposition to the mainstream culture (ibid., p. 427).

> Since the prescriptions of the dominant culture endorse "self-fulfillment," those of the oppositional culture are self-destructive. The identity of the oppositional culture may be easier on the ego, but it is also likely to be economically and physically debilitating. (ibid., p. 427)

Akerlof and Kranton thus seem to explain African-American poverty in terms of an unfortunate identity choice of individuals. Seeing that in introducing the topic Akerlof mentions "slavery and the Jim Crow discrimination that followed it" (Akerlof, 2002, p. 426) it is astonishing how in their theory the authors seem to blank out completely possible structural and institutional causes of African-American poverty.

In *Cognitive Dissonance, Status and Growth of the Underclass* Oxoby (2004) offers a very similar model aiming at explaining poverty in general. He starts off by criminalising the poor arguing that

> Poverty, while typically defined in economic terms, is accompanied by a myriad of social behaviours. Crime, welfare dependency and substance abuse, behaviours considered characteristic of the underclass, are often concentrated among those living in poverty. (Oxoby, 2004, p. 727)

He then goes on to argue that an analysis of poverty needs to take account of research in psychology showing

> that individuals choose a subjectively deemed characteristic as status worthy based on their social position and ability to attain status on that characteristic. (ibid., pp. 727-728)

As soon as they realise that they cannot excel in majority yardsticks, the theory goes, poor people will be tempted to

> change their attitudes regarding status and compete for social position on another index. (ibid., p. 728)

Thus, very much along the lines of Akerlof and Kranton, poverty is understood as the result of individual choices. Oxoby seems to be less pessimistic than the former, however, since he argues that this unfortunate process may be stopped by redistributing income to the poor before they make this choice of their preferred "method of dissonance reduction" (ibid., p. 746), that is early on in their childhood. Thus, from this theoretical point of view, there is particular appeal in the idea of a political focus on the reduction of child poverty (Oxoby, 2004, p. 745).

Despite acknowledging the relevance of psychological factors for analyses of poverty, I want to argue that Oxoby's exclusive focus on these issues appears to be very simplistic. On top of that, in case the paper is not only aimed at providing policy advice but also at understanding the origins of poverty, I cannot fail to notice that the proposed argument is highly circular: poverty produces poverty-producing behaviour. But where does it start?

Lawrance (1991) provides us with some ideas of where it might have started. Using data from the "Panel Study of Income Dynamics" she claims to provide empirical evidence that "the rich are more 'patient' than the poor" (Lawrance, 1991, pp. 55-56). Lawrance points out that a negative correlation exists between work income and time preference (ibid., p. 55). This allows for two possible interpretations, she argues:

> First, since it is difficult to borrow future labor income, impatient individuals may prefer jobs with flat wage paths, as opposed to careers that promise high wages only after a period of training or education (a period during which very low wages are earned). If the constraints are severe enough, impatient individuals will prefer the former kind of jobs even if their long-run earnings potential is reduced. Thus capital market imperfections could explain a negative correlation between time preference and education achievement and between time preference and permanent income. A second explanation for this paper's results is that time preference is culturally acquired. Substantial sociological evidence supports this view (LeShan 1952; Cohen and Hodges 1963; Lewis 1966; Banfield 1974; O'Rand and Ellis 1974). (ibid., p. 55)

These interpretations follow a slightly different line of argument than Akerlof and Kranton and Oxoby. Nonetheless, they share the former's tendency to attribute poverty to individual decisions and character failures of the poor. Personally, I find it alarming to observe how common it seems to be to carelessly handle causality in some economic analyses of poverty. Nowhere does Lawrance consider the possibility that the poor may be impatient because they simply cannot afford to wait.

Summing up, the three theoretical explanations of poverty just discussed amount to little more than the traditional 'culture-of-poverty' story which in non-economic poverty research has been put into question decades ago (Holman, 1978, pp. 94-99). Thus, it can be concluded with some confidence that mainstream economic poverty research does not yet seem to have succeeded at developing the theoretical tools to explain poverty. On top of that, its almost exclusive theoretical focus on questions of individual agency make it an unlikely starting point for a comprehensive analysis of poverty.

2.2 Marxist economics

Marxists criticise mainstream poverty research for mistaking the symptoms of poverty for its causes (Wachtel, 1971, pp. 1-2) and claim to have formulated a truly economic theory of poverty (Ankarloo, 2005, p. 99). In a Marxist framework poverty is understood to be a structural feature of capitalism whose causes are located in the basic modus operandi of capitalist economies.

Several different Marxist explanations of poverty can be found in the literature. With few exceptions, e.g. Lapidus' and Figart's *Comparable Worth as an Anti-Poverty Strategy* (Lapidus and Figart, 1994), most Marxist accounts tend to have one thing in common: a stress on the importance of the capitalist mode of production for an understanding of poverty. This distinguishes them sharply from most mainstream accounts who give little thought to the role of the sphere of production as a possible source of inequality and poverty. Apart from this shared analytical starting point, however, important differences arise amongst the various Marxist accounts of poverty. Some authors, most notably Ankarloo (2005), only analyse causes originating in the capitalist mode of production. Others also consider social stratification within the working class to be an important explanatory variable. Finally, the role of the state too is discussed (see for example Sackrey (1973) and Wachtel (1971)). On the following pages I will provide a short discussion of these different levels of Marxist analysis. Furthermore, some concluding thoughts as well as a brief evaluation of the advantages and drawbacks of Marxian approaches to poverty will be presented.

2.2.1 The mode of production

Ankarloo's *Marx on Poverty - A Theoretical Exposition* provides us with a good starting point as it discusses in some detail a number of causal factors arising from the capitalist mode of production. Ankarloo focuses his exposition on Marx' "theory of alienation, the social relation of wage-labour and capital, and the contradictory process of capital accumulation" (2005, p. 79). He justifies the inclusion of alienation by arguing that it is "an integral part of a description of individuals, who are left in a condition of constraint, dependence and enforced "self-denial". Aspects of wage-work, which themselves form a part of poverty as opposed to wealth" (Ankarloo, 2005, p. 85). This notwithstanding he concedes that the concept of alienation does not contribute to the explanation of the "production and distribution" (ibid., p. 79) of poverty. The following discussion will thus focus on the other aspects of Ankarloo's analysis.

The key explanatory variable for poverty to be found in Marx, according to Ankarloo is the wage relation, that is the relationship between workers and capital. Workers are those members of capitalist society who do not own any means of production and thus depend on selling their labour-power to those who do. Labour-power, in the Marxist framework, is conceptualised as a commodity and is thus subjected to the same pricing principles as any other commodity (ibid., p. 88). Marx argued that commodities are priced according to their cost of reproduction. The price which has to be paid for labour power - the wage - thus has to cover the costs of the physical reproduction of the labour force, that is, subsistence. Ankarloo points out, however, that Marx also took account of the general standard of living in the respective society. Wages thus cover the amount of money necessary for the material reproduction of the labour force and a mark-up which depends on the general standard of living. Consequently, Ankarloo stresses that

Marx had a relative understanding of poverty rather than using an absolute poverty line (Ankarloo, 2005, p. 88).

The observation that wages correlate with the cost of reproduction of labour-power rather than with the actual productivity of the same could be argue to denote one of the most important poverty producing element discussed in the Marxist literature: Poverty is produced within the capitalist wage-relation because capitalists - by making use of labour-power's unique capacity to produce more than its own value - per definitionem exploit the working class. The capitalist class' very survival is contingent upon its ability to extract surplus-value. And this surplus can only be gained through the exploitation of labour (ibid., pp. 90-91). Thus, at the heart of the capitalist wage relation, according to Marxists, lies a distributive struggle between workers and capitalists. The more successfully the capitalists exploit labour, the poorer the workers get. The capitalist system, which depends on accumulation and thus exploitation, thus out of necessity generates poverty (ibid., p. 92). It is important to remember, however, that Marxist theory builds on a relative understanding of poverty. In times of economic upswing workers may well gain in absolute terms, but, according to Marx, they always loose in relative terms (ibid., p. 93). Therefore, capitalism can be said to work on an intrinsic tendency towards increasing inequality (ibid., p. 94). Even if absolute poverty falls in the course of capitalist development, relative poverty increases (ibid., p. 93).

Nevertheless, economic upswing is the best thing that could happen to workers, for the working class fares even worse in times of economic crisis (ibid., pp. 92-94). Economic crises, which according to Marx are an inherent feature of capitalist economies, have two effects which negatively impact the economic wellbeing of the working class. Firstly, the falling rate of profit induces capitalists to try to rescue their businesses by saving on wage payments (ibid., p. 97). Wages are cut and the incomes of formerly non-poor workers who received wages just above the poverty line are likely to fall below the poverty threshold. Consequently, the working poor population can be expected to grow in numbers during economic downturns.

In addition to wage cuts capitalists most likely also lay off part of the workforce thus filling the ranks of the industrial reserve army (Ankarloo, 2005, p. 97). The industrial reserve army, while swelling in times of economic crisis, is argued to be an essential feature of capitalist economies at all stages of the business cycle (ibid., p. 98).

Summing up, Ankarloo argues that from a Marxist perspective poverty is best understood as directly resulting from the capitalist wage relation. The exploitation inherent in the capitalist wage relation is exacerbated in times of economic crisis and a growing relative surplus population.

From this analysis Ankarloo derives the following characteristics of Marx' account of poverty:

> First, Marx's conception of poverty is genuinely economic, in the sense that it traces the causes of poverty in the economic logic of society, and not outside of it. [...] The second distinctive trait in Marx's conception is the focus on relations of production. The causes of inequality and poverty do not so much lie in the exchange relationships, or the distribution mechanisms of capitalism (which to Marx are merely derivatives of the relations of production) but in the relations of production themselves. [...] This points to a third distinctive trait in Marx, the inherent radicalism of his theory ("radical" in its original meaning of "going to the roots".) Since his conception of the capitalist economy, its inequalities and its production of poverty in the midst of wealth, is based in the economic relations of production, the analysis points to the demand for a change, not only of policies and of distribution, but of the very mode of production itself. (ibid., pp. 99-100)

A very similar argument to the one put forward by Ankarloo can be found in Peet's 1975 paper *Inequality and Poverty: A Marxist-Geographic Theory.* In fact, the theoretical framework laid out in these two papers is so similar that I will confine myself to mentioning two additional aspects discussed by Peet which cannot be found in Ankarloo's analysis: the poverty producing effects of a changing organic composition of capital and the relevance of income inequalities within the working class.

Peet points out that Marx predicted the organic composition of capital, that is the relative importance of constant capital (machinery) and variable capital (labour), to change during the course of capitalist development (Peet, 1975, p. 566). Technical innovation enables capitalists to increasingly replace labour power with machines, so that

> [p]roduction costs are more-and-more the costs of depreciating machinery, and less-and-less the costs of hiring labor. (ibid., p. 566)

This shift results in a falling relative demand for labour and thus a growing relative surplus population. The changes in the organic composition of capital which are inherent in the capitalist system, thus, can be said to, in a way comparable to economic crises, aggravate the problem of the industrial reserve army. A relative surplus population is on the one hand needed in order to discipline those workers who are in employment; on the other hand, it fulfils an important function in so far as it provides a resource that capitalists can draw on in times of economic boom. The changes in the organic composition of capital, Peet states, are particularly harmful for low-skilled workers as these are usually the first to be replaced by machines (ibid., p. 566). Higher-skilled workers, on the other hand, may even profit from the creation of new jobs "in organization, administration, supervision and sales" (ibid., p. 570).

In addition to this basic differentiation between the active labour force and the industrial reserve army, Peet draws attention to the significance of wage differentiation within the active labour force. He points out that the costs of the reproduction of labour do not only include the means for physical reproduction and health but also education and training. As different groups of workers require different levels of skill and education these groups also differ in terms of their costs of reproduction. Accordingly, higher skilled workers receive higher wages (ibid., pp. 564-565). This, according to Peet has three important consequences:

> As a first result, therefore, income inequality is necessary to produce the variety of labor needed by the various levels of a multitude of different economic activities. Secondly, by allocating the costs of social reproduction through the

> wage mechanism, by allowing each "race of workers" to produce its replacement, the capitalist system ensures inequality of access to the skill hierarchy within the working class. Thirdly, inequality of access to education and skills allows groups of wage and income earners to exaggerate the income differences inherent in the skill hierarchy by partially monopolizing, and thus restricting, the labor supply into certain levels of the labor hierarchy. Inequalities of income and opportunity within the class of wage and salary earners are thus built into the wages system. (Peet, 1975, p. 565)

Peet thus seems to argue that conflicts of interest indeed arise not only between capitalists and workers but also within the working class. This, in my view, prompts the question whether it would be more accurate to replace the two-class analysis by a more differentiated multiple-class-model. Peet, however, does not ponder this analytical question but rather calls for the "abolition of the wages system!" (ibid., p. 565) altogether. Nevertheless, his analysis shows that it is important to keep in mind the fact that the working class itself is not a homogenous group. Differences in economic status which must be accounted for theoretically do exist even within the working class.

In a nutshell Peet sums up his argument as follows:

> The essence of the Marxist argument, therefore, is that inequality is not a "temporary aberation" nor poverty a "surprising paradox" in advanced capitalist societies; instead inequality and poverty are vital to the normal operation of capitalist economies. Inequality is necessary to produce a diversified labor force, because of its role in the production of an expropriatable surplus, and because of its function as an incentive to work. Unemployment, under-employment, and poverty are inevitably produced by mechanization, automation, and the uneven course of economic development. Inequality underlies our whole economic way of life. (ibid., p. 567)

2.2.2 Social stratification

A historical account as well as an attempt at the theoretical explanation of the intraclass differences touched upon by Peet figures prominently in David M. Gordon's book *Theories of Poverty and Underemployment* (Gordon, 1972).

Gordon starts his analysis from the postulate that "radical theory [. . .] combines the radical concept of class with orthodox notions of supply and demand" (Gordon, 1972, p. 65). He states that an individual worker's wage depends on two factors:

> First, a complex set of individual, social, economic, and technological forces determines an individual worker's productivity (expressed as average productivity) on a specific job. This average productivity varies both with the worker's "capacities" and with the characteristics of his job. Second, the relative power of employers and employees determines the share of the worker's total product paid to the worker in wages. He receives some of the product as wages and the employer receives the rest as surplus product. The worker's final wage thus depends *both* on his individual productivity *and* on the relative power of the class to which he belongs. (ibid., pp. 64-65)

The forces of supply and demand, Gordon argues, influence the relative productivity of individual workers through their influence on market prices and thus on the value of the worker's product. He hastens to add, though, that the relative productivity of the workers is also influenced by inter-class dynamics such as the relative power of workers and capitalists:

> An individual's class, ultimately, will affect both his productivity, through the allocation of social resources to investment in the workers of his class and through the differential access of different classes to different kinds of complementary capital, and his relative share of final product. (ibid., p. 65)

Another competitive element introduced by Gordon is competition amongst different groups of workers. Fostering competition within the working class, he argues, is one of the strategies open to capitalists to prevent workers from getting organised and threatening the capitalist dominance (ibid., p. 63). Capitalists thus, in other words, follow the old and well-established rule "divide et impera". An important means to this end, the author argues, are capitalist institutions which promote an individualistic ideology.

Gordon then goes on to further specify his theoretical framework "by formulating some hypotheses about the development of advanced American capitalism" (ibid., p. 66). He analyses US economic history from 1870 to 1970 and points out that during this period the "homogeneity of labor [...] began to dissolve" (ibid., p. 72) and "at least several objectively-defined classes" (Gordon, 1972, p. 72) emerged. This trend, Gordon argues, was skillfully orchestrated by the ruling capitalist class in full accordance with the above cited rule "divide et impera". Employment differentiation, Gordon further points out, was increasingly made along the lines of "statistical discrimination" (ibid., p. 78), or to be more specific, according to "race, sex and age" (ibid., p. 78).

Gordon finally arrives at the conclusion that

> it seems likely that members of the capitalist class have sought increasingly to encourage and permit the development of several objectively-defined classes in the American labor market, each in objective competition with the others, in order to heighten the stratification of the labor force. It seems equally likely that employers have found it in their collective interest to encourage and permit the evolution of the more advantaged of those classes into subjectively-defined classes – through the development of class consciousness – particularly insofar as members of these subjectively-defined classes identify their "enemies" as those within the less advantaged classes of workers. Finally, it seems likely that capitalists have tried especially to prevent the emergence of the lower strata as subjectively-defined classes – to prevent the development of class consciousness among lower-class workers – in order both to forestall revolutionary impulses among the most thoroughly exploited and to preserve some classes of workers who will continue to fill the most secondary, unstable, and undesirable jobs. (ibid., pp. 79-80)

In my view, Gordon adds to the analyses of Ankarloo and Peet by using a more differentiated model, allowing for more than one working class. This, however, considerably complicates the analysis by introducing potential conflicts of interest within the working class(es) on top of those between workers and capitalists.

2.2.3 Who are the poor?

The importance to further differentiate the non-possessing classes has also been recognised by Erik Olin Wright. In his book *Interrogating Inequality* Wright (1994) argues that the poor population can be divided in those whose

> poverty [is] generated inside exploitative relations, and [those whose] poverty [is] generated by non-exploitative oppression. The former correspond[s] to

> what in contemporary policy discourse is called “the working poor”; the latter correspond[s] to the “underclass.” (Wright, 1994, p. 46)

Wright does not discuss in detail the situation of the working poor. He refers to two important influence factors, however, which strongly resound Gordon’s argument:

> (1) many firms have low levels of productivity and in order to compete they can only offer low wages; and (2) many workers have low levels of skills or limited possibility of geographical mobility and thus are constrained to accept such poor-paying jobs. (ibid., p. 46)

The poverty of the working poor thus depends on their skill level as well as on the productivity of the firms offering low-skilled jobs. Having said this, Wright - also in silent accordance with Gordon - stresses the importance of the relative power of workers and capitalists for the inter-class distribution of income. More specifically, Wright argues that

> the existence of a sizeable population of working poor in an otherwise affluent society can be viewed, to a significant extent, as one of the many consequences of a weak, fragmented, and relatively conservative labor movement. (ibid., p. 46)

Overall, Wrights analysis of the working poor can be argued to broadly correspond to Gordon’s approach sketched out above. He adds to Gordon’s analysis, however, through his discussion of the underclass. Wright argues that

> [t]he point is that some people do not in fact own productively usable labor-power. The situation is similar to that of a capitalist owning outmoded machines. While the capitalist physically controls these pieces of machinery, they cease to be “capital” - a productive resource – if they cannot be deployed within a capitalist production process profitably. In the case of labor-power, a person can physically control his or her own laboring capacity, but that capacity can cease to have economic value in capitalism if it cannot be deployed productively. This is the essential condition of the “underclass.” (ibid., p. 48)

Quickly summarised, the members of the underclass are poor because they neither own any means of production nor labour power that is in demand on the labour market.

The underclass can be understood as being positioned outside of capitalist society. Its members have no part to fulfill in the capitalist production process. They are thus "largely expendable *from the point of view of the rationality of capitalism*" (Wright, 1994, p. 49). As such, I would want to point out, they ought to be analytically differentiated from the relative surplus population which is integrated in the capitalist production process through their potential usefulness. I thus want to suggest that Wright's categorisation of the poor might be amended to include three distinct groups: the working poor, the relative surplus population and the underclass.

A similar categorisation of the poor population is provided by Wachtel in his 1971 article *Looking At Poverty From a Radical Perspective* (Wachtel, 1971). Wachtel distinguishes four different groups of poor people (ibid., pp. 4-5):

- The working poor
- Poor people who are attached to the labour force but not in permanent full time employment
- Poor people who are in some way handicapped and thus suffer disadvantages on the labour market
- Poor people who are not attached to the labour market at all (e.g. pensioners, prisoners, people who live of public benefits)

Of these four groups, Wachtel argues, the poverty of all but the fourth group can to a great extent be explained by their position on the labour market. And even the fourth group's poverty, Wachtel adds, often depends on their previous employment record. The amount of old age pension a person receives, for example, depends on their employment situation during working age (ibid., pp. 3-5). Wachtel thus concludes that whether people are poor or not is mainly determined by their "labor force status" (ibid., p. 5). Taking "occupation as an imperfect proxy for labor force status" (ibid., p. 5), Wachtel then goes on to discuss a number of influences on wages. He argues that the wage an individual worker receives can be explained by calling upon four different types of variables (Wachtel, 1971, p. 5):

1. Individual characteristics over which the individual exercises no control - age, race, sex, family class status, and region of socialization.

2. Individual characteristics over which the individual exercises degree of control - education, skill level, health, region of employment, and personal motivation.

3. Characteristics of the industry in which the individual is employed - profit rates, technology, product market concentration, relation of the industry to the government, and unionization.

4. Characteristics of the local labor market - structure of the labor demand, unemployment rate, and rate of growth.

In a next step, Wachtel observes that individuals have very little control over these variables. Even the individual characteristics listed in the second category - education, skill level, health, region of employment, and personal motivation - despite being classified as lying within the individual's control, are so only to a limited extent (ibid., p. 5). To support this argument Wachtel refers to studies showing that education to a great extent depends on the socioeconomic status of the family one is born in (ibid., p. 5). Health too, he argues, "is partially endogeneous to the system" (ibid., p. 5). Summing up, Wachtel arrives at a very gloomy conclusion:

> In sum, the individual has very little control over his or her labor force status. If you are black, female, have parents with low socioeconomic status, and dependent upon labor income, there is a high probability that you will have relatively low levels of human capital which will slot you into low-paying jobs, in low wage industries, in low wage labor markets. With this initial placement, the individual is placed in a high risk category, destined to end up poor sometime during her working and nonworking years. She may earn her poverty by working fulltime. Or she may suffer either sporadic or long

> periods of unemployment. Or she may become disabled, thereby reducing her earning power even further. Or when she retires, social security payments will place her in poverty even if she escaped this fate throughout her working years. With little savings, wealth, or a private pension income, the retiree will be poor. (Wachtel, 1971, p. 6)

Wachtel can thus be said to promote a rather deterministic understanding of poverty, leaving little room for people to improve their own situation. The causes of poverty, in this scenario, are almost entirely located "outside the individual's control in markets for labor and capital and class backgrounds" (ibid., p. 7).

2.2.4 The role of the state

Having thus ruled out the individual herself as a potential initiator of progressive change, Wachtel goes on to discuss the role of the state in the production and alleviation of poverty. He forbears from going into the details of the radical theory of the state and summarises its key argument as follows: in radical analysis the state is understood to consist of a powerful group of actors whose primary aim is to perpetuate their own position of power and protect their interests. This group of powerful actors, Wachtel adds, is far more likely to come from the capitalist class than from the working class (ibid., p. 8). From these basic assumptions Wachtel derives three hypotheses concerning the state's role in the production and alleviation of poverty:

> First, government as a totality will reinforce the disequalizing tendencies of the market through its support of basic capitalist institutions even though liberals for the past 40 years have been attempting to do precisely the opposite. Second, programs to assist the poor will perhaps have some impact in the short run, but in the long run will either atrophy, become anemic in their impact, or become distorted in their purpose. Third, only those public programs that are compatible with the basic institutions of monopoly capitalism will see the light of day in the first instance and will survive to suffer the fate outlined above in the second hypothesis. (ibid., p. 9)

Furthermore, Wachtel points out that a comprehensive analysis of the role of the state needs to take into consideration not only decided anti-poverty policies but the totality of all government policies, as these may well include poverty-producing measures, too. To put it in Wachtel's own words:

> Even if poverty programs, broadly construed, benefited the poor, the analysis of the impact of state intervention should not end there. These welfare effects must be tallied along with the illfare effects of other government programs to determine whether the net effect of state intervention is to enhance the welfare of illfare of the people. It is inappropriate to simply analyze the progressive redistributional aspects of transfer payments without analyzing the regressive redistributional aspects of other government programs as well. (Wachtel, 1971, p. 9)

Wachtel finally concludes that poverty is an endogenous feature of capitalist societies which benefits the possessing classes. As the state, in Wachtel's understanding, is part of the problem and public policy is strongly anchored in the capitalist ethic, one cannot hope to alleviate poverty via public policy measures (ibid., p. 16).

Similarly pessimistic views concerning the poverty-alleviating potential of the state are expressed by other authors writing in the Marxist tradition (see for example Gordon (1972) and Sackrey (1973)). Furthermore, even if public policy could temporarily alleviate poverty, revolutionary Marxists would most likely not approve of it. As capitalism is regarded as an inherently biased, exploitative system which will be overthrown in due time, measures of social policy aimed at cushioning the cruelty of capitalism are met with scepticism. These policies, it is reasoned, only serve to delay the anti-capitalist revolution and consequently to prolong the capitalist exploitation of the working class (Bohmann, 1998, p. 140). Social policy, thus, from a Marxist perspective, is often regarded with mixed feelings. The only real way out of a society divided along the lines of wealth and poverty would be to question capitalism's "very basic ownership structure and its social form of production of wealth itself" (Ankarloo, 2005, p. 100).

Further publications touching on the topic of poverty from a Marxist perspective are Levi (1974), Sarvasy & Van Allen (1984), Goldsmith, Lapidus & Figart (1989). These authors focus on other questions and do not go into much detail as to a theoretical explanation of poverty, however, and thus shall only be mentioned here for further reference.

Summing up, Marxists argue that (a) poverty is a structural feature of capitalism rather than an accidental by-product, and that (b) this can be seen most clearly in the exploitative nature of the wage-relation and the (ever growing) "relative surplus population" (Marx, 1976 [1867], p. 781). As further important influence factors are identified (c) a person's labour force status and (d) social stratification within the working class. Both the downwards pressure on wages and increasing unemployment, it might be added, are expected to be particularly strong in times of economic crisis. Finally, as the state is conceptualised as primarily providing a forum for powerful groups to safeguard their vested interests, public policy, in a Marxist framework, is not expected to further the alleviation of poverty.

In conclusion, it has been shown that Marxist theory certainly provides us with interesting insights into a number of poverty producing tendencies inherent in modern capitalism. These important contributions notwithstanding, one significant weakness of the Marxist approach has surfaced in this review: Marxist theorists tend to pay rather little attention to considerations of individual or group agency. In order to arrive at a truly comprehensive understanding of the dynamics of poverty, this aspect of the analysis may need to be strengthened.

2.3 Other heterodox economic traditions

Browsing through well-known heterodox journals such as the Cambridge Journal of Economics and the Review of Social Economy, one interesting parallel to mainstream economic poverty research becomes evident: a considerable percentage of those articles dealing with poverty are purely empirical with little or no mention of theory. It is thus difficult to assign them to any specific theoretical tradition. Having said this, however, I hasten to add that there are also a number of very interesting theoretical contributions to heterodox economic poverty research. In what follows I will first provide a brief overview of some - mainly empirical - publications dealing with the influence of macroeconomic factors on poverty, i.e. unemployment and increasing earnings inequality. The second part of this section focuses on theoretical contributions. These will be shown to be so original that little to no links to the literature discussed above can be established.

2.3.1 Analyses of macroeconomic influences

While topics such as growth, unemployment, labour market changes and increasing inequality are discussed in the heterodox literature, they are not as dominant as they are in the mainstream literature. Nonetheless, a number of highly interesting papers dealing with these issues can be found.

A very interesting paper dealing with unemployment from a Post-Keynesian perspective, for example, has been contributed by Jackson (1991-92). In *The Employment Distribution and the Creation of Financial Dependence* he argues for a closer inspection of the differential effects of unemployment. An exclusive focus on the aggregate effects of unemployment, Jackson holds, overlooks important information regarding the beneficiaries and losers of deteriorating economic conditions (Jackson, 1991-92, p. 267). To put it in Jackson's own words:

> In a recession, the employed continue to work at the same job for the same pay and experience little hardship; the unemployed, by contrast, often face a complete loss of wage income and become a "null-income" group (Weintraub, 1985). Incomes are not reduced in equal proportion, and the brunt of the reduction is borne by a minority of the working population. This state of affairs is only too apparent from casual observation, yet it is frequently obscured in macroeconomic discussion. (ibid., p. 267)

The unemployed minority of the population, Jackson then goes on to argue, loosing all earned income, often fall into financial dependence on the state (ibid., p. 279). Whilst harming the unemployed themselves, this state of affairs, the author points out, "assists the realization and stability of profits by eliciting a higher general level of transfer payments and expenditure from nonincome sources" (ibid., p. 268). Wage payments go down, but effective demand is stabilised at a high level by government subsidies. Thus, entrepreneurs tend to realise a relatively higher rate of profit. Jackson concludes:

> From a Post Keynesian perspective, full-time employment and a high incidence of financial dependence on the state are beneficial to employers: they stabilize aggregate income, ease the realization of profits, and weaken the bargaining position of workers. [...] Financial dependence is a prime example of a socially induced state, and its prevalence is a reminder of the social and institutional nature of macroeconomics. (Jackson, 1991-92, p. 279)

Summing up, Jackson shows that unemployment is not as unambiguously an evil as it is often conceived to be. Rather, it could be argued to have strongly beneficiary effects for "employers, profit recipients, and the job secure" (ibid., p. 279). The question of employment distribution thus is an important locus of economic power struggles. And poverty resulting from unemployment may be conceptualised as being at least partly produced by those people whose interest it serves.

Another much discussed issue arising from the literature is the functioning of the labour market. Whilst in mainstream economic theory unemployment and low wages are primarily understood to be the result of defects of individual people - e.g. little education, low productivity - several heterodox authors question this interpretation.

Howell (2002), for example, evaluates the empirical evidence available in support of what he calls the "Unified Theory" (Howell, 2002, p. 194), that is, the hypothesis that the increasing income inequality experienced in most advanced nations since the 1980s has been the result of skill-biased technological change. That is, it is the result of a simple process of supply-and-demand, with demand shifting to the detriment of the low-skilled workers (ibid., pp. 193-194). Howell finds that the empirical evidence supporting this hypothesis is wanting and thus puts forward an alternative interpretation of the facts. His approach centres around the negative economic effects of low aggregate demand, processes of economic restructuring "away from agriculture and manufacturing" (ibid., p. 235), the deregulation of labour markets as well as changes in the sphere of production (i.e. increased international mobility). This agglomerate of economic developments, the author argues, has particularly harmed the low-skilled (Howell, 2002, p. 236).

Cormier and Craypo (2000), concurring with Howell on his rejection of the simple supply-and-demand story, present yet another explanation of the phenomenon of increasing wage inequality. Their approach is based on labour market segmentation analysis. The core problem which working-poor households are facing, Cormier and Craypo argue, are power differentials on the labour market (Cormier and Craypo, 2000, pp. 691-692).

> Differences in power among individuals and households reflect inequalities in their ability to control the labour market with respect to: (i) employment and job standards, e.g., to obtain and protect good jobs; (ii) various barriers to mobility from bad to good employment situations; and (iii) institutionalised discrimination. Workers possessing little or no such power are relegated to disadvantaged segments of the labour market in terms of relative resources and capabilities. Their labour is systematically undervalued as a result, as are the jobs they hold. (ibid., p. 692)

As, contrary to conventional analysis, Cormier and Craypo locate the cause of increasing inequality in the structural characteristics of the labour market, the solution they propose counts on the empowering effects of unionisation, collective bargaining and labour market regulation combined with a policy of "sustained full employment" (ibid., p. 707).

Similar arguments to the one presented by Cormier and Craypo can be found in the extensive literature dealing with female or African-American poverty (see for example Peterson, 1987; Pressman, 2003; Shulman, 1990). It is often argued that the higher poverty rates among women and ethnic minority groups are at least in part due to these groups being adversely affected by power differentials on the labour market and thus unequal access to well-paying jobs.

Summing up, it can be shown that the stylized facts of unemployment and increasing wage inequality are discussed in mainstream as well as in heterodox economic poverty research but, little surprisingly, the explanations found and policy conclusions drawn differ considerably.

2.3.2 Distinctly heterodox strands of analysis

I will now turn the attention towards another set of contributions offering theoretical analyses of the persistence of poverty in advanced capitalist economies. The papers to be discussed below can be said to be so distinctively heterodox that little links to what is discussed in the mainstream literature can be found.

An early example of heterodox theorising on poverty can be found in Hobson's 1891 book *Problems of Poverty* (1899). In this book Hobson provides us with a detailed theoretical discussion of poverty in the late 19th century. After refuting the "common fallacy which takes the shape of an assertion, that poverty is unavoidable because England is not rich enough to provide a comfortable livelihood for every one" (Hobson, 1931, p. 4), he sets out to analyse the true causes of poverty which he locates in the industrial system. The major causes of poverty, according to Hobson, are all related to the labour market: unemployment, irregular employment and low wages (ibid., pp. 14-17). The greatest part of Hobson's book is thus devoted to the detailed discussion of diverse factors influencing the supply of and demand for labour. He identifies four key influences:

- The increasing mechanisation of production reduces the demand for unskilled labour, thus resulting in job loss for the most vulnerable part of the wage-earning class, the low-skilled workers. (ibid., chapter 2)
- The increasing migration of the most talented parts of the rural population into the big cities increases the supply of labour and thus the competition for low-skilled employment. This often harms the employment prospects of the less talented parts of the urban population. (ibid., chapter 3)
- In his discussion of the "sweating workshops" Hobson discusses at length the detrimental influence of foreign migration on the working conditions of the British working class. Hobson regards the system of sweating workshops to be the single most important cause of poverty. The working conditions in these workshops, he argues,

would be far better if there were less competition from foreign immigrants who are able and willing to work extremely hard for very little money. (Hobson, 1931, chapters 4 and 5)

- A further poverty-producing factor, according to Hobson, can be found in the import of goods. Imported goods reduce demand for domestically produced goods and thus the domestic demand for labour. (ibid., p. 91)

All of these developments inflate the industrial reserve army and thus weaken the bargaining position of the working class as a whole. Consequently, Hobson locates possible remedies for the problem of poverty in measures that strengthen the working class, such as unionisation, factory legislation and "restrictions of the supply of unskilled labour" (ibid., p. 171).

On the whole, it can be said that, being deeply embedded in historical analysis, Hobson's argument strongly resounds later analyses of the poverty problem. There is one important difference, however, which should not go unmentioned: the tone in which Hobson talks about the poor often is disdainful, sometimes even outright antisemitic. In describing the effects of urbanisation, for example, Hobson writes:

> If it were true that only the worthless portion of our country population passed into our cities to perish in the struggle for existence, which is so fatal in city life, we should on the whole have reason to congratulate ourselves. (ibid., p. 54)

Later on, in his discussion of sweating workshops, Hobson keeps coming back to the detrimental influence of the "foreign Jew" (ibid., p. 60):

> [...] the foreign Jew is such a terrible competitor. He is the nearest approach to the ideal „economic" man, the „fittest" person to survive in trade competition. Admirable in domestic morality, and an orderly citizen, he is almost void of social morality. No compunction or consideration for his fellow-worker will keep him from underselling and overreaching them; he acquires a thorough mastery of all the dishonourable tricks of trade which are difficult to

> restrain by law; the superior calculating intellect, which is a national heritage, is used unsparingly to enable him to take advantage of every weakness, folly, and vice of the society in which he lives. (Hobson, 1931, p. 60)

Personally, I find it very hard to disentangle Hobson's economic analysis and his contemptuous world views. Is it not very likely that a theorist's perception of his subject of analysis - the poor - impacts upon his theorising? Thus, despite some insightful theoretical arguments contained in his writing, I would be hesitant to turn to Hobson as a basis for an understanding of contemporary poverty.

A more recent piece of heterodox economic poverty research was contributed by Jan Toporowski (1993). In his paper *Housing as a Wage and Luxury Good: Absolute Poverty and the Distribution of Income in Supply-Side Economics* Toporowski, building upon Kalecki, questions the trickle-down argument of supply-side economics, "according to which a redistribution of income shares to those with higher incomes is supposed to result in sufficient income growth to make everyone better off" (Toporowski, 1993, p. 330). He argues that, rather than indirectly benefiting the poor through fostering economic growth, redistribution from the bottom to the top of the income distribution may result in increasing demand for luxury goods. In case those products build on scarce resources, this may mean that production is redirected towards luxury production and the supply of the cheaper alternatives shrinks (ibid., p. 330). He states the case with regard to housing: as housing space is scarce, increasing demand for luxury housing spurs the conversion of more and more housing space into high-price properties and thus may leave more and more poor people unable to find affordable accommodation (ibid., p. 333). Toporowski presents empirical evidence for this phenomenon by relating the extent of income redistribution during the 1980s to the number of homeless people (ibid., pp. 336-338). Despite acknowledging difficulties with the availability and quality of data, he makes a convincing case, concluding that

> It is widely believed that the welfare state in the UK has eliminated poverty. Even among those who do not accept this, changes in the distribution of

> income are usually associated with changes in 'relative', rather than absolute deprivation (Townsend, 1979). This article argues that regressive relative income changes have price and supply effects which are likely to lead to an increase in absolute poverty. The existence of a commodity that takes up a large share of the expenditure of virtually all categories of income, which is a basic necessity, and which is inelastic in supply, is a sufficient condition for absolute poverty to arise when income is redistributed in a regressive way. (Toporowski, 1993, p. 341)

This argument will be taken up and discussed in some more detail in chapter 4.

Apart from the contributions discussed above, a surprisingly high percentage of heterodox attempts at the theoretical explanation of poverty can be attributed to the institutionalist tradition. The Journal of Economic Issues in particular has published a number of very promising sounding papers over the last 50 years. Titles such as *The Institutional Economics of Poverty: An Inquiry Into the Causes and Effects of Poverty* (Hill, 1998) and *The Political Economy of Poverty: Institutional and Technological Dimensions* (Hamilton, 1967) may suggest that the problem of understanding the origins of poverty has long been solved. Unfortunately, those papers more often than not do not live up to their promises. Hill's *The Institutional Economics of Poverty: An Inquiry Into the Causes and Effects of Poverty*, for example, rather than providing a comprehensive analysis of poverty contains a fairly simple argument that

> the failure of the American people to invest adequately in the human capital represented by impoverished children is both the most important cause and the most tragic effect of poverty in the United States. (Hill, 1998, p. 279)

Despite being an important explanatory variable for the intergenerational perpetuation of poverty this certainly cannot explain why there are any poor children in the first place. In Ganley's (1998) *Poverty and Charity: Early Analytical Conflicts between Institutional Economics and Neoclassicism*, on the other hand, it seems difficult to find any substantial argument at all. Thus, unfortunately, it must be said that, in institutionalist poverty research all that glitters is not gold.

Having said this, however, I want to point the reader towards two very interesting institutionalist contributions: David Hamilton's *The Political Economy of Poverty: Institutional and Technological Dimensions* dating from 1967 and a more recent paper by Charles M.A. Clark (2002) entitled *Wealth and Poverty: On the Social Creation of Scarcity.*

Hamilton starts his investigation by defining two fundamental questions which ought to be answered by economic poverty research: How big is the pie? And how is the existing pie distributed? (Hamilton, 1967, p. 311). He then sets out to answer them from a Veblenian perspective. The answer to the question of what determines the size of the economic pie to be distributed, he suggests, lies in "the state of the industrial arts" (ibid., p. 312). Thus, what fuels economic progress, he repeats a Veblenian theme, is not - as neoclassicals and Marxists believe - capital accumulation but technological progress. The accumulation of knowledge and the development of ever new and better modes of production are the decisive elements for general economic progress (ibid., pp. 313-314). It must be recognised, Hamilton stresses,

> that anything which is technologically feasible can be funded. In fact, a thing's technological feasibility is prior to its funding. The latter is merely an act which gives the technological process institutional sanction; (ibid., p. 313)

The limiting factor, I want to stress one last time, from this point of view is technological feasibility. "Differences in tool skills" (ibid., p. 314) thus, are what distinguishes affluent societies from poor societies.

In *Reciprocity, Productivity, and Poverty* (Hamilton, 1970) a paper published 3 years later and thematically following up on *The Political Economy of Poverty: Institutional and Technological Dimensions* Hamilton argues that indeed "no technological reason exists for poverty in the modern industrial economy" (ibid., p. 35). Whilst a lack of technological progress might still be an explanatory variable in some developing countries, it certainly has become obsolete as an explanation of poverty in advanced capitalism

(Hamilton, 1970, p. 35).

The reason for the continuous existence of poverty in the capitalist nations of abundance, Hamilton points out, again referring to Veblen, is the human propensity for invidious distinctions. According to this line of reasoning all societies ascribe different "degree[s] of meritoriousness" (Hamilton, 1967, p. 316) to different occupations. Some occupations rank higher in public perception than others. And this process of social valuation is what determines the relative incomes of the different occupational groups (ibid., pp. 316-317). As relative income, understood from this perspective, is the result of social conventions and ascriptions, obviously no metaphysical justification for a specific income distribution can be found. Hamilton was thus highly critical of marginalist theory:

> Since it is the community through the market mechanism which evaluates the productivity of these contributions, recourse to the theory of marginal productivity leads merely to more difficult questions. Since garbage must be collected and carrots must be dug, the theory does not explain why the community places such a low valuation on garbage collection and carrot digging. In other words, why should ditch-digging, technologically essential in an industrial economy, stigmatize the ditch-digger and hence socially justify his poverty? (ibid., p. 316)

This lack of recognition for the economic contribution of garbage collectors, carrot diggers and the like, lies at the heart of our sustaining problem of poverty (ibid., p. 319). Consequently, again in *Reciprocity, Productivity, and Poverty,* Hamilton concludes that

> Nothing short of a massive institutional change can eliminate poverty in the industrial economy. But this means that ancient and honorable habits of thought which reinforce and justify ancient and honorable institutions must give way. (Hamilton, 1970, p. 41)

We must overcome those social conventions ascribing such low value to certain occupations if ever we want to eliminate poverty. Thus, eliminating poverty, from this perspective, to say the least, is a long-term goal which cannot be accomplished by simple reliance on social policy. As long as the fundamental processes of valuation remain unchanged, social policy only ever scratches on the surface of the poverty problem (Hamilton, 1970, pp. 41-42). Whilst providing us with a very interesting and thought-provoking analysis, Hamilton thus does not give us much orientation with respect to specific steps that could be taken in order to fight poverty. On top of that, one could argue that there ought to be more to the explanation of poverty than this valuation-story would suggest. The invidious distinctions between different occupations could thus be considered as only one, though important, part of the puzzle.

Other parts are contributed by Clark (2002) in his paper *Wealth and Poverty: On the Social Creation of Scarcity*. Clark defines the purpose of his paper as follows:

> to first look at this critical history of wealth creating poverty and second to provide the outlines of a Veblenian explanation of this process. (Clark, 2002, p. 415)

Thus, it can be said to pursue a very similar goal to the present thesis. Indeed, Clark's paper briefly covers some of the issues analysed in detail in this thesis. However, the paper under consideration as a whole is only seven pages long, out of which three pages are devoted to a history of thought survey on abundance. This leaves Clark with only four pages to discuss one of the most important phenomena of our time - "the creation of wealth and poverty" (ibid., p. 418). Accordingly, despite taking up important parts of the problem, this is done on a rather superficial level.

Clark lists three major poverty producing processes:

> (1) the social creation of scarcity, (2) social exclusion, and (3) the assignment and shifting of costs. (ibid., p. 418)

Scarcity, Clark argues, is not an intrinsic feature of advanced capitalism. Rather, it is deliberately created with the aim of generating profits. Scarcity and thus poverty is an accepted by-product of this strive for wealth. According to Clark, in a Veblenian framework scarcity can be regarded to be primarily created through industrial sabotage and conspicuous consumption (ibid., p. 418). Clark gives a quick overview of the potentially poverty producing effects of these processes but, as I pointed out before, does not go into the theoretical details. I will not repeat Clark's analysis here as these processes will be dealt with in far more detail in chapters 4 and 5 of this thesis.

Next, Clark goes on to explain the importance of social exclusion for the creation of poverty. The argument goes as follows: scarcity is dependent upon the possibility to exclude parts of the population, e.g. through the institution of private property. For example: it is only possible to generate value through the selling of a good if the owner has the possibility to hinder others from using it without paying. Exclusionary social networks are another example. They generate value for their members through providing them with insider information which is not accessible to everyone (Clark, 2002, p. 420).

Last but not least, Clark discusses the shifting of costs (ibid., pp. 420-421). Arguing from an institutionalist understanding of the market (see Dugger, 1989), the author points out that market prices usually do not cover all costs of production (Clark, 2002, p. 420). Some of these costs are shifted away to third parties in the form of externalities:

> Thus the pollution created by generating electricity is paid for by those who ingest it into their system. The full cost of the worker – a living wage that pays for the necessary costs of care giving upon which all in society depend – is often borne by the workers' families and by those outside of the work force. (ibid., p. 421)

Clark even goes as far as arguing that the successful shifting away of costs is a precondition for economic success (ibid., p. 421). And the costs, he concludes, most often are "shifted away from the affluent and onto the poor" (ibid., p. 421). Thus the poor suffer from having to carry a relatively heavy burden of socialised costs (ibid., p. 421).

Clark concludes his short article by arguing that the effect of economic growth in the US since the 1980s has been to harm the poor through increasing scarcity (ibid., p. 421). As poverty and wealth, in this understanding, are two sides of the same coin, Clark congruously points out that

> In a very real sense the last thing the poor need is more accumulation of

wealth. (Clark, 2002, p. 421)

As already alluded to above, Clark's analysis, from my point of view, contains a number of highly interesting ideas but does not succeed in establishing a comprehensive explanation of "the creation of wealth and poverty" (ibid., p. 418). On the one hand, this is due to the relative superficiality of his analysis. On the other hand, a number of important topics, such as the role of the government, go unmentioned. Thus, there is plenty of more work to be done in order to formulate a truly comprehensive theory of poverty production.

Summing up, in heterodox economic poverty research we can observe a divide between empirical and theoretical work, with relatively few points of contact between the two branches. Whilst empirical work often investigates into similar questions as the mainstream - e.g. the role of economic growth and unemployment - theoretical work most often can be said to be distinctively heterodox both in method and questions discussed. To my great surprise I found relatively little theoretical work dealing explicitly with poverty in the post-Keynesian literature (for notable exceptions see Toporowski, 1993 and Jackson, 1991-92 discussed above). The majority of heterodox theoretical contributions to the understanding of poverty seem to belong to the institutional tradition. The institutionalist analyses, however, can be said to be of very varying quality, some of them being very well argued, others seeming almost devoid of content. Nonetheless, a number of very promising bits and pieces for a comprehensive theoretical exploration of poverty can be found in both the post-Keynesian and the institutionalist tradition. These bits and pieces most often can be found to be directly derived from the work of Kalecki (see Toporowski, 1993) or Veblen (see Hamilton, 1967; Clark, 2002), thus reinforcing my decision to focus the present analysis on these authors' theoretical legacy (complemented by Joan Robinson's inspiring contributions).

2.4 The importance of the welfare state

The broad range of literature on the welfare state is another part of academic discourse which may be expected to provide some insights into the problem of poverty. On the following pages I will therefore provide a succinct summary of a few particularly interesting contributions.

A prominent figure which is strongly associated with the topic of poverty is Sir William Beveridge, chairman of the famous "Beveridge committee" and often referred to as the father of the modern welfare state. In 1941 Beveridge was asked to head an inquiry into the "existing schemes of social insurance and allied services" (Beveridge, 1942, p. 7) and to give recommendations for post-war reform. The declared aim of the Beveridge Report was to devise a scheme with which it would be possible to abolish want, or in other words, poverty (ibid., p. 7). It is important to note in this context, that the work of the Beveridge committee was of a primarily policy-oriented nature. Beveridge did not embark upon original research into the causes of poverty. Instead, he relied upon the empirical work of early British poverty researchers, most importantly the work of Seebohm Rowntree (Hills, 1999, p. 35). From Rowntree's work Beveridge deduced two main causes of poverty which should be tackled by his new scheme: the "interruption or loss of earning power" (Beveridge, 1942, p. 7) and family size (ibid., p. 7). He then went on to propose a "Plan for Social Security" (ibid., p. 7) which builds upon four pillars (Harris, 1999, p. 24):

- Child allowances to mitigate the effects of large family size. (ibid., p. 24)
- A comprehensive national health service "for the prevention and cure of disease and 'restoration of capacity for work available to all members of the community' (Ibid.: p. 158)" (Hill, 1990, p. 30).
- Policy measures to prevent mass unemployment (defined as unemployment levels of 8 1/2 per cent and above). (ibid., p. 30)

- A comprehensive social insurance system to provide a safety net against loss of income through irregular employment, unemployment, sickness, and retirement. (Harris, 1999, p. 24)

Beveridge's interpretation of Rowntree upon which this proposition is based, however, is contested. Veit-Wilson (1992) and Hills (1999) provide us with elaborate critiques of Beveridge's use of different poverty lines proposed by Rowntree. In his two major studies of poverty in York Rowntree made use of various different poverty lines (Hills, 1999, pp. 36-37). In 1899 he defined a primary poverty line covering only the bare necessities for physical efficiency in order to "convince people who would accept definitions of poverty in terms only of the irreducible scientific minimum of physiological, but not social, needs" (Veit-Wilson, 1992, p. 284). In his 1936 study Rowntree put forward a more generous definition of poverty - the "Human Needs of Labour" (Hills, 1999, p. 37) - which "represented the minimum necessary not just for physical efficiency but for 'a healthy life"' (ibid., p. 37). Veit-Wilson argues that Beveridge deliberately used Rowntree's primary poverty line - a measure of poverty which even Rowntree himself had already rejected at the time - whilst adopting a rhetoric which led people to believe that he had adopted a standard comparable to the Human Needs of Labour poverty line (Veit-Wilson, 1992, pp. 296-297). Thus, despite Beveridge's claims to the contrary, the benefit levels determined on the basis of his suggestions

> represented not a living income but a state contribution towards one which recipients would have had to supplement in other ways if they wished to live social lives. (ibid., p. 284)

Yet, official rhetoric always held on to the interpretation that benefit levels are sufficient to provide for subsistence (ibid., pp. 296-297). Veit-Wilson then goes on to argue that

> [t]his has led to the commonplace but fallacious assumption that the social security scales represent a realistic poverty line on which claimants ought to be able to manage to lead a social life if they are competent. (ibid., p. 271)

He thus concludes that the continuing conceptual confusion originating in the Beveridge report resulted in much human suffering which could have been avoided otherwise (Veit-Wilson, 1992, p. 271).

A related argument can be found in Hills (1999). The author argues that it is only through applying Rowntree's 1899 primary poverty line to the data collected in 1936 that Beveridge could come to the conclusion that loss of earning power and family size were at the root of the poverty problem (Hills, 1999, p. 37). "Against Rowntree's higher standard", Hills points out, "low wages still accounted for a third of poverty" (ibid., p. 37).

In a nutshell, it appears that Beveridge's accomplishments were considerably more important on the level of policy than on the level of theory. This notwithstanding, the contemporary discussion surrounding his use of different poverty lines indicates the extraordinarily close interrelation of theory and practice in the field of poverty research.

As regards theoretical analyses of the welfare state, the best-known contribution has been published by the Danish sociologist Gosta Esping-Andersen. In his well-acclaimed book *The Three Worlds of Welfare Capitalism* Esping-Andersen (1990) proposes a typology of three fundamentally different types of welfare states: the liberal welfare state, the corporatist welfare state and the social democratic welfare state (Esping-Andersen, 1990, pp. 26-27). This typology can be said to have laid the foundation for large parts of contemporary discussion surrounding different aspects of the welfare state. Thus, it does not come as a surprise that it is sometimes called upon in connection with the problem of poverty. In their 2005 article *Welfare Regimes and Poverty Dynamics: The Duration and Recurrence of Poverty Spells in Europe* Fouarge and Layte , for example, empirically analyse

> how well the different welfare states of Europe perform in terms of preventing recurrent and persistent income poverty and what household and individual characteristics influence poverty duration. (Fouarge and Layte, 2005, p. 407)

Building on data from the European Community Household Panel (ECHP) covering the years 1993 to 1997, the authors attempt a comparative analysis of poverty dynamics in different EU member states (Fouarge and Layte, 2005, p. 409). They start their analysis from an extended version of Esping-Andersen's typology, which differentiates between liberal welfare states, corporatist welfare states, social democratic welfare states and Southern European welfare states (ibid., p. 409). The authors hypothesise that the different types of welfare states, through differences in institutions and regulations, differently impact upon "the distribution of poverty over time" (ibid., p. 409) and the length of poverty spells. More precisely, Fouarge and Layte expect the following results:

> Using this framework we expect that social democratic regimes would lead to fewer poverty entries and more exits than corporatist regimes, as, although levels of payment in the latter may be relatively high, entitlements tend to be restricted to 'core' groups with a history of employment. The higher levels of active labour market policy in social democratic regimes should also have a negative impact on the probability of experiencing poverty and the spell duration. However, corporatist and social democratic regimes should both have more effective anti-poverty policies than either liberal or Southern European type regimes, which tend to have means tested, low-level universal benefit systems in the case of liberal and piecemeal or non-existent benefit systems in the case of Southern European regimes. This pattern would be supported by the general absence of active labour market policies in these types of regimes. (ibid., pp. 409-410)

They hasten to point out, however, that other variables, such as the levels of incentives, may distort the results (ibid., p. 410). This caveat notwithstanding, the authors find empirical support for their initial hypotheses. Fouarge and Layte thus arrive at the following conclusions:

> In particular, countries in the social democratic tradition do a better job of preventing both short- and long-term poverty. Countries in the liberal tradition and Southern European countries display much higher rates of poverty and longer durations of poverty spells, while countries in the corporatist tradition take an intermediate position. Despite their dissimilar patterns of poverty duration, European welfare states display rather similar probabilities of exit from poverty, once we control for duration, though these similar rates may be the result of very different processes with social democratic and

> corporatist countries having high exit rates that decrease quickly whereas liberal and Southern European countries have moderately high rates that remain more constant over time. This could suggest lower levels of incentives in the former. (Fouarge and Layte, 2005, p. 423)

Furthermore, the authors point out, the results of their study confirm the theoretical adequacy of the welfare regime approach (ibid., p. 423).

This assessment, however, is by no means uncontested. In their paper *A Re-examination of Welfare States and Inequality in Rich Nations: How In-kind Transfers and Indirect Taxes Change the Story* Garfinkel, Rainwater and Smeeding (Garfinkel, Rainwater and Smeeding, 2006), for example, criticise comparative studies for their exclusive reliance on data concerning "cash or near-cash transfers" (ibid., p. 897) and direct taxes. As soon as in-kind benefits and indirect taxation are taken into account, the authors argue, cross-national differences in welfare expenditure shrink considerably, putting into question the applicability of the welfare regimes approach (ibid., pp. 912-913). A very similar argument has also been put forward repeatedly since the late 1990s by OECD's Willem Adema and his colleagues (see for example Adema and Ladaique (2005)). As these studies do not directly address the question of poverty, however, I will not discuss them in any more detail.

A more recent contribution to the discussion of the nexus between the welfare state and poverty has been made by Bea Cantillon (2011) who sought to evaluate the success or failure of the European Union's Lisbon agenda in combating poverty. The author seeks to explain

> the stylized empirical fact that, despite higher average incomes, increased employment rates and high levels of social spending, most European welfare states have failed to make further progress in the fight against (relative) income poverty, particularly among the working-age population. (Cantillon, 2011, p. 445)

Cantillon identifies three trends which help to explain this disappointing development:

> *First*, rising employment has benefited workless households only marginally. Consequently, the number of job-rich households has increased while the number of jobless households has remained largely unchanged. *Second*, poverty among the unemployed and workless households has increased in almost all Member States. *Third*, new work- related spending – which tends to be less pro-poor – has increased, while the generosity of traditional ‘passive’ income support has declined. (Cantillon, 2011, p. 445)

The author then concludes that it would be advisable for the European Union to abandon, at least partially, the predominant strategy of the social investment state and return to “an adapted version of the old redistributive agenda” (ibid., p. 445) in order to achieve their goal to alleviate poverty.

A comparatively radical criticism of the welfare state has been voiced by the prominent guild socialist G.D.H. Cole. In his pamphlet *Is this socialism?* Cole (2011 [1954]) criticised the Labour government of his time for sacrificing its socialist ideals and settling for welfare policies instead. He conceded that considerable progress has been made in the fight against poverty. Yet, this progress, Cole warned, was dependent upon full employment and thus potentially unstable (Cole, 2011 [1954], p. 13). On an even more fundamental level, Cole criticised the British welfare state for obstructing the development of a truly socialist, classless society. He asked:

> In other words, is the Welfare State, in the form in which it has been developed so far, a step on the road to Socialism, or a step in [sic!] quite different direction - that is a step, not towards a classless society, but rather towards a new stratification that is likely to persist and to become more marked? (ibid., p. 16)

His answer left no room for doubt. The British welfare state of the 1950s, Cole pointed out, certainly was less elitist and more inclusive than the highly stratified aristocratic society it succeeded, but it was by no means a society which provided equal life chances for all its members (ibid., p. 15). Quite the opposite seemed to be true for some particularly vulnerable groups:

> What we are getting in practice appears to be a society in which the field of recruitment for the superior positions is being considerably widened, so as to give those who can get as far as the higher ranges of grammar or technical education an improved chance of rising further even if their parents cannot afford to help them. But at the same time we are putting an increasingly difficult barrier between those who get so far and those who do not, and this is still in the main a class barrier, though it has been moved further down the social scale. (Cole, 2011 [1954], p. 15)

Cole's writing thus invites the counterintuitive interpretation that the institutions of the modern welfare state, while strengthening the middle classes, may in fact to a certain extent provide an obstacle to the abolition of poverty rather than further its cause.

On the whole, I want to argue that the available literature on the welfare state, while discussing the problem of poverty, appears to have a very different focus to the one embraced in this thesis. Enquiries into the nexus between poverty and the welfare state, rather than trying to understand the economic causes of poverty, tend to take poverty as a given and evaluate different policies to alleviate it. It is beyond doubt that this kind of analysis addresses important questions, but it has very little common ground with the problematique guiding the present enquiry which aims at understanding how poverty is created in the first place.

Concluding remarks

This literature review, I want to suggest, supports the following argument:

The first impression that emerges when studying mainstream economic poverty research is that it consists mainly of a) highly technical discussions of measurement issues and b) purely empirical studies. Considering only the theoretical accounts, most repeat a behaviouristic theme attributing poverty to one or another characteristic of the poor themselves. The very few publications which take a broader view cover a set of very interesting questions. These, however, to my knowledge, have not yet been elaborated in any systematic manner, so as to provide us with an alternative account of the origins of poverty. Thus, it might be concluded for the time being, that the causal analysis of poverty in the mainstream literature can largely be summarised in two hypotheses: Firstly, poverty arises because there is not enough economic growth. Secondly, the poverty of individual people can mostly be attributed to individual characteristics and failures, such as unfortunate life decisions and impatience. This approach, I want to argue, is problematic for two reasons:

1. It reduces the complexity of the poverty problem to a simplistic culture-of-poverty thesis, which in non-economic poverty research has already been discarded decades ago.

2. Apart from being overly simplistic, the behaviouristic theories of poverty under scrutiny here turned out to be based on circular reasoning.

Marxist poverty research provides a very different picture. Contrary to mainstream accounts, much emphasis is laid on the analysis of structural causes originating in the mode of production. Marxist scholars identify some very interesting poverty producing tendencies which they argue to be inherent in the capitalist system. They also draw a more variegated picture of the poor population, recognising the existence of different groups of poor people and thus the need for a multi-class analysis. Yet, the feeling arises that some Marxists underestimate the role of individual or group agency in the explanation of social dynamics. This could be argued to be an aspect which would need further attention in order to arrive at a truly comprehensive understanding of poverty.

Turning to contributions from other heterodox traditions, i.e. post-Keynesian and institutionalist, a two-fold picture emerges: On the one hand we find a variety of mainly empirical contributions dealing with the relevance of macroeconomic influences for an understanding of poverty. These publications address similar questions as parts of the mainstream literature, yet arrive at very different interpretations. On the other hand, some highly original theoretical accounts can be found. These accounts, however, tend to focus on a subset of specific aspects of the problem of poverty. No comprehensive theoretical explanation of poverty emerges from the literature. Nonetheless, a number of very promising bits and pieces for a comprehensive theoretical exploration of poverty can be found in both the post-Keynesian and the institutionalist tradition. This thesis aims to be a step forward towards collecting, assembling and complementing the different pieces of this puzzle.

3 Establishing compatibility

This chapter lays the foundations for the rest of this thesis, which ultimately aims at establishing a synthesis between Veblenian, Kaleckian and Robinsonian thought, in that it establishes the fundamental epistemological and methodological compatibility of the three approaches.

The importance of methodological questions for economic theorising, whilst often being ignored, seems to be well established within at least the heterodox part of the economics profession. The epistemological foundations of the different economic theories tend to find less consideration. I would argue, however, that the answers to epistemological questions such as 'What can we know?' are of equal importance for an evaluation of the mutual compatibility of different theories as their methodological foundations. Therefore, this chapter considers both methodological and epistemological differences and similarities in the works of Veblen, Kalecki and Robinson.

The chapter starts off with a discussion of the epistemological and methodological positions underlying Veblen's work. This is followed by an account of Robinson's views on these matters. Last but not least, the philosophical foundations of Kalecki's work will be expounded. The chapter will close with a short summary of the main points of argument and a concluding section.

3.1 Thorstein Veblen

This subchapter is devoted to an in-depth analysis of the philosophical foundations of Veblen's thought. I will open the field with a brief exposition of the epistemological undercurrent. Next follows a more detailed discussion of the main issue of this chapter, namely the scientific methodology employed by Veblen. Finally, as Veblen is often said to be highly influenced by the pragmatist philosophers of his time, the last section considers the literature available on this question in order to arrive at an evaluation of the influence of pragmatism on Veblen's thought.

3.1.1 Epistemology

Veblen's epistemological position provides us with a very interesting subject of study. Contemporary institutionalists do not seem to agree on this matter. The only definitive point of agreement is that Veblen decidedly rejected the idea of an absolute truth existing independently of the knowing subject. With regard to the further interpretation of this rejection two different views can be found in the literature: Some authors argue that the rejection of absolutism leads Veblen to adopt a relativist theory of knowledge and thus to believe that no reality exists independently of its observer (see for example Reuter, 1996, pp. 75-76). Miller, on the other hand, rejects this interpretation, arguing that:

> But, to state that an absolutist theory of reality is rejected, is not to imply that a relativist one is accepted. The statement that there is no eternal, absolute, ultimate reality does not suggest that there is no reality; that there exist only many perspectives, each with an equal claim to validity. There is a reality that stems, not from outside, but from within, the system. In truth, that tree that falls in the forest really does fall, whether or not anyone hears it. Pragmatism rejects equally the absolutist or rational, and the empirical or relativist, theory of value. (Miller, 1991, p. 1000)

Or, as Dyer put it

> Veblen argues that while brute facts do exist, we construct their meanings guided by "the laws of the activity of our faculties of knowledge." Induction,

> he believes, depends upon definite mental predispositions through which we organize our knowledge of facts. (Dyer, 1986, p. 32)

According to these authors, Veblen is going middle ground between absolutism and relativism.

Interestingly enough, those authors who describe Veblen as relativist are from the German-speaking part of Europe, whereas those who posit the intermediary position are American. Thus, the difference in interpretation may be due to a phenomenon observed by Hans Joas who argued that pragmatism[1] has often been misunderstood in continental Europe because it is such a specifically American way of thinking. Continental Europeans often have difficulties in accessing the philosophical arguments of pragmatists. Thus, pragmatism could be regarded as a prime example for the cultural embeddedness of scientific reasoning (Joas, 1992, pp. 11-13). If we accept this interpretation, the logical consequence would be to assume that Miller's and Dyer's dialectical interpretations are likely to do better justice to what Veblen intended to convey. Veblen thus can be regarded as adopting neither a purely relativist nor a purely absolutist stance; rather, he opted for an intermediary position.

3.1.2 Methodology

The first impression to be got upon closer enquiry into Veblen's methodological contribution is the immense controversiality of opinions surrounding it. Even more than on other aspects of Veblen's thought the diversity of different, even contradictory evaluations and interpretations is astounding.

Concerning a general evaluation of Veblen's methodology, for example, opinions range from totally dismissive to positive and hopeful:

> In relation to the development of scientific method in economics, Veblen's contribution cannot be highly rated. (Coats, 1954, p. 537)

[1] The philosophical movement which - as we will see below - many authors see as providing the philosophical foundations of Veblenian institutionalism.

> Veblen never managed to translate his methodological outline into a usable or appealing theory of institutional change. (Rutherford, 1998, p. 464)

> Although there is now revived interest among economists in the idea of evolution, the requirements that Veblen laid out are demanding. Institutionalists, anthropologists and other social scientists, if they wish to follow Veblen's lead, will have to take history and comparative studies seriously, will have to incorporate an adequate explanation of novelty, and will have to give up universal criteria for a good economy. (Mayhew, 1998, pp. 459-460)

> Turning to method, it is sometimes suggested that Veblen's contributions carry no methodological implications for substantive economics. But I think we can now see that this is incorrect. Of course, in advance of a particular investigation it is rarely, if ever, feasible to determine which precise methods will prove to be the most useful in any given context. But it is often possible to throw light on the sorts of methodological orientations or approaches that will be required. (Lawson, 2003, p. 215)

But controversiality does not end here. Indeed, it can also be observed in discussions of the details of Veblen's method. Summarising Veblen's method, Griffin, for example, characterises it as "material, experimental, and quantitative" (Griffin, 1998, p. 748). Reuter, on the other hand, describes it as evolutionary, holistic and genetic (Reuter, 1996, p. 105). Despite not wanting to dismiss Griffin's interpretation, I want to argue that Reuter's understanding is certainly closer to the current institutionalist canon of thought. Nonetheless, I believe that Reuter's analysis sometimes falls short of providing us with a complete picture of the implications of Veblen's methodological thought. In what follows, I will thus propose a similar, yet slightly more comprehensive analysis of Veblenian methodology. Veblen's scientific method, I want to argue, can be described as subjectivist, open, historical, interdisciplinary and holistic. The decision to use more general terminology has also been influenced by the objective to facilitate the comparison of Veblenian, Kaleckian and Robinsonian methodology. I will now examine each of the above mentioned features in more detail.

Subjectivist

Veblen's methodology can be characterised as subjectivist in so far as he regards changes in the people's perceptions and habits of thought as the cause of economic change. He holds that the material facts of life, that is the resources available to mankind, do not change. It is only the people's perceptions of what can be done with the resources available to them that change (Veblen, 1898, pp. 387-391). Thus, Veblen can confidently conclude that

> The change is always in the last resort a change in habits of thought. (ibid., p. 391)

The theoretical focus in the analysis of economic change, thus, according to Veblen must lie on an analysis of changes in the habits of thought of the people. The starting point of theoretical analysis is not the material world per se, but people's interpretations of material phenomena (ibid., pp. 387-388). This is why Veblen's approach can be labelled as subjectivist. It is important to note, though, that subjectivism as it is employed here is not to be confused with epistemological relativism. Veblen does not refer to individual subjective realities; rather, he refers to the collectively constructed reality of the social group (ibid., p. 391).

Open

The primary methodological claim of Veblen's *Why is economics not an evolutionary science?* is that, as the title suggests, economics should adopt an evolutionary methodology. Evolutionary is defined as being non-teleological, that is as not following a predetermined path or converging towards some ideal state, as for example neoclassical equilibrium analysis suggests (ibid., p. 378). Development is understood as a blind, undetermined process building upon all that has come before (Wisman and Rozansky, 1991, p. 713). Whilst teleological theory building is future-oriented, looking to achieve some predetermined ideal state, non-teleological enquiry is always backwards-looking, aiming at explaining what has happened and what is happening (Veblen, 1909, pp. 627-628). In short, non-teleological reasoning concerns itself with the explanation of processes of cumulative change (Veblen, 1898, p. 387). The prefix cumulative means that

> each new situation is a variation of what has gone before it and embodies as causal factors all that has been effected by what went before. (Veblen, 1909, p. 628)

But, as I have stressed above, this does not mean that development processes are predetermined by earlier events. Argyrous and Sethi (1996) argue that Veblen posits openness as a basic principle at both the micro and the macro economic level:

Whilst positing the fundamental indeterminacy of human behaviour, they argue, Veblen still concedes teleological influences at the micro level "in so far as the individual should be conceived of as a purposeful entity" (Argyrous and Sethi, 1996, p. 477). This does not mean, however, that the purposes which these individuals pursue are predetermined or even known.

> The desires and objectives of individual agents are not given and universal, but can take various forms. (ibid., p. 477)

At the macro level as well, the whole is more than its individual parts and thus a fundamentally undetermined process of cumulative causation (ibid., p. 477).

Argyrous and Sethi thus conclude that

> It is only by freeing up the process at both the micro and macro levels from teleological constraints, and allowing each systematically to affect the other, that we can have truly evolutionary theory. (ibid., pp. 477-478)

Historical

The Veblenian method can be described as historical, that is as having an important time dimension, for three reasons:

Firstly, as economic theory, according to Veblen, should concern itself with the explanation of processes of cumulative causation, the method employed necessarily needs to be processual, able to capture dynamic change (Veblen, 1899, p. 123). Methods aimed at the analysis of static situations are inadmissible (Veblen, 1908). Dealing with processes of change and cumulative causation, it is obvious that questions of timing and sequence are important. Thus, Veblen's evolutionary theory has to take account of what happens when and in which order (Veblen, 1899, pp. 123-124). That is, it has to contain an important time dimension.

Secondly, following on from what has just been said, evolutionary theory building should be understood as backwards-looking. Forecasts are inadmissible as the future is regarded as fundamentally uncertain. Thus, economic theory has to contend itself with explaining what has happened in the past and with trying to understand current developments. The subject matter of economics thus is primarily historical, with evolutionary economics largely being a study in economic history (Veblen, 1909, pp. 627-628).

Thirdly, again closely related to what has already been said, economic theorising, according to Veblen, is a historical enterprise in that its results are always historically contingent. Economists working in the Veblenian tradition can never hope to uncover 'natural laws' (Veblen, 1898, p. 392). Rather, they need to be aware that the results they obtain are always emerging from a specific historical situation and thus that, as the economy develops, economic theory has to change as well (Veblen, 1900, p. 241).

> But modern scientific inquiry in any case comes to rest only provisionally; because its prime postulate is that of consecutive change, and consecutive change can, of course, not come to rest except provisionally. By its own nature the inquiry cannot reach a final term in any direction. (Veblen, 1994 [1908], p. 33)

Summing up, Veblenian methodology can be characterised as historical because the analysis of cumulative change has an important time dimension, because it is mostly backwards-looking, explaining past processes, and finally, because its results are understood to be historically contingent, that is valid only in the specific historical situation under study.

Interdisciplinary

The economic sphere, Veblen holds, is so closely intertwined with other spheres that it can only ever be understood in its interrelation with those spheres. The subject field of economics thus is hard to delineate. On top of that, an understanding of economic phenomena necessitates knowledge from neighbouring disciplines. Thus, economic research, in order to accommodate the immense complexity and interrelatedness of its subject matter, always to a certain extent has to be interdisciplinary (Veblen, 1898, pp. 392-393).

Holistic

Veblenian analysis can be said to be holistic insofar as it is neither methodologically individualist nor collectivist. Veblen is very concerned about drawing a comprehensive picture, taking into account dialectical processes of development.

> 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. 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. But such an inquiry can serve the purposes of a genetic theory only if and in so far as this individual conduct is attended to in those respects in which it counts toward habituation, and so toward change (or stability) of the institutional fabric, on the one hand, and in those respects in which it is prompted and guided by the received institutional conceptions and ideals on the other hand. (Veblen, 1909, pp. 629-630)

Thus, I want to argue that Veblen can safely be said to be a truly holistic theorist.

3.1.3 Pragmatism

Veblen's (general) philosophical approach is widely attributed to the pragmatist tradition (see for example Mirowski, 1987; Reuter, 1996; Griffin, 1998; Hodgson, 1998; Twomey, 1998; Barbalet, 2008). Indeed, Veblen used to be a student of Peirce, the widely acclaimed founding father of pragmatism, during his time at John Hopkins University (Griffin, 1998, p. 734). According to Griffin, Veblen received "three months of general tutorials" (ibid., p. 734) from Peirce. Apart from this, relatively little is known of the extent of Veblen's knowledge of and contact with pragmatism. Veblen himself never mentioned Peirce in writing (ibid., p. 734). When referring to pragmatism in general, Reuter argues, Veblen at first was highly critical and dismissed it as being incompatible with his own understanding of science (Reuter, 1996, pp. 81-82). He was particularly critical of the pragmatists' stress on expediency, himself highlighting the importance of "disinterested inquiry" (Veblen, 1906, p. 599). Contrasting pragmatism and science, Veblen claims

> Pragmatism creates nothing but maxims of expedient conduct. Science creates nothing but theories. It knows nothing of policy or utility, of better or worse. None of all that is comprised in what is today accounted scientific knowledge. Wisdom and proficiency of the pragmatic sort does not contribute to the advance of a knowledge of fact. It has only an incidental bearing on scientific research, and its bearing is chiefly that of inhibition and misdirection. Wherever canons of expediency are intruded into or are attempted to be incorporated in the inquiry, the consequence is an unhappy one for science, however happy it may be for some other purpose extraneous to science. The mental attitude of worldly wisdom is at cross-purposes with the disinterested scientific spirit, and the pursuit of it induces an intellectual bias that is incompatible with scientific insight. (ibid., p. 600)

Reuter, referring to Daugert, suggests that Veblen's dismissive evaluation of the compatibility of pragmatism with his own approach is based on his incomplete knowledge of pragmatism rather than on pragmatist writing per se (Reuter, 1996, p. 82). In *The Higher Learning in America*, published twelve years after his original critique, Veblen seems to be more positive with regard to pragmatist philosophy, arguing that pragmatist theories have evolved and indeed "made their peace with" (Veblen, 1957 [1918], p. 4) his own stress of the character of science as disinterested enquiry. In the later stages of his career, Veblen can thus be said to have embraced pragmatism as compatible with his own approach. Indeed, notwithstanding Veblen's critical remarks, contemporary institutionalists agree that Veblen was highly influenced by the writings of the first generation pragmatists. Whilst most authors argue that the primary pragmatist influences were Peirce and James (Griffin, 1998; Twomey, 1998; Hodgson, 1998; Barbalet, 2008), Mirowski suggests that Dewey and James were indeed more important influences than Peirce himself. However, all agree on the strong pragmatist influence underlying Veblen's thought.

3.2 Joan Robinson

Joan Robinson was very explicit about the philosophical background of her work. While not necessarily aligning herself with any specific philosophical tradition, on numerous occasions she discussed epistemological and methodological questions. On the following pages I will first discuss Robinson's epistemological statements and then follow on with an overview of her methodological position. Finally, the compatibility of Robinson's approach with critical realism - which is often referred to as the philosophical basis of post-Keynesian economics - will very briefly be considered.

3.2.1 Epistemology

As far as the epistemological foundations of her work are concerned, Robinson's writings, I want to suggest, are ambiguous. On the one hand, a strongly relativist stance can clearly be detected. On the other hand, Robinson's belief in the falsifiability of economic theories suggests a realist perspective. In what follows I will briefly review both aspects of Robinson's work.

Robinson's leaning towards relativism is made explicit in *Economic Philosophy* (Robinson, 1962). In this book she argues that

> One reason why modern life is so uncomfortable is that we have grown self-conscious about things that used to be taken for granted. Formerly people believed what they believed because they thought it was true, or because it was what all right-thinking people thought. But since Freud exposed to us our propensity to rationalization and Marx showed how our ideas spring from ideologies we have begun to ask: Why do I believe what I believe? The fact that we ask such questions implies that we think that there is an answer to be found but, even if we could answer them at one layer, another remains behind: Why do I believe what I believe about what it is that makes me believe it? So we remain in an impenetrable fog. Truth is no longer true. Evil is no longer wicked. 'It all depends on what you mean.' (ibid., p. 7)

This demonstrates a very relativist understanding of knowledge. As our cognition, Robinson argues, is always coloured by our experiences and prejudices, there is no way of obtaining objective knowledge. Even though reality may exist independently of our cognition, we are incapable of apprehending it. The only way of perceiving reality as it really is, Robinson suggests, is through the repeated testing of hypotheses (ibid., p. 27).

> The objectivity of science arises, not because the individual is impartial, but because many individuals are continually testing each other's theories. (ibid., p. 27)

Thus, Robinson seems to argue, that out of the multiplicity of subjective observations and interpretations arises objectivity.

This is closely related to the second aspect of Robinson's epistemological thinking, namely her belief in falsification. Robinson repeatedly seems to suggest that the methodological problem of economics arises out of its incapability to formulate testable hypotheses (ibid., p. 26). Economists, she claims, should aim at the formulation of testable hypotheses rather than relying on "metaphysical propositions" (ibid., p. 9). This implies, however, that there is a way for economists to perceive reality. This, I would like to argue, contradicts her earlier assertion of the unknowability of 'the truth'. How could we falsify hypotheses without being able to decide between what is true and what is not?

One possible way of reconciling these two fundamentally contradictory propositions is provided by, as has been suggested above, Robinson's belief that objectivity arises out of the process of many researchers testing each others hypotheses. This stance reminds me of the pragmatist understanding of socially constructed truth. On the epistemological level, thus, Robinson may be interpreted as adopting a similar stance to Veblen, despite her somewhat irritating stress on falsifiability.

3.2.2 Methodology

Methodological reasoning featured high in Robinson's work . Very early on in her career she started to enquire into the methodological basis of economics. Her first major methodological publication was a pamphlet entitled *Economics is A Serious Subject* (Harcourt, 1990, p. 63). In *Joan Robinson's Early Views on Method* Geoff Harcourt (1990) argues that Robinson fundamentally changed her methodological position shortly after publication of the pamphlet, following a quite different approach in the introduction to *The Economics of Imperfect Competition* only a year after publication of the pamphlet (ibid., pp. 63-64). The following analysis will thus focus on later methodological statements. Important later publications dealing with matters of methodology are *Economic Philosophy* (Robinson, 1962), *Time in Economic Theory* (Robinson, 1980d), *History Versus Equilibrium* (Robinson, 1980 [1974]) and *Thinking About Thinking* (Robinson, 1980c). Reading through these publications four major methodological principles can be detected: Robinson's proposed methodology can be described as historical, holistic, interdisciplinary and open. These are not categories used by Robinson herself but I will argue that they are nonetheless very useful for describing and comparing her methodological position.

Historical

The methodological principle most highlighted by Robinson is the importance of historical analysis. A number of publications, most notably *Time in Economic Theory* (Robinson, 1980d) and *History Versus Equilibrium* (Robinson, 1980 [1974]) are explicitly devoted to the establishment of the importance of the time dimension in economic theory. Robinson introduces the differentiation between logical time and historical time, arguing that economic theory should always concern itself with historical time (Robinson, 1980d). She is highly critical of neoclassical static equilibrium analysis for failing to take account of the cumulative, dynamic aspects of economic change (Robinson, 1980 [1974], pp. 57-58).

> We might suppose that we can take a number of still photographs of economies each in stationary equilibrium; let us suppose that the 'measurement' problem can be solved by calculating all values in terms of labour time, and that it happens that the economies can be arranged in a series in which a larger value of capital per man employed is associated with a higher net output per man of a homogenous consumption good, as on Professor Samuelson's 'surrogate production function'. This is an allowable thought experiment. But it is not allowable to flip the stills through a projector to obtain a moving picture of a process of accumulation. (ibid., p. 57)

Economic change, Robinson repeatedly stresses, originates in the past and reaches into an unknowable future. It is an open, unpredictable process which is far from following any predetermined pattern, e.g. automatically adjusting to equilibrium (Robinson, 1980d, p. 219). Like Veblen, Robinson was primarily interested in explaining dynamic processes of economic change. She was not interested in simply describing and comparing stationary states but wanted to explain how real economies develop (Robinson, 1980 [1974], p. 57). And she never tired of stressing that in order to be able to do so economic theory has to give due account to history (ibid., p. 49). Economic theory, Robinson was convinced, has "to take to the turbulent waters of truly dynamic analysis" (Robinson, 1980 [1977][b], p. 70) in order to be relevant.

Apart from stressing the dynamic aspect of economic theorising, Robinson's analysis was also historical in so far as she rejected the possibility of finding general laws (Robinson, 1980d, p. 228). Economic theory-building, Robinson argues, cannot hope to uncover ahistorically valid general laws; rather, it has to contend itself with enquiring "how things happen" (ibid., p. 228). Economic theories always are historically contingent and can never provide "a knock-down answer" (Robinson, 1962, p. 26). Thus, like Veblen, Robinson conceptualises economic theory building as an ongoing process which can only ever come to rest provisionally.

This stress on the historical contingency of economic ideas points us towards another important methodological principle underlying Robinson's work: the close interrelation of theory with empirical data. Despite being a purely theoretical economist herself, Robinson used to closely collaborate with highly skilled empirical economists such as Kalecki. Thus she ensured the empirical relevance of her theoretical work (Harcourt, 2002, p. 95). In her methodological writings, Robinson's endeavour for the empirical validity of economic theory surfaces in her discussion of the role of assumptions. It is of utmost importance, Robinson holds, that economists be as explicit as possible about the assumptions on which their theories are built. This requirement is often neglected in economic analysis (Robinson, 1980c, p. 111). It fulfils two important functions, though: firstly, it facilitates the evaluation of competing theories with respect to the realism - and thus appropriateness - of their assumptions. That is, theoretical assumptions, according to Robinson, should represent the real world. Secondly, making explicit the assumptions underlying the different theoretical approaches facilitates communication between theorists (ibid., p. 111). Ideally, Robinson argues,

> Each party should set out clearly the assumptions on which his argument is based; by mutual criticism they can arrive at agreement about what consequences follow from what assumptions and then they can join in an amicable discussion about what evidence must be found to show which set of assumptions (if either) is relevant to the problem in hand. (ibid., p. 111)

Robinson notes, however, that this ideal case is far removed from actual economic discourse:

> For this method to be successful, both parties must follow it. An attempt by one party to proceed in this way is frustrated if the other continues to reiterate his conclusions or insists that his own set of assumptions is the only one that can legitimately be made. Unfortunately, the greater part of economic controversies arise from confronting dogmas. The style of argument is that of theology, not of science. This has grown with the growth of a large and flourishing profession, in which jobs depend on supporting opinions acceptable to those in authority. (Robinson, 1980c, p. 111)

Her plea for the disclosure of assumptions so far remains largely unheard from the greatest part of the profession.

Holistic

Robinson adopted a methodology that was neither strictly individualist nor strictly collectivist. Rather, I would say, she takes up an intermediary position looking at the interrelations between individual and collective behaviour. Indeed, she was very interested in the role of different institutions in shaping individual behaviour (Harcourt, 1990, p. 63):

> it is obviously impossible to discuss the behaviour of individuals in a vacuum without saying anything about the legal, political and economic setting in which they are to operate. (Robinson, 1980b, p. 92)

A further related issue which is discussed in Robinson's writings are the close interrelations between micro- and macro-theory:

> Micro questions – concerning the relative prices of commodities and the behavior of individuals, firms, and households – cannot be discussed in the air without any reference to the structure of the economy in which they exist, and to the processes of cyclical and secular change. Equally, macro theories of accumulation and effective demand are generalizations about micro behavior: the relation of income to expenditure for consumption, of investment to the

> pursuit of profit, of the management of placements, in which financial wealth is held, to rates of interest, and of wages to the level of prices result from the reactions of individuals and social groups to the situations in which they find themselves. (Robinson, 1980 [1977][c], p. 4)

To be fair, it must be acknowledged that Robinson's methodological approach was not as holistic as Veblen's, but, I would like to argue, it contains some holistic elements as well. Differences are to be found in degree, rather than in principle.

Interdisciplinary

Despite hardly making it explicit, Robinson, I would argue, was acutely aware of the need to analyse economic behaviour and institutions in their interrelation with other spheres of social life. This gets particularly obvious in her discussion of the political sphere which, as we will see in chapter 7, is based on Kalecki's theory of the political business cycle. In their book *Joan Robinson* Harcourt and Kerr (Harcourt and Kerr, 2009) also support this view, pointing out that

> Over her lifetime, but particularly in her later years, Joan Robinson abandoned the traditional model of economics. First, she extended the boundaries of the subject. She does so not only by going outside orthodox economics but also goes into anthropology, sociology, history and politics for her material. (ibid., p. 202)

Open

In her writings on the role of time in economic theorising, Robinson tirelessly points to the fundamental indeterminacy of the future. Or, to put it in other words, in Robinson's eyes the future is open (Robinson, 1980d, p. 219).

> 'Today' is influenced, but not completely bound, by the past. Any action or decision taken today is either the result of blind habit and convention or it is directed towards its future consequences, which cannot yet be fully known. (ibid., p. 219)

Robinson certainly has some understanding of path dependency or cumulative causation, thus allowing the past to influence the present and the past and the present to influence the future, but this does only influence, not predetermine present and future developments. In the last instance the outcome of processes of cumulative change remains unknowable (Robinson, 1980d, p. 219). Accordingly, in *Economics - An Awkward Corner* Robinson aptly argues that

> It is impossible to understand the economic system in which we are living if we try to interpret it as a rational scheme. It has to be understood as an awkward phase in a continuing process of historical development. (Robinson, 1968, p. 11)

3.2.3 Critical realism

Younger generations of post-Keynesian economists seem to have reached a broad consensus that critical realism can be considered the philosophical basis of post-Keynesian economics. As Joan Robinson certainly is one of the major influences on modern post-Keynesian economics, this claim necessitates the question of whether the philosophical principles of critical realism are compatible with her philosophical position. I will thus briefly enquire into this question.

Jefferson and King define six criteria which can be used to identify particular research paradigms as critical realist (Jefferson and King, 2011, pp. 960-961). Critical realist theorising, they hold, is characterised by:

> i. There is a presumption that objects of enquiry exist at least partially independently of their investigation and are separable from the enquirer. Thus, it is inconsistent with strong forms of social constructionism (Della Porta and Keating, 2008, p. 24).
> ii. Relations of cause and effect are involved; mere 'mutual dependence' is not sufficient. Causality is attributed to the structures, powers, mechanisms or tendencies that underlie specific events and which produce or facilitate their occurrence.
> iii. Priority is given to explaining observed events or data; prediction may or may not be possible, but it is never primary or sufficient.

> iv. Socio-economic systems are understood to be open.
> v. Economic theories apply to particular social, geographic and historical contexts, and need to change when the context changes. This is the principle of historical specificity.
> vi. Social institutions are not exogenous to human agency. (Jefferson and King, 2011, pp. 960-961)

While Jefferson and King posit the assumption of a reality existing independently of the observer as an important characteristic of critical realism, Dow stresses that this does not imply that we are actually able to apprehend it:

> critical realism does not claim to identify „true“ causal processes. While that is the aim, it is emphasized that knowledge actually produced is both fallible and transformable; there can be no assurance of having identified the truth. In the same way as the Babylonian approach, critical realism seeks to avoid the duality of certain knowledge/no knowledge, aiming to establish the best means of building up knowledge that is useful for practical purposes (i.e. knowledge of cause) given the inherent difficulties of doing so with respect to social systems. (Dow, 1999, p. 23)

The assertion of an independently existing reality thus should not be regarded as implying an absolutist agenda.

Can Robinson's methodological approach, summarised above, be described as critical realist as it is characterised by Jefferson and King? The answer, I would argue, is a definitive 'yes'. Every single one of the above criteria can also be found in Robinson's methodological writings. Joan Robinson's philosophical approach thus can confidently be regarded as being compatible with the modern critical realist project.

3.3 Michał Kalecki

Analysing Kalecki's methodological approach is a very demanding undertaking as Kalecki has published very little on the topic himself. Only two very short papers deal with methodological questions: *Econometric Model and Historical Materialism* (Kalecki, 1997 [1964][a]) and *Why Economics Is Not an Exact Science* (Kalecki, 1997 [1964][b]). In addition to that Jefferson and King report that there is some mentioning of methodological issues in a few other papers. Even so, they argue, "they amount to less than 1% of his published work" (Jefferson and King, 2011, p. 961). Direct evidence on Kalecki's methodological understanding, thus, is relatively sparse. Nonetheless, in what follows I will provide a brief discussion of Kalecki's methodology, drawing on the two methodological papers mentioned above and the available secondary literature.

Whilst explicitly methodological statements are scarce in Kalecki, discussion of the epistemological foundations of his work seems to be non-existent. Therefore, as the analysis of Kalecki's epistemological position appears to bear a great risk of turning out to be pure speculation, I decided to limit my discussion to methodological concerns.

3.3.1 Methodology

As Kalecki did not publish much on methodology, secondary literature on the topic is rather sparse too. Toporowski (1991) has contributed a highly interesting paper on the topic in which he directly scrutinises Kalecki's empirical and theoretical oeuvre in an attempt to expound the methodological basis of his research. Toporowski starts from the observation that Kalecki did not comply with the academic convention of situating one's work in the theoretical discourse of the time (Toporowski, 1991, p. 91). Indeed, Kalecki so rarely and cursorily referred to theoretical work by other authors, Toporowski points out, that this

> gave rise to jocular speculation among his colleagues as to whether he had read any theory at all (ibid., p. 91).

Rather than joining in in these speculations, Toporowski suggests that Kalecki's self-contained "way of working suggests an intuitive deductive way of drawing conclusions from his ideas" (ibid., p. 90). He then goes on to point out a further peculiarity of Kalecki's approach, however, which appears to stand in contradiction to this suggestion: spread throughout Kalecki's theoretical work are assumptions which have clearly not been derived through logical deductive reasoning but are grounded in empirical observation (Toporowski, 1991, pp. 92-93). Thus, Toporowski holds, looking at the totality of Kalecki's empirical and theoretical contributions an empirical deductive way of reasoning emerges as the methodological basis of his work. Toporowski convincingly argues that Kalecki's theoretical papers can be interpreted as generalisations drawn from his rich empirical experience. This empirical deductive method also explains the very rare references to other theoretical work (ibid., pp. 94-95).

Adding to Toporowski's general methodological observations I want to put forward my own interpretation of Kalecki's two explicitly methodological publications. The most intriguing feature of the two papers, I want to argue, is that in both of them Kalecki seems to introduce some kind of dualism between 'pure economics' and economics broadly speaking. Pure economics, he argues, just like theoretical physics, is a

> quantitative discipline[s] which, on the basis of general premisses derived from the knowledge of the real phenomena, develop a deductive system which is then confronted with the external world. (Kalecki, 1997 [1964][b], p. 308)

Pure economics as it is described here, Kalecki argues, is a "purely deductive discipline" (ibid., p. 310) and an "exact science" (ibid., p. 310). He does concede, however, that there is more to processes of economic development than can be explained by pure economics (Kalecki, 1997 [1964][a], p. 303).

The fundamental problem of economics is that, unlike the physicists, economists do not have the possibility of performing controlled experiments. The data they have to work with is always biased by external disturbances (Kalecki, 1997 [1964][b], p. 310). On top of that, Kalecki argues, these external factors "play a very important part" (ibid., p. 310) in explaining economic development. Thus, he concludes that in economics no hypothesis can ever be fully confirmed. We can never know 'the truth' (ibid., p. 310).

Whilst in *Why Economics Is Not an Exact Science* Kalecki does not go into the details of delineating the explanatory scope of pure economics, I want to argue that this is exactly what he does in *Econometric Model and Historical Materialism.* In this short paper Kalecki describes econometric modelling and historical materialism as two alternative "approaches to the development of society" (Kalecki, 1997 [1964][a], p. 301). He defines the econometric model as

> based on functional relations between the econometric variables in the period considered as well as between these variables and the same variables in the past periods. The relations are assumed to be given and not subject to change. In this way a definite dynamic process is established which, however, corresponds to the actual developments only in the case where the basic assumption of the invariability of functional relationships referred to above is fulfilled. (ibid., p. 301)

Historical materialism, on the other hand,

> considers the process of the development of a society as that of productive forces and productive relations (the base) which shape all the other social phenomena such as government, culture, science, and technology etc. (the superstructure). There is a feedback effect involved here, the superstructure influencing the base as well. (ibid., p. 301)

Kalecki then goes on to argue that these two approaches, whilst being very different, are not necessarily irreconcilable (ibid., p. 301). The econometric model is appropriate for the analysis of static situations in which "no changes in natural resources, productive relations, and the superstructure affect the development of productive forces" (ibid., p. 301). Kalecki hastens to add, though, that

> In a more general case these functional relationships alter under the impact of events in three other spheres of the system and the economic development is then a much more complicated process than that presented by an econometric model as it reflects the evolution of the society in all the aspects. (ibid., p. 301)

Also, as the applicability of the econometric model presupposes known and unchanging productive relations, it is not admissible to be used to make predictions. After all, we cannot know how the productive relations will develop in the future (ibid., p. 302).

Combining the arguments from the two papers, I want to argue, presents us with the following methodological position: Econometric modelling can be fruitfully applied to economic research as long as its application remains restricted to the sphere of 'pure economics', that is the explanation of static situations with known productive relations. Indeed, it is a valuable research tool, Kalecki argues, "provided its limitations are kept in mind" (Kalecki, 1997 [1964][a], p. 302). On the other hand, this sphere of pure economics is embedded in and influenced by other factors which cannot be quantified and included in an econometric model (ibid., p. 303). Thus, following Kalecki's approach, I would argue, means that econometric modelling always needs to be complemented by other research methods. This approach can be observed throughout Kalecki's manifold theoretical writings.

In conclusion, I want to align myself with Joan Robinson who argued that

> Though Kalecki liked to express his ideas in neat formulae, he was always conscious of the limitations of that style of exposition, and set his arguments against the background of history, politics and institutional change. (Robinson, 1980 [1977][a], p. 196)

3.3.2 Critical realism

Apart from Toporowski's above mentioned paper, most of the secondary literature on Kalecki's methodology has been written as part of the ongoing discussion about whether critical realism can be regarded as the appropriate philosophical foundation for post-Keynesian economics. Thus the focus is on establishing whether Kalecki's methodological approach is compatible with critical realism. On this issue different authors arrive at different conclusions.

In what follows, I will summarise three papers dealing with the question of compatibility in chronological order of their publication.

In 1999 Walters and Young, in a paper enquiring into the general appropriateness of critical realism for post-Keynesianism, argue that Kalecki's approach is incompatible with critical realism (Walters and Young, 1999, p. 114). They give two reasons for this assessment:

Firstly, they argue that Kalecki's analysis sticks with surface phenomena rather than trying to explain "hidden mechanisms or powers" (ibid., p. 114). As the importance of underlying structures and causal mechanisms is one of the key tenets of critical realism, this would necessarily result in Kalecki's approach being at odds with critical realism (ibid., p. 114).

Secondly, the authors reason that Kalecki's frequent use of statistics and econometrics marks his approach as incompatible with critical realism as well (ibid., p. 114). The use of econometrics, it is often argued, in order to be valid presupposes a closed system in which all the important variables are known. This stands in direct opposition to the stress on openness in critical realism. Thus, the authors conclude that Kalecki's methodological approach is incompatible with critical realism (ibid., p. 114).

In his 2000 paper *A Realist Appraisal of Post-Keynesian Pricing Theory* Downward arrives at a very different conclusion. Contradicting Walters and Young, Downward holds that Kalecki's pricing theory is indeed aimed at uncovering the causal mechanisms underlying pricing decisions, and is thus fully "consistent with a post-Keynesian commitment to an open-system ontology" (Downward, 2000, p. 214). Downward points us towards Kalecki's discussion of the role of trade unions, sales promotion and industrial concentration in the determination of the degree of monopoly for an illustration of this argument (ibid., p. 215). Nonetheless, Downward concedes that Kalecki could be said

> partially to invoke the intrinsic condition of closure in attempting to establish the causal mechanisms involved in setting prices [...]. (ibid., p. 214)

Intrinsic closure, according to Dow can be defined as "[ruling] out any change in the variables within the systems or in their interrelations" (Dow, 2003, p. 13).

Kalecki, in order to be able to explain or even predict pricing behaviour, presupposes a certain stability or regularity of the influences acting upon prices. Consequently, a certain reliance upon so-called event regularities - which stand in clear opposition to an open-system methodology - can be detected. However, Downward argues, Kalecki's careful avoidance of determinism keeps him from relying too heavily on supposed event regularities (Downward, 2000, p. 214). On top of that, Downward reasons, "the extrinsic condition of closure is clearly not invoked" (ibid., p. 214) in Kalecki's work. That is, Kalecki does not presuppose full knowledge of external variables (Dow, 2003, p. 13).

In conclusion, Downward argues that Kalecki's pricing theory can be regarded as a "manifestation[s] of a critical-realist approach" (Downward, 2000, p. 222).

Downward's stance on this matter can be further illuminated by the fact that he is part of a group of post-Keynesians arguing for the admissibility of econometric modelling within a critical realist framework. These authors argue that whilst strict event regularities cannot be supposed to occur, so-called demi-regs, that is, "regularities that are not only highly restricted but also somewhat partial and unstable" (Lawson, 2003, p. 79) may indeed be observed. These demi-regs may be used as a basis for econometric modelling. This is even conceded by Lawson who in general seems to be very critical of the use of formalistic methods:

> Parenthetically, I might emphasize at this point that if Post Keynesians do join with critical realism in accepting its ex posteriori assessment that the world is open and structured, it does not follow (as some have supposed) that Post Keynesians ought thereby not to engage at all in formalistic methods such as econometrics. The possibility of successes with the latter requires local closures. But closures themselves have been shown to presuppose, and indeed to be a special configuration of, an open and structured system, that is, a special case of the sort of system that does widely obtain (see, e.g., Lawson, 1997). Critical realism thus cannot and does not rule out a priori their limited occurrence. (Lawson, 1999, p. 7)

Nonetheless, the admissibility of econometric modelling is still highly controversial within the critical realist community. A more recent contribution to this ongoing discussion has been provided by Jefferson and King in their 2011 article *Michał Kalecki and Critical Realism.*

In this article Jefferson and King have formulated six criteria for evaluating whether a theoretical approach is compatible with the critical realist framework (Jefferson and King, 2011, p. 961). These criteria have already been quoted above in my enquiry into the compatibility of Robinson's approach with critical realism, but I shall briefly summarise them again for the reader's convenience: the acknowledgement of the existence of an independent reality, enquiry into underlying causal mechanisms, focus on the explanation of observed phenomena, openness, historical contingency and the endogeneity of institutions (ibid., p. 961). Having outlined these criteria, Jefferson and King go on to analyse Kalecki's adherence to each of them in detail.

The authors do not spend much time on criterion one, taking

> [. . .] it as read that Kalecki assumed the economy to exist independently of his observation of it. (ibid., p. 962)

Criteria two and three are dealt with together because, as the authors point out, they cannot be separated in Kalecki's work. Kalecki's theoretical work is an attempt at the explanation of observed events, e.g. price determination, in terms of underlying causal factors, e.g. all that influences the degree of monopoly (ibid., p. 962).

Jefferson and King seem to agree with Walters and Young and Downward in so far as they view openness as the most problematic criterion with regard to Kalecki's work. The authors observe that Kalecki's extensive use of econometrics may be problematic in implying a closed-systems approach, but ultimately arrive at the same conclusion as Downward:

> [. . .] Kalecki clearly recognised that economies are open systems with some degree of event regularity afforded by partial or local closures due to specific organisational or institutional contexts [. . .]. (ibid., p. 965)

The assumption of local closures, as Downward (2000) argues and has been conceded by Lawson (1999) as well, can be regarded as compatible with critical realism.

Criteria five and six, namely historical specificity and the endogeneity of institutions, are unproblematic with regard to Kalecki's work. Kalecki can be said to have been acutely aware of the historical contingency of theory building and of the importance of including institutions in economic theory (Jefferson and King, 2011, pp. 968-970).

Accordingly, Jefferson and King come to the conclusion that

> taken as a whole, Kalecki's work does reflect open-system thinking, and incorporates the principles of historical specificity and the endogeneity of social institutions. (ibid., p. 970)

Thus, they conclude that Kalecki's theoretical work can be viewed as being compatible with critical realism (ibid., p. 970).

In a nutshell, two out of the three papers discussed above come to the conclusion that Kalecki can be posthumously included in the ranks of critical realist economists. The most problematic aspect of Kalecki's work in this respect is his reliance on econometric modelling, but as has been argued by Downward and Jefferson and King and as I hope to have shown in chapter 3.3.1, Kalecki can be said to have employed mathematical modelling in a manner that is compatible with an open-system approach.

Concluding remarks

In this chapter, I put forward the proposition that Veblen, Robinson and Kalecki share, if very broadly, certain core epistemological and methodological principles. These principles are: historicity, openness, holism and interdisciplinarity. Of the three authors Kalecki certainly occupies a special position with his frequent use of econometrics. This has provoked some authors to argue that Kalecki's use of econometrics presupposes a closed-system perspective which would make it fundamentally incompatible with Veblen's and Robinson's approaches. However, other authors show that Kalecki's use of econometrics only relies on demi-regs and thus can be said to respect the basic premises of open-system thinking. In a nutshell, then, the three authors under scrutiny can be said to have built their theories on largely compatible philosophical foundations. Judging from the philosophical basis, thus, there is no reason to oppose a theoretical synthesis of Veblen's, Robinson's and Kalecki's work.

4 Poverty producing process n° 1: Conspicuous consumption

Conspicuous consumption may be a surprising element to be included in an analysis of poverty production. Is it not a proof of having more than one needs for subsistence, rather than too little? Certainly, widespread conspicuous consumption is a feature of wealthy societies. This, however, is only one side of the coin. Wealth and poverty are closely interrelated. Whilst demonstrating the wealth of some, conspicuous consumption through various means contributes to the creation or aggravation of the poverty of others. A close investigation of these adverse socio-economic consequences of conspicuous consumption constitutes the heart of this chapter. The start will be made by a detailed discussion of Veblen's analysis of conspicuous consumption. This is followed by an examination of Joan Robinson's contributions to the topic. Next comes a section detailing Kalecki's approach to consumption. This then leads into an analysis of the special case of conspicuous consumption on supply-restrained markets. The main part of the chapter will be concluded by a section dealing with the question of the long-term financial sustainability of conspicuous consumption patterns. Finally, in the last section, the argument is summarised and preliminary conclusions are drawn.

4.1 Thorstein Veblen

Before going into the details of the analysis, let me start with a short conceptual derivation. Conspicuous consumption, in the English-speaking world, has come to be regarded as part of common vocabulary. It's origins, however, lie in the work of Thorstein Veblen.

In the *Theory of the Leisure Class* Veblen starts his analysis from the assumption that our self-esteem is built up in interaction with and thus crucially depends upon others. It does so in two ways: firstly, in order to feel good about themselves, people need to feel valued by others (Veblen, 1998 [1899], p. 30). Secondly, people define their self-worth in comparison with others. We do not just want to be good, we want to be better than others (Veblen, 1998 [1899]; Forges Davanzati, 2006, pp. 55-56).

> However widely, or equally, or "fairly," it may be distributed, no general increase of the community's wealth can make any approach to satiating this need, the ground of which is the desire of every one to excel every one else in the accumulation of goods. If, as is sometimes assumed, the incentive to accumulation were the want of subsistence or of physical comfort, then the aggregate economic wants of a community might conceivably be satisfied at some point in the advance of industrial efficiency; but since the struggle is substantially a race for reputability on the basis of an invidious comparison, no approach to a definitive attainment is possible. (Veblen, 1998 [1899], p. 32)

Our self-esteem, thus, to a considerable extent is based on relative status.

In former times status was assigned exclusively in relation to different occupations (ibid., p. 8). Predatory occupations, like warfare and hunting, came to be more highly valued than industrial employment. These occupations were based on aggression, exploitation and strength (ibid., p. 10). As time progressed and social roles became more differentiated, other employments such as sports, politics, clerical work and eventually business management came to be included in the group of highly valued predatory professions. As different as they may seem at first glance, the different predatory occupations, according to Veblen, have one thing in common: none of them is directed towards productive work. Rather than living off their own productive power these members of society live off the exploitation of others (Veblen, 1998 [1899], p. 14). The high social status connected to predatory occupations is also reflected in higher rates of pay. Accordingly, financial power has come to be established as the ultimate measure of status (ibid., p. 84).

In order for wealth to vest its owner with status it needs to be demonstrated to the fellow men (ibid., p. 36). This is achieved through conspicuous waste. Veblen defines conspicuous waste as any action or purchase "incurred on the ground of an invidious pecuniary comparison" (ibid., p. 99). Conspicuous waste can be further divided into conspicuous leisure and conspicuous consumption (ibid., p. 84).

Conspicuous leisure is the 'ostentatious display' of free time with the aim to demonstrate that one has the financial capacity to refrain from productive work.

> Time is consumed non-productively (1) from a sense of the unworthiness of productive work, and (2) as an evidence of pecuniary ability to afford a life of idleness. (ibid., p. 43)

The first part of this quotation shows how closely this behaviour is linked to the social division of labour and related attributions of value. The choice of activities that count as conspicuous leisure is not just an accidental by-product of the need to display financial wealth, it is deeply rooted in social norms concerning the worthiness or unworthiness of different occupations. Abstaining from productive work per se, though, is not enough. The whole point of conspicuous waste is to demonstrate our status to the other members of the community we live in. Accordingly, we must be able to show proof of the time spent unproductively. This is often achieved through engagement in quasi-artistic and quasi-academic activities (e.g. playing a musical instrument, learning a dead language). Another popular conspicuous occupation is sports (ibid., pp. 44-45). The archetypical model of the well-educated housewife is a special instance of conspicuous leisure too, as in this case the man basically delegates conspicuous leisure (and often conspicuous consumption as well) to his wife[1]. These activities show results which can be used to

[1] This was already discussed by Veblen in his essay *The Economic Theory of Women's Dress* which was published five years prior to *The Theory of the Leisure Class* in 1894.

communicate status while at the same time carefully avoiding any notion of productive usefulness. This strategy does not work equally well in all circumstances, though (Veblen, 1998 [1899], p. 86).

Veblen holds that the effectiveness of conspicuous leisure as a means for the display of wealth is contingent upon the size of a community. In small communities, as for example in rural areas, where people are in close contact with each other, conspicuous leisure is effective. This tends to change, however, once communities grow in size and get increasingly anonymous: the bigger a community gets, the looser the contact among its members, the less effective becomes the 'ostentatious display' of leisure (ibid., pp. 86-87).

> In the modern community there is also a more frequent attendance at large gatherings of people to whom one's everyday life is unknown; in such places as churches, theatres, ballrooms, hotels, parks, shops, and the like. In order to impress these transient observers, and to retain one's self-complacency under their observation, the signature of one's pecuniary strength should be written in characters which he who runs may read. (ibid., p. 86)

In these cases, more direct, more readily visible demonstrations of wealth are needed. This is were conspicuous consumption comes into play.

In late 19th century already Veblen observed a continuing trend towards urbanisation and bigger and more anonymous communities. His conclusion as to the status of conspicuous leisure as an effective means of status acquisition thus comes as no surprise:

> It is evident, therefore, that the present trend of the development is in the direction of heightening the utility of conspicuous consumption as compared with leisure. (ibid., p. 86)

It should be stressed, however, that this is a relative shift rather than an absolute disappearance of conspicuous leisure. Both strategies continue to coexist. Still, despite not being the only means of status demonstration, conspicuous consumption can rightly be considered as the most important one in advanced industrial economies (ibid., p. 87).[2]

[2] Life has changed considerably since the time of Veblen's writing and thus have the possibilities for

As with conspicuous leisure, the defining element of conspicuous consumption is its wastefulness (Veblen, 1998 [1899], p. 85).

> Throughout the entire evolution of conspicuous expenditure, whether of goods or of services or human life, runs the obvious implication that in order to effectually mend the consumer's good fame it must be an expenditure of superfluities. In order to be reputable it must be wasteful. No merit would accrue from the consumption of the bare necessaries of life [...] (ibid., pp. 96-97)

To argue that conspicuous consumption is the consumption of superfluous goods certainly implies some valuation. What are to be defined as necessary and superfluous goods is, at least to a certain extent, a matter of taste. But Veblen does not want this differentiation to become arbitrary. He stresses that it does not depend upon personal judgement but can be determined objectively. Veblen recognises that the consumers may find conspicuous consumption goods necessary, even indispensable (ibid., pp. 99-100). These subjective valuations or habits, however, are irrelevant for his classification of consumption goods as conspicuous or serviceable:

> The question is, therefore, not whether, under the existing circumstances of individual habit and social custom, a given expenditure conduces to the particular consumer's gratification or peace of mind; but whether, aside from acquired tastes and from the canons of usage and conventional decency, its result is a net gain in comfort or in the fulness of life. Customary expenditure must be classed under the head of waste in so far as the custom on which it rests is traceable to the habit of making an invidious pecuniary comparison – in so far as it is conceived that it could not have become customary and prescriptive without the backing of this principle of pecuniary reputability or relative economic success. (ibid., pp. 99-100)

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conspicuous consumption. In the era of Facebook and the like human relations become increasingly transient and superficial. Thus, not only has conspicuous consumption overtaken conspicuous leisure in terms of effectiveness, traditional methods of conspicuous consumption have been superseded by new, even more effective means. Modern technology provides us with a wealth of possibilities for the effective display of wealth. A formidable new strategy for example is the option offered by more and more online shops (e.g. Amazon) at the end of an order, to publish your latest shopping on facebook. All you need to do is click on a button. In this way, one does not even need to meet people in order to show off one's pecuniary wealth. All that is needed is to befriend them on facebook.

Despite appearing rather straight forward at first, this definition leaves a number of questions unanswered:

Firstly, is Veblen's 'fulness of life' an absolute or a relative concept? Does a full life mean physical safety and protection from the forces of nature or should it be understood in relation to the current standard of living? Given that Veblen highlights the importance of adopting a relative understanding of poverty it would seem odd to use an absolute definition of a full life. Using a relative definition, however, seems to be at odds with Veblen's strive for independence from personal judgement.

Secondly, even if an understanding of what constitutes a full life could be agreed upon, be it absolute or relative, who would there be to execute it? Veblen's definition seems to imply an outsider's perspective, someone with enough distance to the dominant consumption patterns of the community to be able to differentiate between real, life-fulfilling wants and status-driven wants. He observes himself that the people who are part of the community may not be able to draw this distinction.

Thirdly, independent of the details of what ought to be considered as a legitimate want, how generous would Veblen be as regards the means for their satisfaction? Not feeling hungry, for example, can certainly be considered a basic want but there are numerous ways to achieve this end - one can eat bread and potatoes, or T-bone steak and caviar. Where would Veblen draw the line between conspicuous and serviceable consumption?

He approaches this problem through conceding that goods can have both conspicuous and non-conspicuous elements (Veblen, 1998 [1899], p. 100).

> It is obviously not necessary that a given object of expenditure should be exclusively wasteful in order to come in under the category of conspicuous waste. An article may be useful and wasteful both, and its utility to the consumer may be made up of use and waste in the most varying proportions. Consumable goods, and even productive goods, generally show the two elements in combination, as constituents of their utility; although, in a general way, the element of waste tends to predominate in articles of consumption, while the contrary is true of articles designed for productive use. (ibid., p. 100)

The distinction between conspicuous and serviceable consumption thus is not always a clear-cut one. Housing is a good example for a good that is partly conspicuous and partly serviceable. Having a roof above one's head that provides shelter from the forces of nature is evidently necessary and can safely be classified as serviceable. The bigger the dwelling gets, however, and the more amenities it contains (e.g. a swimming pool, a tennis court, ...) the more conspicuous it gets. But however decadent it may get, it always retains a kernel of serviceability. Expensive designer clothing and luxurious meals are similar examples.

Particularly this last question shows very clearly that Veblen's definition of conspicuous consumption does not lend itself easily to a classification of goods. The definition quoted above contains another important piece of information, however: conspicuous consumption is "traceable to the habit of making an invidious pecuniary comparison" (Veblen, 1998 [1899], p. 100). Conspicuous consumption can thus be understood as consumption incurred on competitive grounds and is opposed to consumption that is based on a non-competitive urge to satisfy a specific human need (ibid., pp. 99-100). The main difference may thus be taken to be a different rationale rather than a feature of the product per se.

In order to be apt for invidious comparison, it does not suffice for consumption to be wasteful, it must be commonly held to be desirable as well. The expression of social status through conspicuous consumption follows a tacitly accepted set of rules. A certain socially agreed upon desirability is an absolute precondition for effective status-demonstration. A lot of power thus resides with whoever is in the position to decide upon what is desirable and what is not. The power to decide upon desirability, according to Veblen, ultimately resides with the leisure class (ibid., p. 84)[3]. The leisure class, in Veblen's view, stands at the top of the social hierarchy and hands down the "norm of reputability" (ibid., p. 84) to the lower strata of society. It thus exerts a dominant

[3]The term leisure class refers us back to the other strategy of status demonstration discussed above, namely conspicuous leisure.

influence on the consumption patterns of the rest of society.

This is effectuated through what Veblen calls 'status emulation'. Every group in a society tries to emulate the consumption patterns of the group just above them in the social hierarchy (Veblen, 1998 [1899], p. 84). In this manner, consumption patterns are transmitted from the leisure class down to the poorest strata of a society, with only slight adjustments due to differences in purchasing power (ibid., p. 84).

This leads us to the assertion that basically all groups in a society engage in conspicuous consumption. Even the poorest groups in a society, if at all possible, try to maintain a minimum level of conspicuous consumption (ibid., p. 85). To put it in Veblen's words:

> No class of society, not even the most abjectly poor, foregoes all customary conspicuous consumption. The last items of this category of consumption are not given up except under stress of the direst necessity. Very much of squalor and discomfort will be endured before the last trinket or the last pretence of pecuniary decency is put away. (ibid., p. 85)

The reason for this, according to Veblen, lies in our psychological dependence on recognition from others. We do not just consume for consumption's sake, rather we follow "a desire to live up to the conventional standard of decency" (ibid., p. 102). Or, to put it in more contemporary terms, consumption is one of the major means for social inclusion in modern capitalist society. We need to consume in order to be respected members of society. Unfortunately for those at the lower income end of the scale the standard that must be met for inclusion is not fixed (ibid., p. 102).

> The standard is flexible; and especially as it is indefinitely extensible, if only time is allowed for habituation to any increase in pecuniary ability and for acquiring facility in the new and larger scale of expenditure that follows such an increase. (ibid., p. 102)

The process of habituation combined with technological innovation leads to ever higher levels of conspicuous consumption (ibid., p. 102). This tendency is further fuelled by the aforementioned desire of higher income groups to defend their status vis à vis the people just below them in the social hierarchy. This is prone to result in a never-ending spiral of emulation and demarcation, climbing ever higher levels of conspicuous consumption. Status acquisition through conspicuous waste thus has a very important dynamic element. And this is where the major risk lies. This process will never stop. It may even, in the most extreme case, result in people gravely neglecting their physical needs in order to be able to satisfy the "spiritual need" (Veblen, 1998 [1899], p. 85) of "pecuniary decency" (ibid., p. 85) through conspicuous waste.

> With the exception of the instinct of self-preservation, the propensity for emulation is probably the strongest and most alert and persistent of the economic motives proper. In an industrial community this propensity for emulation expresses itself in pecuniary emulation; and this, so far as regards the Western civilised communities of the present, is virtually equivalent to saying that it expresses itself in some form of conspicuous waste. The need of conspicuous waste, therefore, stands ready to absorb any increase in the community's industrial efficiency or output of goods, after the most elementary physical wants have been provided for. (ibid., p. 110)

Despite observing that conspicuous waste has not yet reached this extreme stage, Veblen is highly critical of the negative economic effects of status-competition. This is why he never tires of stressing the socially disruptive nature of conspicuous consumption.

4.2 Joan Robinson

The negative socio-economic consequences of unregulated (conspicuous) consumption were the focus of Joan Robinson's writings on consumption. Due to her macroeconomic research focus Robinson never developed a systematic analysis of consumption patterns. Nonetheless, she provides us with an elaborate critique of untrammelled consumption.

An Introduction to Modern Economics, an economics textbook she published with John Eatwell (Robinson and Eatwell, 1974), provides us with a good idea of Robinson's general theoretical approach to the topic. In this book the authors give a short summary of their views on different theories of consumption. They are generally highly critical of economic analyses of consumption, arguing that far more research on the subject has been carried out from a sociological perspective by marketing and sales departments and advertising agencies (Robinson and Eatwell, 1974, pp. 202-203). The neoclassical explanation of consumption, the theory of demand, is dismissed as being tautological and criticised for its exclusive focus on individual preferences (ibid., pp. 201-202). Furthermore, the authors stress the importance accruing to social influences, such as family background and propaganda, in influencing consumption decisions (ibid., p. 202). It does not come as a surprise, then, that they seem to hold a positive opinion of Veblen's work. Robinson and Eatwell refer to him as having been the only one to introduce "reality into the debate with his sarcastic description of 'conspicuous consumption' in The Theory of the Leisure Class" (ibid., p. 202). A very similar understanding can be found already in Robinson's *The Accumulation of Capital* which was published about 15 years earlier:

> But in reality consumption is very much a social affair, and everyone's habits are very much influenced by what everyone else is doing, so that when a whole community is growing richer together consumption tends to rise with wealth. This tendency, which probably exists to some extent in all societies, is reinforced under the capitalist rules of the game by the sales pressure of competitive entrepreneurs. Saving is something of a moral effort, even at a high standard of life, and good resolutions to behave in a thrifty manner are hard to keep when they are constantly assaulted by advertising and the temptation of new commodities. Moreover there is a kind of competition in consumption, induced by the desire to impress the Joneses, which makes each family strive to keep up at least an appearance of being as well off as those that they mix with, so that outlay by one induces outlay by others, just as technical improvements by one entrepreneur induce improvements by his competitors. (Even in a social group where display is considered vulgar, it may be very expensive to be inconspicuous in a gentlemanly manner.) (Robinson, 1986 [1956], p. 251)

Thus, despite her not having published much on consumption herself, we can draw some conclusions on Robinson's position by stating that she was knowledgeable of and sympathetic to the Veblenian approach.

Consequently, fully in line with Veblen, in her own writing, Robinson was most concerned with the negative social consequences of unregulated consumption. In *Beyond Full Employment* she poses the question which, I would argue is an important undercurrent of Veblen's thought, namely: "What do we want to use our resources for?" (Robinson, 1980 [1961], p. 109). She goes on to stress that, despite what other authors - not the least of which Keynes - say, this is in fact a key economic question. Who spends the money and what they spend their money on does make a difference (ibid., p. 110).

In *What are the questions?* she comes back to the above question from a slightly different angle, asking "What is growth for?" (Robinson, 1980 [1977][c], p. 29). Taking a closer look at the neoclassical stance that the aim of growth is to produce for consumption she proceeds with the following question: "But consumption by whom, of what?" (ibid., p. 30). Providing the answer to this question, according to Robinson, should not be left to individual preferences and the freedom of choice alone. She lists three arguments to support this claim:

First, she cites the great disparities in purchasing power which characterise modern capitalist societies. The high purchasing power of the wealthier classes bears the risk of diverting productive capacities away from necessary goods and into the production of luxury goods (ibid., p. 30).

> The goods that it is profitable to supply are those that will be bought at the medium and higher levels in the hierarchy of incomes; low incomes do not provide a good market. As general consumption increases, there is less and less motive for catering to the needs of the poorest. (Robinson and Eatwell, 1974, p. 204)

Thus, the higher general living standards are, according to Robinson, the greater the risk of the market "meeting the trivial wants of a few before the urgent needs of the many" (Robinson, 1980 [1977][c], p. 30). It goes without saying that such a development would be considered to be highly problematic from a social provisioning perspective.

Second, she points towards the possible negative externalities generated by consumption. Untrammelled consumption, in some cases, leads to socially unacceptable results

(Robinson, 1980 [1977][c], p. 30). The example Robinson gives - the increasing motorisation of the population - is well known today from the discussions surrounding the notion of sustainability. She comes back to this issue three years later in *The Disintegration of Economics* (Robinson, 1980b):

> The existence of scarce means (materials, energy, cultivable land) has recently come very much to the fore in public discussion, while consumers' tastes run to large cars, overheated rooms, and an excessive consumption of meat. (ibid., p. 92)

The endangerment of natural resources, though, is not the only case in point. Further examples will be discussed in chapter 4.4.

Third, Robinson argues that a lack of regulation effectively means allowing the great corporations to decide about the allocation of resources. Unregulated consumption would not necessarily enhance consumer sovereignty, but rather result in greater sovereignty of entrepreneurs (Robinson, 1980 [1977][c], p. 30). This argument originates in the assertion that it is supply that creates demand and not the other way round. It can be found in a very concise formulation in *An Introduction to Modern Economics* already:

> Consumers choose (for whatever motives) from among the commodities offered. They have a power of veto – they need not buy what they do not like – but none of initiative. The pattern of demand for particular commodities in a society is strongly influenced by the supply of what is available. (Robinson and Eatwell, 1974, pp. 203-204)

Thus, consumer sovereignty in a free market economy only exists in very narrow confines. Nevertheless, in order to realise their profits, the individual producers are dependent upon the consumers as buyers of their products. The consumers thus must be prevented as far as possible from making use of their 'power of veto'.

The greatest challenge in this respect for the entrepreneurs is the "great productiveness of modern industry" (ibid., p. 204). In order to keep the system running and profits flowing, consumers must be induced to continually buy the produce of industry. Yet,

> It would be technically possible to satisfy the demand for manufactures now known, at an acceptable standard, for the whole population of the industrial countries in a few years, but then how would the system continue to function? The problem has so far been solved by the creation of wants. (Robinson and Eatwell, 1974, p. 204)

Consequently, ever new wants need to be created, new products invented (ibid., p. 204). Luckily for the entrepreneurs, as we have seen above, a major motive for consumption is the 'spiritual need' for recognition and status. And particularly in the range of conspicuous consumption goods, with no clearly defined material want to fulfil, much room is left for the creation of new products designed to fulfil newly created wants. All the entrepreneurs need to do is to make sure that their product is perceived as 'eligible' in the canon of conspicuous consumption. Accordingly, entrepreneurs put much effort into ensuring the continuance of conspicuous consumption habits. This is described with reference to mass media and the press:

> Moreover, to ensure an expanding market for consumption goods in general, the press and the mass media (for which advertisement is the main source of revenue) are involved in keeping up the general atmosphere of enthusiasm for new purchases and of prestige attached to possessions. (ibid., p. 204)

Another aspect of this problematique is the trade-off between what is profitable and what is desirable from a social provisioning point of view. Many of the most vital goods do not lend themselves to quick profit making, whereas what does often is not particularly desirable from a social provisioning perspective. The not so profitable but vitally important goods and services need either be provided for by the state or risk not being provided for at all. Unfortunately, the public provision of goods and services has come under a bad reputation. This, according to Robinson, is due simply to an ideological bias towards laissez-faire (Robinson, 1962, p. 125):

> The difference between profit margins and indirect taxes, in terms of their economic functioning, is not at all clear-cut; one is no more and no less a 'burden' than the other. The difference between them is that the outlay

> of profit margins on dividends, amenities or profitable investment, under nominal control of the shareholders, is in the hands of the board of directors, while the outlay of rates and taxes is in the hands of city corporations and government departments, under nominal control of the electorate. The idea that one is necessarily more 'economic' than the other has no foundation except in ideological prejudice. (Robinson, 1962, p. 125)

In numerous publications such as *Economic Philosophy* (ibid.) and *Obstacles to Full Employment* (Robinson, 1980 [1946]) Joan Robinson thus argues in favour of an unbiased evaluation of different social provisioning strategies, holding that regulation may often produce better results than free market allocation.

The deeper insight underlying all this is the acknowledgement of differences between individual and social rationality. What is individually rational behaviour is not necessarily in the best interest of society as a whole as well. In *Economic Philosophy* Robinson leaves no doubt as to what she thinks ought to to be done:

> If the question is once put: Would a greater contribution to human welfare be made by an investment in capacity to produce knick-knacks that have to be advertised in order to be sold or an investment in improving the health service? It seems to me that the answer would be only too obvious; (Robinson, 1962, pp. 129-130)

In a nutshell, Joan Robinson can be said to have taken up the argument where Veblen left it. Whilst Veblen put much effort into an intricate description of the details of consumption patterns in capitalist economies, pointing out but not focusing on the negative effects of conspicuous consumption, Robinson set out to further elaborate on the latter.

4.3 Michał Kalecki

Similar to Joan Robinson, Michał Kalecki did not develop a systematic approach to consumption on the micro-level. He never tired of stressing the importance of aggregate demand but did not go into the details of who consumes what, let alone why. Unlike Robinson, he did not explicitly refer to an existing micro-theory of consumption either. It is thus difficult to position his work with respect to the problematique of conspicuous consumption. Nevertheless, in what follows, I will point out two instances in which Kalecki discusses consumption and try to relate his analysis back to Veblen's and Robinson's work.

Kalecki's best known proposition concerning consumption is his assumption that the consumption propensity of workers is higher than the consumption propensity of capitalists. Or, even more to the point:

> "[T]he poor have a higher propensity to consume than the rich. (Kalecki, 1990 [1944], p. 372)"

Kalecki does not derive this presumption from an assumed difference in consumption behaviour; rather, he derives it from the fact that workers earn less than capitalists. As Kalecki postulates workers' wages not to be high above some sort of subsistence wage, he expects them to spend all their income on consumption. Simply because they do not earn enough to save (Sawyer, 1985, p. 13). Capitalists, on the other hand, earn more than they would need for the satisfaction of their material needs. Throughout his writings Kalecki presumes capitalists to save (see for example Kalecki, 1990 [1939]; Kalecki, 1991 [1943]; Kalecki, 1965 [1954]). Even allowing for a considerable level of purely conspicuous consumption, it seems, they are assumed to have money left over for saving and investment. On top of that, Kalecki argues that in the case of capitalists "each individual's consumption is less elastic than his saving" (Kalecki, 1990 [1939], p. 266). Thus, an increase in income is far less likely to encourage additional consumption from capitalists than it is from workers.

With this argument Kalecki wants to show that the distribution of income matters for the smooth functioning of the economy. He argued that the level of aggregate demand plays a crucial role for economic growth (Kalecki, 1965 [1954]). Thus, showing that workers are more likely to raise aggregate demand if paid more is part of his argument in favour of a more equal income distribution. The interesting twist in this argument is that

Kalecki does not argue from a moralistic perspective but from a pragmatic matter-of-fact perspective. We should not have a more equal distribution of income because it would be the 'right' thing to do, we should have it because we would all profit from it.

This argumentation, however, does not tell us anything about specific consumption patterns; it does not specify a threshold either. Kalecki did not go into the practicalities of his assumption. He was more concerned with the general tendency than with the details. But what can be deduced from this analysis is that Kalecki obviously assumes a limit to conspicuous consumption. Other than Veblen, he does not expect it to go on infinitely, eating up all available income.

Apart from his discussion of different consumption propensities, Kalecki approaches consumption and production through the lens of Marx's reproduction schema. Marx divides the economy into two departments:

- Department I producing investment goods
- Department II producing consumption goods

The production of raw materials and semi-finished goods needed for production in either department is part of department I (Kalecki, 1991 [1968], p. 459). Kalecki started from this schema but introduced two important modifications. First, he counts raw materials and intermediate goods as being produced in the respective department in which they are needed. Thus, he assumes vertical integration (ibid., p. 459). Second, whilst sticking to the original two sector model in some cases[4], he expands the model in others. In his well known analysis of the determinants of profit, for example, he further differentiates between capitalists' and workers' consumption, thus presenting the following three sector model of the economy (Kalecki, 1965 [1954], p. 47)[5]:

- Department I produces investment goods

[4] See for example *The Problem of Financing Economic Development* (Kalecki, 1993 [1954]) and *Central Price Determination as an Essential Feature of a Socialist Economy* (Kalecki, 1992 [1958]).

[5] In *The Impact of Armaments on the Business Cycle after the Second World War* (Kalecki, 1991 [1955]) he even expands the model to comprise 4 sectors, including a separate armaments sector.

- Department II produces consumption goods for capitalists
- Department III produces consumption goods for workers

In order to better understand Kalecki's approach and the rationale behind it, it is necessary to look at the context in which he proposes these modifications. This can best be retraced in his *Theory of Economic Dynamics* (Kalecki, 1965 [1954]). The analysis is started off with the following simple balance sheet:

Gross profits	Gross investment
Wages and salaries	Capitalists' consumption
	Workers' consumption
GROSS NATIONAL PRODUCT	GROSS NATIONAL PRODUCT

(taken from ibid., p. 45)

Assuming, as Kalecki usually does, that workers spend their whole income on consumption and do not save, we can cross out 'wages and salaries' on one side and 'workers' consumption' on the other side of the balance sheet (ibid., p. 45). In the next step Kalecki changes the exposition, presenting the following equation:

$$\text{Gross profits} = \text{Gross investment} + \text{capitalists' consumption}$$

He then goes on to argue that it is investment and capitalists' consumption which determine profits and not the other way round (ibid., pp. 45-46).

In order to help understanding, Kalecki decides to restate this analysis in somewhat different terms (ibid., pp. 46-47). This is the point at which he introduces the reproduction schema presented above. From the context of his analysis it can be seen that Kalecki simply converted each entry on the right side of the balance sheet into a department, turning 'capitalists' consumption' into 'consumption goods for capitalists' and 'workers's consumption' into 'consumption goods for workers'.

This conversion, I want to argue, despite appearing to follow logically at first, turns out to be problematic on closer inspection. Whilst capitalists' and workers' consumption can safely be said to be distinct categories, the same is not true for consumption goods for workers and capitalists. A significant overlap can be assumed to exist, particularly in the range of basic necessities. No clear demarcation line can be drawn between consumption goods for capitalists and workers.

In a different context Kalecki appears to have been vaguely aware of this problem, arguing that

> The capitalists' consumption is partly directed to wage-goods, the increase in the price of which may cause a rise of capitalists' expenditure on wage-goods and a fall in the purchases of other goods subject to their consumption. Then a corresponding shift in the output will take place. (Kalecki, 1990 [1937], p. 321)

In this statement Kalecki seems to acknowledge the overlap between capitalists' and workers' consumption. He does so only in a footnote, though, and does not consider the definitional problems arising from it. Stating that capitalists consume wage goods means that these cannot be defined simply by the fact of being purchased out of wages.

This points us towards a possible logical fallacy in Kalecki's argument: despite being very plausible in its original formulation, the argument looses some of its explanatory power in the restated version, simply because of semantic differences between 'consumption' and 'consumption goods'. Whilst being convincing when discussing consumption in the abstract, definitional problems arise once the issue is restated in more concrete terms differentiating between different groups of consumption goods. I argue that, although this does not impact on the validity of Kalecki's general argument, this difficulty should be acknowledged and dealt with.

I want to suggest that Kalecki's argumentation would gain in logical consistency if his analysis of the determination of profits were separated from his interpretation of Marxian reproduction schema. For other parts of his analysis, as for example in the above cited footnote, a Veblenian interpretation of consumption may prove to be fruitful. This impression is reinforced through Kalecki's choice of terminology in *Essays in the Theory of Economic Fluctuations* (Kalecki, 1990 [1939]) where he refers to capitalist consumption goods as "luxury goods" (ibid., p. 275). This is not meant to pretend, however, that this is what Kalecki had in mind.

Kalecki most certainly did not conceptualise consumption along Veblenian lines. I believe to have shown, however, that consumption was largely underconceptualised in Kalecki's analysis, leaving room for improvement and re-interpretation. Having said this, the next section will show that Kalecki provides us with valuable insight into a particularly problematic area of conspicuous consumption, namely conspicuous consumption on certain supply-restrained markets.

4.4 The special case of supply-restrained markets

In his 1993 article *Housing as a Wage and Luxury Good: Absolute Poverty and the Distribution of Income in Supply-Side Economics* Toporowski argues that, implicit in Kalecki's theory is a model of how capitalists' consumption of wage goods may under specific circumstances result in an increase in absolute poverty.

The theoretical background of Toporowski's argument is as follows: Kalecki usually works with the assumption of capacity underutilisation. As long as production capacities are not fully used, a pronounced mismatch between supply and demand is likely to exist only temporarily, because entrepreneurs can easily increase production without incurring much additional cost. Long-run problems of scarcity are very unlikely to arise in such markets as supply is elastic and can easily respond to changes in demand. Kalecki does acknowledge, however, that some markets may be supply constrained. In industries producing at full capacity level or when dependent on limited resources (e.g. housing space), supply cannot adapt to demand as easily as on markets with idle production capacities. Supply-restrained markets working to full capacity represent the competitive exemption to Kalecki's rule saying that in advanced capitalism the great majority of markets are oligopolistic. While putting forward a mark-up pricing framework for oligopolistic markets, Kalecki conceptualises prices on competitive markets as being determined via the interplay of supply and demand[6].

In the special case of supply constrained markets which produce goods that are both wage and luxury goods, Toporowski argues, an important phenomenon can occur: if capitalists, for whatever reason, increase their spending on such a market this is likely to raise the prices and crowd out consumption by the (financially weaker) workers (Toporowski, 1993, pp. 331-332). This, as Toporowski argues, can result in absolute poverty, "if there is a wage good that is a basic necessity, and whose supply is both inelastic in the short run, and readily transferable into booming luxury markets" (ibid., p. 337). Toporowski empirically shows this to have happened on the UK housing market of the 1980s, as more and more living space has been converted into luxury housing and the number of affordable dwellings decreased (ibid., p. 333). Consequently, housing prices went up and "the number of households registering as homeless more than doubled over the decade from 1979 to 1989" (ibid., p. 337).

Obviously, the poverty-producing effect is even more pronounced in the housing market than it would be in markets for other, more easily substitutable goods (ibid., p. 333). Still, it is not constrained to the housing market.

Interpreting the above in Veblenian terms, one could say that supply-restrained markets which distribute goods with both strong conspicuous and non-conspicuous features, if left unregulated, are highly at risk of producing adverse socio-economic results. These markets present us with an extreme case of the negative side-effects of conspicuous consumption. In effect, the socio-economic problems impending from these markets are so serious that they should not be left to chance.

Albeit written with a different focus, Kalecki's papers on the war economy, published

[6] For the theoretical details of this analysis please refer to chapter 5.

during World War II, supply us with some valuable ideas concerning ways to counter these predicaments. I would argue that these can be transferred to modern market economies as long as the following two conditions hold:

- There is scarcity, be it through a rise in demand or a fall in supply
- Supply is inelastic

The number of markets fulfilling these preconditions obviously is far smaller in modern capitalist economies than it was when Kalecki was working on the problem during World War II. However, the situation on some markets, as for example the housing market, may be sufficiently similar to warrant a closer examination of Kalecki's thoughts.

The two major economic problems of the time of Kalecki's writing were inflation and a scarce supply of consumption goods (Kalecki, 1997 [1940], p. 3). Roughly speaking, Kalecki's explanation of wartime UK economy was as follows: high investment in armaments and related industries resulted in high levels of employment and thus relatively high levels of purchasing power. At the same time, production capacities for consumer goods were reduced in favour of military production. Equally, the shipping space available for imports of consumption goods was drastically reduced. Thus, the relatively high purchasing power of the population was confronted with a low supply of goods to purchase. This drove prices up, resulting in considerable inflation and, in some cases, an absolute shortage of goods (Kalecki, 1997 [1941][b], p. 20). The primary challenge for economists at the time was to devise measures for effectively combating this double-edged problem of scarcity and inflation. In his writings Kalecki discusses six different courses of action available to public authorities:

- Laissez-faire (ibid.)
- Higher taxation (e.g. income taxation) (Kalecki, 1997 [1941][a])
- Compulsory saving (Kalecki, 1997 [1940])

- Stabilisation of money wages (Kalecki, 1997 [1941][b])
- Direct price control (Kalecki, 1997 [1941][b]; Kalecki, 1997 [1944])
- Different forms of rationing (Kalecki, 1997 [1941][a]; Kalecki, 1997 [1941][c]; Kalecki, 1997 [1941][d]; Kalecki, 1997 [1941][b]; Kalecki, 1997 [1942][a]; Kalecki, 1997 [1942][b]; Kalecki, 1997 [1944])

Each of these strategies tackles either inflation or scarcity, or both. I will now turn to a short account of Kalecki's view of the advantages and drawbacks of each of them.

The strategy of laissez-faire would mean that public authorities do not intervene in the market, expecting the price mechanism to readjust supply and demand. Thus, inflation would be accepted as a necessary evil in order to curtail demand of scarce products. Kalecki was highly critical of this option, arguing "that the lower-income groups are hit, and it is the reduction in their consumption which keeps in balance the demand for and supply of consumption goods" (Kalecki, 1997 [1941][b], p. 21). It is obvious that this would leave the issue of conspicuous consumption in supply-restrained markets unresolved. On top of that, as I will set out in more detail in the next chapter, rising prices have a tendency to spark off demand for higher wages and thus set into motion an inflationary vicious circle (ibid., p. 20).

Higher taxation, in particular a rise in income taxation, according to Kalecki, has much the same distributive effect as rising prices. This time real wages are reduced not through a rise in prices of consumption goods but through a rise in other consumption-independent dues, the final result staying the same: lower purchasing power and thus lower demand (Kalecki, 1997 [1941][a], p. 7). Kalecki believes to detect a strategic element in some people's preference for taxation as opposed to laissez-faire inflation, though:

> The differences between these two ways which is in the back of the mind of people who advance such proposals is probably based on a rather arbitrary assumption that workers will not ask for higher wages when taxed while they

> usually do it when the cost of living rises, and thus the 'vicious spiral' will be prevented. (Kalecki, 1997 [1941][a], p. 7)

Compulsory saving was a measure suggested by Keynes in order to curtail consumption. The rationale of the measure was to reduce the available income in order to limit the purchasing power of the population. Kalecki was highly sceptical of this proposition for two reasons: First, he was sceptical as to whether the measure would be able to achieve its aim. His reservation stemmed from the fact that wealthy people, in order to keep up their current standard of living may resort to reducing voluntary saving or even dissaving rather than do what is expected of them, namely cut consumption and increase saving. This would imply that only those people who cannot resort to extra resources will actually cut consumption and thus seriously harm the effectiveness of the proposal. Secondly, related to the first argument, this measure is likely to burden the lower income groups more than anyone else (Kalecki, 1997 [1940], p. 3). Thus, like laissez-faire and taxation, compulsory saving, according to Kalecki, is not suitable to solve the problem at hand.

The fourth strategy on the list, the stabilisation of money wages, directly tackles the problem of the wage-price-spiral. Prices are allowed to increase at first, until they have risen sufficiently to equate supply and demand at the given wage level. As workers cannot react with demands for higher wages, the vicious circle is stopped before it starts. Kalecki hurries to add, though, that this does not mean that real wages remain constant after the initial decline (Kalecki, 1997 [1941][b], p. 20).

> It is important to notice that real wages will not be stabilized at the lower level they first reach. Any further fall in the supply of consumption goods will automatically cause a further decline in real wages. (ibid., p. 20)

It is due to this that Kalecki argues that the stabilisation of money wages solves the problem of inflation at the expense of the lower-income working population who are effectively disempowered in the struggle for distributive shares. On top of that, this measure leaves the problem of scarcity unresolved (Kalecki, 1997 [1941][b], p. 21).

Direct control of prices approaches the problem from the opposite direction. In this case, it is the entrepreneurs who are forced to step out of the inflationary vicious circle and thus are bereft of their chance to keep their profits high. While effectively combating inflation this strategy still has an important drawback:

> No decrees about prices can, however, increase the supply of goods. The outcome of price-fixing measures is either that prices continue to rise illegally or that the discrepancy between demand and supply is reflected in a shortage of goods and queues. Inflation still exists, but its shape is altered. In this form it victimizes chiefly the people who have no time – or servants – to make the best of the state of haphazard distribution: in other words, those who work hard and have low incomes. (ibid., p. 21)

Thus, the exclusive reliance on price control merely shifts the problem of inflation to another sphere rather than effectively solving it. On top of that, it is still the poorest part of the population who is most severely affected.

In reaction to the deficiencies of all other strategies, Kalecki proposes rationing as "[t]he only radical, fair, and efficient way of dealing with [inflation]" (Kalecki, 1997 [1941][e], p. 88).

> Comprehensive rationing of goods in short supply avoids rising prices, depletion of stocks, and also haphazard distribution. For demand is now adjusted to supply by the direct curtailment of expenditure. And in contrast with the position under laissez-faire inflation, wage stabilization, or price control without rationing, the largest cut in consumption is extracted from those with the highest standard of living. (Kalecki, 1997 [1941][b], p. 21)

Kalecki does concede, however, that rationing by itself may not be sufficient for solving the problem of inflation (Kalecki, 1997 [1944], p. 33). At least in some cases rationing may well lead to a reduced "sensitiveness of costumers to price differences as between various sources of supply" (ibid., p. 33). Rationing thus may result in higher market imperfections and higher prices (for the details of this analysis see the next chapter). As a consequence, Kalecki stresses, rationing should be accompanied by price control in order to ensure its effectiveness in comprehensively solving the twin-problem of distribution of goods and inflation (Kalecki, 1997 [1944], p. 33).

> It follows from the above argument that it is always useful and in most cases necessary to supplement rationing by price control. This conclusion is of some practical importance for the post-war transition period. As long as some commodities are in scarce supply both rationing and price control must be maintained. (ibid., p. 37)

To sum up the argument, it can be concluded from the above that a policy combining rationing and price control may be the method of choice for dealing with the problems laid out at the beginning of this subchapter. Whilst a comprehensive rationing scheme would appear disproportionate, a specific rationing scheme, regulating the distribution of basic necessities that are in scarce supply, on the other hand, may provide a good way to tackle some of the current problems with conspicuous consumption on supply-restrained markets.

4.5 Excursus: On the financial sustainability of conspicuous consumption patterns

In recent studies different authors have analysed another interesting and potentially poverty producing aspect of conspicuous consumption: its relationship to the level of household saving or indebtedness respectively (Starr, 2009; Wisman, 2009; Barba and Pivetti, 2009).

Both Barba and Pivetti (2009, p. 122) and Wisman (2009, p. 104) suggest that the increasing indebtedness of US households is related to the high and increasing "degree of inequality in the distribution of income and wealth" (Wisman, 2009, p. 104) to be observed in the United States over the last decades. Veblen's theory of conspicuous consumption provides us with two interesting hypotheses as to the reasons for this development:

First, the higher income accruing to the top earners provides them with even more capital for conspicuous consumption. They are thus likely to raise consumption levels in an ongoing struggle for superiority in status, consequently raising standards for everyone in the social hierarchy. It thus becomes necessary to consume more in order to keep one's respective position on the social ladder (Wisman, 2009, pp. 104-106).

Second, as Veblen observed, people are very conscious of their relative social status and thus do everything they can to maintain their standard of living. Barba and Pivetti (2009, p. 125) therefore argue that consumption spending is relatively inelastic with regard to changes in real incomes, consumption expenditure being highly influenced by the relation of

> current income relative to past income; people whose incomes are low relative to their past incomes reduce saving and incur deficits, if they have the necessary assets or credit, to protect their living standards (cf. Duesenberry, 1949, pp. 76–89). (Barba and Pivetti, 2009, p. 125)

Consequently, according to Wisman, if cutting consumption is not an acceptable option people are left with three ways to react to growing inequality and/or rising consumption standards: Firstly, if they have been saving so far, they can reduce their savings or even dissave. Secondly, if they do not have savings they can go into debt. Thirdly, they can increase working hours in order to obtain a higher income (Wisman, 2009, pp. 104-106). Wisman argues that empirical evidence shows that US households have done all of this over the last 30 years (ibid., p. 106). Due to its important economic consequences both Barba and Pivetti and Wisman focus their analyses on the second strategy, namely increasing household debt (Barba and Pivetti, 2009; Wisman, 2009).

While an increase in household debt can be observed throughout all income groups it is most pronounced amongst the lower income groups (Wisman, 2009, p. 106). Furthermore, it is argued that a considerable part of this additional debt is incurred for consumption rather than investment purposes. Barba and Pivetti show that the forms of debt prevalent in lower income households are credit card debt, non-bank debt and, increasingly, mortgages. They cite empirical evidence suggesting that mortgages are most often incurred in order to finance consumption. Thus, all the forms of credit prevalent with lower income groups can be shown to be primarily oriented towards consumption (Barba and Pivetti, 2009, pp. 114-116).

In conclusion, Barba and Pivetti argue that the growing indebtedness of US households which could be observed over the last 25 years

> should be seen principally as a response to stagnant real wages and retrenchments in the welfare state, i.e. as the counterpart of enduring changes in income distribution. (ibid., p. 114)

Furthermore, they put forward the argument that

> This analysis seems to suggest that through household indebtedness it is possible to bring about the best outcome from the point of view of the capitalist system, i.e. that through household debt low wages can be brought to coexist with high levels of aggregate demand, without it being necessary, for this coexistence to be persistently ensured, to have recourse to state intervention and bigger government. Household debt thus appears to be capable of providing the solution to the fundamental contradiction between the necessity of high and rising levels of consumption, for the growth of the system's actual output, and a framework of antagonistic conditions of distribution, which keeps within limits the real income of the vast majority of society. Indeed, not only the solution to this fundamental contradiction of capitalism, but the best of all possible worlds seems to have been brought about for the richest section of society. This is because with the substitution of loans for wages the share of actual income accruing to capitalists et hoc genus omne is fed also by interest that wage earners must pay on the loans they obtain; moreover, the burden of servicing their debt pushes them, sooner or later, to work harder and for longer hours—that burden, in other words, eventually enhances the workers' willingness to 'go anywhere and do anything' on such terms as can be got, thereby contributing to the persistence of low wages and labour costs. (ibid., pp. 126-127)

Loan financed consumption seems to provide a possibility for the wealthy classes to override Kalecki's prediction that high income inequalities will result in insufficient effective demand, thus breaking the power of his argument for a more equal income distribution.

Consequently, household debt has more and more come to be regarded as a demand management tool the same way public debt has in the wake of the Keynesian Revolution.

Barba and Pivetti warn against the risks of substituting demand management based on private household debt for demand management through public debt, though. While they do not regard rising public debt levels as problematic in the long run, they argue that rising household debt levels are (Barba and Pivetti, 2009, pp. 129-130). If indebtedness continues to grow, there comes a point at which people are so heavily indebted that they are unable to service their debts (ibid., p. 128). Once this happens on a large scale this is likely to result in liquidity problems for banks. In order to protect the economy, the state will, as we have seen in the current financial crisis, act as a lender of last resort, which will in turn result in raising public debt (ibid., p. 130). Accordingly, the result in terms of public indebtedness is the same as it would have been had the government followed a classical Keynesian demand management strategy, with the difference that this strategy results in far greater disruptions of the economy and that the people profiting from it are other. While Keynesian demand management policies are likely to strengthen the working class, the reliance on private debt and public crisis management clearly profits the entrepreneurial class. Not only can they keep real wages low without risking a drop in demand, they also profit from the interest payments the indebted lower income households have to make (ibid., p. 127). The fact that governments jump in to stabilise the economy once this inherently unstable situation gets out of control means that the entrepreneurs do not have to bear the costs of their strategy either. The profits thus accrue to the entrepreneurs, whilst the losses are borne by society as a whole.

A very different but related argument is put forward by Martha Starr in her 2009 CJE article *Lifestyle Conformity and Life-cycle Saving - a Veblenian Perspective*. The aim of this paper is to provide an explanation for life-cycle saving patterns (Starr, 2009, p. 25). The author draws on Veblen's work in order to counter dominant theorising in the field which assumes individually utility-maximising rational actors. She sets out stating that in a Veblenian framework people's decisions are understood to be based on habitual behaviour and emulation rather than rational calculus (Starr, 2009, p. 27). She then goes on to introduce findings from contemporary theories of cultural evolution claiming that the emulation of behavioural patterns, rather than being a dysfunctional human trait, can indeed be regarded as highly functional in complex situations where individuals find it hard to make informed decisions. In such situations, emulating the successful behaviour of others may produce better results than trying to work out the optimal strategy oneself (ibid., pp. 32-33). Applying these thoughts to the topic of the article Starr then goes on to state that

> [...] there are good reasons to believe that the alternative of imitating predominant consumption patterns will tend to produce good outcomes, in terms of putting people on consumption trajectories that tend to be smooth and reasonably low in downside risks. As discussed, following lifecycle norms tends to cause saving in some sense 'automatically', namely, via accumulation of home equity and channelling of free cash flow into financial assets after children have left the household. (ibid., p. 33)

This is a very interesting statement as it shows that, while starting from the same theoretical foundations as Barba and Pivetti and Wisman, Starr comes to very different conclusions. Whilst the former authors have drawn on the concept of conspicuous consumption in order to explain the increasing indebtedness of households, Starr argues that habitual consumption patterns more or less automatically ensure sufficient savings. She does concede, however, that this explanation leaves plenty of room for non-optimal results as well: firstly, people may find that despite emulating successful others they do not achieve optimal results for themselves (there is no guarantee of success in this strategy); and secondly, in times of rapid social and economic change emulating successful others may prove to be dysfunctional if the situation has changed too much for past strategies to be applicable (ibid., pp. 33-34). It is via this second reservation that the author introduces the empirical fact that provided the starting point for the other analyses and seems to be strangely at odds with her argumentation, namely the low savings rate of

US households. Nevertheless she holds that

> [w]hile the lifecycle-saving view [the dominant approach] struggles to explain this, in the conformity view [her approach], it could readily occur if people are emulating the lifecycle consumption patterns of cohorts somewhat older than themselves, who received windfall gains from the start-up of the Social Security system and were covered far more often by defined-benefit pension plans and received retiree health insurance from their employers. (Starr, 2009, p. 34)

Thus, the low savings rate, according to Starr's interpretation, results from people following out-dated consumption trajectories (ibid., p. 34). The main difference between Starr's analysis and Barba and Pivetti and Wisman's then is, that the latter assume a dysfunctional pattern of conspicuous consumption to be the key problem[7], whilst Starr is discussing delays in adaptation to fundamentally functional consumption patterns.

Taking into consideration Veblen's analysis of 'institutional inertia' it seems highly unlikely, however, that economic and social circumstances and consumption habits will ever be fully in line:

> Institutions are products of the past process, are adapted to past circumstances, and are therefore never in full accord with the requirements of the present. (Veblen, 1998 [1899], pp. 190-191)

Bearing in mind the reservations she makes, Starr's argument seems to be reduced to the simple statement that consumption and savings patterns are not determined through rational calculus but rather through imitation of habitual behaviour. In conclusion, I am afraid to say, the present author has not been convinced that Starr has achieved her self-imposed aim, namely:

> Hopefully the analysis of this paper illustrates the potential gains to be had from refreshing Veblenian thinking about culture, norms, habits and economic

[7] It is important to stress, though, that the authors do not blame conspicuous consumption but rather accept it as a given human trait which - in combination with high earnings inequality - produces undesirable social outcomes. Consequently, the solution they propose is not to cut consumption but rather to counteract earnings inequality through Keynesian demand management policies.

change with insights from contemporary theories of cultural evolution. (Starr, 2009, p. 45)

The argument put forward by Barba and Pivetti (2009) and Wisman (2009) concerning the causal relation between conspicuous consumption and indebtedness seems to be far more convincing.

Summing up, it can be said that on top of the negative economic consequences described by Veblen, Robinson and Kalecki, conspicuous consumption has another important drawback: being such a powerful motivational factor it enables the rich to rely on demand management via private debt, with all the adverse economic consequences cited above.

Concluding remarks

Conspicuous consumption, according to Veblen, is the most important means of status demonstration in advanced industrial economies. The major difference between conspicuous and serviceable consumption is that the former is based on invidious comparison whereas the latter is based on the urge to satisfy a basic human need. Veblen never tired of stressing the socially disruptive effects of conspicuous consumption.

Joan Robinson, taking up the analysis where Veblen left it, identified and discussed three major problems of unregulated (conspicuous) consumption: First, the risk of diverting productive capacities away from basic necessities and towards luxury production. Second, negative externalities arising out of consumption. Third, due to the fact that supply creates demand, leaving consumption unregulated would effectively mean that large corporations, not the people, decide upon the allocation of resources.

Kalecki on the other hand, despite largely underconceptualising consumption in general, provides us with valuable ideas on a special case of conspicuous consumption: conspicuous consumption on supply-restrained markets. Rationing and price control are presented as a promising policy-mix to tackle the problems that are likely to arise in these special circumstances.

Finally, it was shown that contemporary authors draw on Veblen's theory of conspicuous consumption to explain the problem of rising household debt. They argue that the strong urge to preserve one's relative social status in combination with growing income inequalities lead households to go into debt in order to keep up a certain level of conspicuous consumption. While from the point of view of the entrepreneurs this may appear to be an optimal strategy for profit maximisation, it has important socially disruptive consequences and, as we have seen in the current economic crisis, it is not sustainable in the long run. The authors thus warn against the negative socio-economic consequences of demand management based on the reliance upon conspicuous consumption and private debt.

Overview of the main poverty producing effects

Conspicuous consumption may be argued to contribute to the production of poverty in at least four different - although closely interrelated - ways:

Firstly, conspicuous consumption produces poverty because it raises the bar. Who is considered to be poor, in a relative poverty framework depends not least on the standard of living prevalent in a community. Townsend has argued that people should be considered to be poor if they are no longer able to fully participate in the regular life of their community. What a person needs to have or be able to do in order to fully participate in communal life, in turn, depends on the general standard of living prevalent in a society. This is where conspicuous consumption comes into play. Conspicuous consumption has been shown to broadly fulfil two social functions: on the one hand, it acts as an important means for status differentiation. The more conspicuous consumption you can afford, the higher up in the social hierarchy you are. On the other hand, conspicuous consumption may be interpreted as setting minimum standards of consumption which need to be attained in order to be accepted as fully-fledged members of a community.

Accepting on the one hand the hypothesis that widespread conspicuous consumption to a certain extent defines the minima which need to be attained and on the other hand, that status struggle continuously exerts an upwards pressure on conspicuous consumption, it becomes clear that conspicuous consumption can indeed be considered to exert an important influence on the development of a relative poverty line. Consequently, if incomes do not keep pace with the imperative for increasing conspicuous consumption more and more people will end up to be in relative poverty, even if their disposable income remains unchanged.

Secondly, high levels of conspicuous consumption may provoke a diversion of productive capacities. Producers may find it more profitable to cater to the luxury consumption of the affluent than to the basic needs of the poor. In extreme cases, this economically sound business model may result in some basic goods not being produced at all, with detrimental effects on the ability of some people to achieve a predefined standard of living. The actual practical significance of such extreme cases of the diversion of productive capacities in our modern economies, however, would require thorough empirical investigation. Furthermore, the negative effects of any diversions that may arise largely depend upon the substitutability at equal prices of the product in question.

Thirdly, conspicuous consumption can contribute to poverty through the generation of negative externalities. The best-known example of such negative external effects can probably be found in transportation: the more people decide to buy and use their own car rather than using means of public transport, the less cost-effective the provision of public transport becomes. At a certain point, public transport may be suspended altogether, thus requiring everyone to secure private transportation. Those who cannot afford to do so face serious stints in their mobility. This, in turn, can have considerable impact upon employment prospects and shopping options, to name but a few of the consequences. As for those who manage to secure private transportation, this is likely to be more expensive than public transport. The additional costs incurred for transportation may suffice to push some people below the poverty line who until then would have been able to secure a living above the poverty line.

Finally, it has been pointed out above that conspicuous consumption can have particularly detrimental effects on some supply-restrained markets. This has been shown by Toporowski (1993) with reference to the UK housing market. Conspicuous consumption in this specific case can be shown to have two related effects: on the one hand more and more living space is converted into luxury accomodation (see the argument on the diversion of production above). On the other hand, the decreasing number of affordable accomodation results in a rent increase. Thus, in the case of conspicuous consumption on the housing market additional poverty may be produced if wages do not keep up with increasing rents.

The above discussed instances of conspicuous consumption producing poverty, it needs to be mentioned, all hang on a specific operationalisation of poverty. As has been pointed out in chapter 1, poverty in the context of this dissertation is not only defined in terms of a relatively low income but also in terms of material deprivation. All of the poverty producing effects discussed above can be understood as acting on the material deprivation aspect of poverty, rather than on nominal income.

5 Poverty producing process n° 2: Mark-up pricing

This chapter argues that mark-up pricing is a further important poverty producing process which needs to be taken into account in an analysis of poverty in advanced capitalism. First, the original formulation and development of the mark-up pricing framework in Kalecki's work will be discussed. Next follows Robinson's critique and evaluation of the approach. Thirdly, Veblen's thoughts on the issue of price determination will be laid out and compared to the mark-up pricing approach. Finally, I will point out how firms engaging in mark-up pricing may produce poverty.

5.1 Michał Kalecki

Kalecki showed considerable interest in price determination as an important part of the analysis of economic dynamics. Throughout his career he was working on and constantly revising his own attempt at an explanation of price determination. According to Kriesler (1987) Kalecki's major efforts in this respect were:

1. *The Determinants of Distribution of the National Income* (1991 [1938])
2. *Essays in the Theory of Economic Fluctuations* (1990 [1939])
3. *The Supply Curve of an Industry under Imperfect Competition* (1991 [1940])
4. *A Theory of Long-Run Distribution of the Product of Industry* (1941)

5. *Studies in Economic Dynamics* (1991 [1943])

6. *Theory of Economic Dynamics* (1965 [1954])

7. *Class Struggle and Distribution of National Income* (1991 [1971])

While detecting a considerable extent of continuity in 1, 2, 5, 6 and 7, Kriesler argued that 3 and 4 represent a marginalist detour which Kalecki discarded afterwards. I will thus focus my analysis on Kalecki 1938, Kalecki 1939, Kalecki 1943, Kalecki 1954 and Kalecki 1971.

After exploring the basic assumptions of Kalecki's analysis, as well as discussing its explanatory scope, I will delineate the theoretical development of Kalecki's analysis of price determination.

5.1.1 Basic assumptions

Kalecki starts off his analysis with the observation that in modern capitalist economies two different regimes of price determination apply: price determination via supply and demand on competitive raw material and basic foodstuff markets on the one hand and price determination via cost plus mark-up on oligopolistic markets for manufactured goods on the other hand (Kalecki, 1965 [1954], p. 11). I will follow Kalecki's lead in quickly discussing the situation on competitive markets while focusing the analysis on the imperfectly competitive manufacturing sector.

The exemption: Competitive markets

Contrary to dominant belief at the time of his early writing, Kalecki regarded competitive markets to be an exemption rather than the rule. Truly competitive structures, according to him, can be found in only a few sectors of the economy, namely those producing raw materials and unprocessed foodstuff, that is i.e. agriculture and mining. These markets share the following characteristics: A big number of small producers are competing with each other and supply is inelastic in the short run. On these primary goods markets prices are fixed through the interplay of supply and demand (Sawyer, 1985, pp. 20-21). Prices are highly responsive to changes in either supply or demand and thus tend to be unstable (Robinson, 1980a, p. 149).

For the greatest part of modern capitalist economies, however, according to Kalecki, the concept of 'perfect competition', rather than being a realistic assumption, is a dangerous myth:

> Perfect competition, when its actual status of a handy model is forgotten, becomes a dangerous myth. (Kalecki, 1991 [1971], p. 98)

Imperfectly competitive markets are the rule in advanced capitalism.

The rule: Oligopolistic markets

In his analysis of imperfect competition Kalecki's analytical focus lies on the manufacturing sector. He does state, however, that construction, transportation and services follow a very similar logic and can be captured with the same theoretical model. The following discussion thus applies to the manufacturing, construction, transportation and services sectors (Kalecki, 1965 [1954], p. 30). Typical for advanced capitalism are oligopolistic industries with only a few dominant actors. These industries, according to Kalecki, usually "operate below full employment of capital equipment" (Osiatyński, 1991b, p. 492) and are thus able to react flexibly to changes in demand. Bottle-necks in supply and the resulting price rises are usually not an issue in these industries (Kalecki, 1965 [1954], p. 11). Apart from capacity underutilisation and elastic supply, Kalecki bases his analysis on the following assumptions:

- Average and marginal costs are constant as long as the point of full capacity utilisation is not reached, and the difference between average and marginal costs is negligible. Average costs are thus a good approximation for marginal costs (Kalecki, 1991 [1943], pp. 119-120).

- In *Theory of Economic Dynamics* Kalecki also adds that "In view of the uncertainties faced in the process of price fixing it will not be assumed that the firm attempts to maximize its profits in any precise sort of manner" (Kalecki, 1965 [1954], p. 12).

In *Class Struggle and Distribution of National Income* Kalecki introduces another qualification which should not go unmentioned: as it presupposes differential pricing, the theory of mark-up pricing in its final formulation is not suitable to account for the pricing behaviour of monopolists (Kalecki, 1991 [1971], p. 100).

Having established the basic assumptions underlying Kalecki's analysis, I will now go on to discuss the development of his theory of the determination of the mark-up throughout his career.

5.1.2 Development of Kalecki's pricing theory

Kalecki's pricing theory, Kriesler (1987) argued, developed in three stages. In what follows I will sketch out and discuss in some detail the differences and continuities between these different stages of theory development.

Phase 1: 1938-1943

Kalecki's first attempt at the formulation of a pricing theory was made in his 1938 paper *The Determinants of Distribution of National Income.* As the title suggests, pricing theory, in Kalecki's mind, was and always remained tightly connected to income distribution, i.e. the determination of the relative shares of wages and profits. Kalecki puts forward the following pricing equation (Kalecki, 1991 [1938], p. 7):

$$p = c_a + d_a + s_a + w_a + r_a$$

Price is thus determined by the average capitalist income (c_a), the average costs of depreciation (d_a), average salaries (s_a), average wages (w_a) and average raw material costs (r_a).

Marginal costs in this model are calculated as follows (Kalecki, 1991 [1938], p. 7):

$$m = d_m + s_m + w_m + r_m$$

Furthermore, following Lerner, he called "the ratio of the difference between price and marginal cost to price" (ibid., p. 7) the 'degree of monopoly' which is depicted by the letter μ.

$$\mu = \frac{(p - m)}{p} = \frac{mark - up}{price}$$

As Kalecki assumes marginal costs and average costs to be equal as long as firms work below capacity level, the only difference between marginal costs and price is capitalist income c_a. Capitalist income contains profits and interest (ibid., p. 7). The degree of monopoly thus in this formulation is nothing else than the share of the particular capitalist's income in the prices of his products. It provides us with some insight into the price setting policy of the firm. How much profit does it dare to charge? Kalecki at first does not tell us much on how these decisions are taken, though. As his aim is to explain the relative shares of wages and profits in national income, he goes on to aggregate the analysis of individual firms in order to obtain data for the economy as a whole. He does so by simply adding up the values from the individual equations (ibid., p. 8). Following a number of conversions and the introduction of a few simplifying assumptions Kalecki arrives at a new formula for the degree of monopoly (ibid., p. 9):

$$\mu = \frac{C + D + S}{T} = \frac{profits + overheads}{turnover}$$

Or, expressed in Kalecki's words:

> The relative share of gross capitalist income and salaries in the aggregate turnover is with great approximation equal to the average degree of monopoly. (Kalecki, 1991 [1938], p. 9)

It should be noted that this aggregated degree of monopoly, analogous to Kalecki's equation for the degree of monopoly of an individual firm, does not contain any notion of the interdependence of firms within an industry. Every firm determines its degree of monopoly independently of its competitors. The firm's competitive position is by definition reflected in the mark-up on costs $(p - m)$. Kalecki does not tell us much about what influences the mark-up, though.

What is the explanatory value of Kalecki's first formulation of the degree of monopoly? The theoretical gain lies in verbally linking the mark-up $(p - m)$ to the structure of the industry. In this first paper, however, Kalecki establishes the link between pricing and competition but does not explain it in detail yet. He provides us with some general hints on what influences the degree of monopoly, though:

- The creation of cartels increases μ (ibid., p. 19).
- "[T]he fall in price of raw materials in the slump creates among the entrepreneurs a reluctance to 'pass it on to the buyer', and this too, of course, increases the degree of monopoly" (ibid., p. 19).
- "[W]age-cutting is likely to increase to a certain extent the degree of monopoly, because a tendency may exist *not* to pass it on to the buyer" (ibid., p. 19).
- "The change of basic data may, of course, also influence the degree of monopoly. For instance, a change in the rate of interest or technical progress affects the size of the enterprise which is essential for the degree of monopoly. (The variation of the scale can be treated as a special case of variation of the type of equipment.)" (ibid., p. 13).

This first paper was republished in a slightly amended version as the first chapter of

Kalecki's *Essays in the Theory of Economic Fluctuations* (Kalecki, 1990 [1939]). Apart from differences in connotation[1] the theoretical analysis remains essentially the same as in its first formulation. Kalecki presents the following formula for the weighted average of the degrees of monopoly, $\overline{\mu}$ (ibid., pp. 240-241):

$$\overline{\mu} = \frac{E + O}{T}$$

Concerning the influences on the degree of monopoly, Kalecki adds a new paragraph which was not included in *The Determinants of Distribution of National Income*:

> This tendency for the degree of monopoly to increase in the long run may, however, be offset by the diminishing imperfection of the market caused by the fall of transport costs in relation to prices, the standardization of goods, the organization of commodity exchanges, etc. In the Spätkapitalismus [phase of advanced capitalism], however, the first tendency has the upper hand, and the degree of monopoly tends to increase. (ibid., p. 247)

In short, contrary to dominant dogma, Kalecki believes advanced capitalist economies to develop further and further away from the ideal of perfect competition. The increasing degree of monopoly means a higher mark-up on costs and thus a change in the distribution of income in favour of capitalist income (ibid., p. 245).

After a short detour using marginalist methods[2] Kalecki ties in this analysis with the first chapter of his book *Studies in Economic Dynamics* which was published in 1943. The most notable difference to his earlier publications is that in *Studies in Economic Dynamics* there is no more mention of individual firms. Kalecki starts the analysis with the following definition of an industry:

> By an 'industry' is meant here manufacturing and selling of a certain group of products which fulfils the following conditions: (i) The price fixing for a product by a firm is influenced mainly by the prices of other products in

[1] Capitalist income c is now called entrepreneurial income e; depreciation d, salaries s and interest are taken together as overheads o.

[2] see Kalecki (1991 [1940]) and Kalecki (1941).

> the group and the expected price reactions of firms manufacturing them, and only to a much lesser degree by prices and price reactions outside the group. (ii) The proportional changes of the unit prime costs (unit costs of materials and wages) of the various products of an 'industry' are not very divergent. (Kalecki, 1991 [1943], p. 119)

This definition was and still is subjected to severe criticism in the Post-Keynesian community. Osiatyński, for example, wrote

> What is the essence of the difficulty in defining an 'industry' under oligopoly competition? The product of each firm included in an 'industry' must differ from products of other firms so that each firm can determine the price for its own product, i.e. so that each product has its own price. Yet the product differentiation must not be too big, because every oligopoly firm (unless it ceases to be an oligopoly and becomes a monopoly) must take into account prices fixed for similar products by its oligopoly competitors. The prime-cost curves of individual firms in an 'industry' must not differ too much between themselves, yet they must be mutually independent. Those contradictions can be solved only by an arbitrary definition of the scope of an 'industry'. (Osiatyński 1986 quoted in Osiatyński, 1991b, p. 497)

Little surprisingly, then, Kalecki was accused of being too indeterminate in his attempt at definition. Kriesler, in his major study of Kalecki's microanalysis, restated this criticism. Kalecki himself seems to have been well aware of the problems attached to his definition:

> It is obvious that this definition is not clear-cut. The broader the group the better condition (i) is fulfilled and the worse, in general, condition (ii). The group must thus be formed so as to achieve a compromise between these two requirements, and therefore the scope of the industry is within certain limits arbitrary. (Kalecki, 1991 [1943], p. 119)

This did not stop him from using it, though. He continuously relied on the concept of an industry in his subsequent analysis. Kalecki thus seems to have taken a rather pragmatic stance towards definitions in the social sciences: whilst definitions are an important element of social science research, they cannot and must not always be perfectly clear-cut. Robinson joined in on this view, arguing that

> The concept of an industry, though amorphous and impossible to demarcate sharply at the edges, is of importance for the theory of competition. (Robinson, 1980 [1953], p. 223)

Osiatyński's response to these defensive attempts is unambiguous: "the critics remain unpersuaded" (Osiatyński, 1991b, p. 498).

This may partly be due to Kalecki's own methodological standards. He did not contempt himself with a verbal analysis of economic developments but tried to express them in terms of mathematical formulae. These were then applied to an empirical analysis of existing economies[3]. It seems only logical that in this case an imprecise definition causes more of a stir than in other, less formalistic contexts. The fact that, as we will see below, in Kalecki's last two publications on pricing and distribution he changes major parts of the analysis, yet left his conception of industry unchanged, does not seem to indicate that Kalecki was particularly concerned about the usefulness of his definition though. Be this as it may, a thorough analysis of Kalecki's pricing theory cannot let this major point of critique go unmentioned.

Apart from the analytical starting point - single firm or industry - the analysis in *Studies in Economic Dynamics* in many respects sticks quite closely to its predecessors. Kalecki starts from the same assumptions - capacity underutilisation and constant marginal costs - and develops a formula for μ (Kalecki, 1991 [1943], pp. 119-121).

$$\mu = \frac{\sum Q_k \left(p_k - a_k\right)}{\sum Q_k p_k}$$

The denominator $\sum Q_k \left(p_k - a_k\right)$ is equal to aggregate profits and overheads of the industry, whereas the numerator $\sum Q_k p_k$ represents the aggregate value of sales (= turnover) of the industry (ibid., p. 121). Despite being presented in yet another different version it is obvious that this equation is identical with Kalecki's earlier formulations of the degree of monopoly. Yet, in its third edition, Kalecki decided to abolish the

[3]Primarily the US and the UK.

label 'degree of monopoly', calling μ the "percentage gross margin" (Kalecki, 1991 [1943], p. 121). At some points in the analysis, however, he uses the term "degree of oligopoly" (ibid., p. 126), reminding us of the original appellation.

What influences the degree of monopoly? In *Studies in Economic Dynamics* Kalecki goes into more detail as to what influences the degree of monopoly, an issue which he did not discuss in much detail in his earlier works. He argues that changes in the degree of monopoly μ

> [...] are determined chiefly by changes in the state of market imperfection and oligopoly, by changes in the rates of prime selling costs, and by 'bottle-neck factors'. True, μ is influenced also by relative changes in the average prime costs as between firms, but this influence is not likely to be very important. (ibid., p. 135)

Changes in the state of market imperfection Kalecki cites transport costs as an important influence on the condition of market imperfection. If transport costs rise relative to prime production costs, or alternatively, prime production costs decline while transport costs remain stable, this results in an increase in market imperfection (ibid., pp. 120-121). Relatively higher transport costs are a phenomenon that is often encountered during slumps (as prime production costs tend to decline in economic downturns) and thus, the degree of monopoly could be expected to rise in times of economic crisis (ibid., p. 126). There are other factors which influence the degree of monopoly in the opposite direction, however: Kalecki refers to Harrod who posited that consumers tend to be "more careful in comparing prices charged by various sellers in the slump than in the boom" (ibid., p. 126). Consequently, information asymmetries decline and the market gets more competitive. Finally, when firms get under financial pressure during a slump, tacit price agreements are more likely to arise (ibid., pp. 126-127).

> Imagine a deep slump in which the average prime costs in an 'industry' have fallen considerably. If the percentage margins were unchanged, there would

> be an even stronger fall of what is left for overheads and profits of a single producer because output is reduced as well. The resulting deterioration in his financial position induces him to increase his percentage gross margin in the hope that other producers will act likewise. If they do not he is lost, but so would he be if he reduced his prices proportionally to average prime costs. If such is the prevailing attitude, a 'tacit agreement' is established and μ is higher than it otherwise would be. (Kalecki, 1991 [1943], pp. 126-127)

These tacit agreements, according to Kalecki, are likely to become ineffective once the slump is over. Firstly, because the financial pressure which caused them in the first place will be removed, and secondly, because the firms will be very careful not to risk their good competitive position in a prospering market (ibid., p. 127). Keeping prices artificially high could provoke newcomers to enter the profitable market or allow the "reopening of establishments closed down in the slump" (ibid., p. 127).

Changes in the rates of prime selling costs

> It may be assumed that the entrepreneur apportions a certain part of his selling costs to 'investment or overhead selling costs' (a considerable part of advertising is probably treated in this way) and the rest to 'prime selling costs'. The first may be included in overheads and profits, while the second plays in price formation a role similar to prime production costs. (ibid., p. 124)

The higher prime selling costs are, the lower is the degree of monopoly, presuming that everything else remains stable (ibid., pp. 124-125).

Bottle-neck factors The mentioning of bottle-neck factors as an influence which has the potential to raise the degree of monopoly is particularly interesting as it runs to a certain extent counter to one of the basic assumptions of the argument: capacity under-utilisation. In the discussion of the different pricing regimes in the raw materials and the manufactures sectors, the (in)elasticity of supply emerged as one of the key differences between the two types of markets. On the raw materials sector, which is characterised by inelastic supply in the short run, prices are fixed by the interplay of supply and demand.

The markets for manufactured goods, on the other hand, are characterised by elastic supply. This, according to Kalecki, is a precondition for the applicability of mark-up pricing theory. An industry in which sales increase so much as to get close to the full utilisation of existing productive capacities, thus, represents an interesting 'grey area'. Once full capacity utilisation is reached, Kalecki assumes competition to increase and supply and demand to take over as determining factors. But until just before that point, Kalecki seems to argue, these developments are reflected in a higher mark-up (Kalecki, 1991 [1943], p. 124). It could be argued that through this theoretical twist Kalecki is softening his assumption of capacity underutilisation. He hastens to add, though, that such bottle-necks usually only become significant in "'abnormal' times, during wars or post-war periods" (ibid., pp. 127-128). Thus, his assumption of capacity underutilisation usually holds.

Having discussed the different influences on the degree of monopoly, Kalecki gives his estimation as to the probable long-run development of the degree of monopoly:

> The imperfection of the market will tend to diminish as a result of the fall of transport costs in relation to prime production costs, standardization of goods, spreading of commodity exchanges, etc.; the higher standard of living may tend to cause less careful buying (the 'Harrodian factor'), but this will probably be fully offset by a higher degree of knowledge and more free time for buying; finally, at a certain late stage of capitalist development the expansion of advertising may in many cases create an 'artificial' market imperfection. The progressive concentration of industry is likely to enhance the degree of oligopoly. The rates of prime selling cost are also likely to rise in the long run, particularly at a certain late stage of capitalist development. As to the influence of bottle-neck factors, it seems that, at least in the twentieth century, they are effective in 'normal' times only close to the top of the boom, and even then are not very significant for manufacturing industry as a whole. Thus bottle-neck factors are probably not important in the long-run analysis of recent economic developments. This does not, however, exclude a possibility of significant long-run changes in μ caused by these factors. On balance it is impossible to say a priori how μ changes in the long run. But it follows clearly from the above that (if we leave aside bottle-neck factors) it is more likely to rise in the later than in the earlier stage of capitalist development. (ibid., pp. 128-129)

Summing up, one could say that, despite being very cautious with forecasts Kalecki expects market imperfections, and thus the degree of monopoly, to rise rather than fall.

In face of this detailed discussion of the degree of monopoly one is tempted to overlook one peculiar detail of the analysis: Throughout the paper Kalecki does not give a conclusive account of his pricing theory. We know from his earlier writings that Kalecki conceptualises price as being determined by primary production costs plus mark-up and are thus led to believe that an enquiry into the determination of the mark-up is all that is left to do when analysing pricing decisions of entrepreneurs. But already at the beginning of the paper Kalecki gives us a hint that the underlying conceptualisation of price formation must have changed:

> The firms fix the prices of their products, taking into consideration the mobility of customers (market imperfection) and the influence of their own prices on those of their rivals (oligopoly). (Kalecki, 1991 [1943], p. 120)

The firms' interdependence with the pricing decisions of their competitors, which is described in the second part of the above quote, is nowhere included in the pricing equations of his earlier works on the issue. It is not taken up in *Studies in Economic Dynamics* either. This task was left for him to accomplish in the next version of his theory, published nine years later in his book *Theory of Economic Dynamics* (Kalecki, 1965 [1954]).

Phase 2: 1954

In *Theory of Economic Dynamics* Kalecki starts his analysis from a new pricing equation (ibid., p. 12):

$$p = mu + n\overline{p}$$

The price of a commodity is thus determined by its average prime costs u, the weighted average price of all firms in the industry $\overline{p}$ and two positive coefficients m and n which reflect the degree of monopoly (Kalecki, 1965 [1954], pp. 12-13). Kalecki does not discuss this equation in detail or give any hints as to how these coefficients could be determined empirically, though. In the empirical part of his own analysis he relies on the ratio of proceeds to prime costs as an indicator of the degree of monopoly (ibid., pp. 20-21). Whilst it must be acknowledged that this approach is likely to be due to restricted data availability, it is interesting to note that this ratio does not correspond to any of the formulae for μ given in his previous publications. In *Theory of Economic Dynamics* the degree of monopoly is substituted by the coefficients m and n which seem to be taken as externally determined.

What influences the degree of monopoly? Contrary to the mathematical part of the exposition, Kalecki discusses different influences on the degree of monopoly in some detail in the verbal analysis of the issue. He identifies four major influences on the degree of monopoly:

Tendencies of concentration in industry Kalecki makes out a trend to the formation of giant enterprises in advanced capitalist economies. These enterprises which often handle a considerable share of an industry's output, through their sheer size are very influential on the average price of the industry and thus, as we have seen above, on the pricing decisions of their competitors (ibid., p. 17). Knowing that other firms will react to its pricing policy,

> the firm can fix its price at a level higher than would otherwise be the case. The same game is played by other big firms and thus the degree of monopoly increases substantially. (ibid., p. 17)

This tendency can further develop into tacit agreements or even into cartel agreements (ibid., p. 17). As has already been stated above, these tendencies are particularly strong during times of economic depression.

Sales promotion The rising influence of sales promotion (advertising etc.) results in the substitution of non-price competition for price competition and thus a higher degree of monopoly (Kalecki, 1965 [1954], p. 17).

Overhead costs As overhead costs are part of the mark-up, rising overhead costs would lead to decreasing profit margins provided that the degree of monopoly is stable (ibid., p. 17).

> If the level of overheads should rise considerably in relation to prime costs, there will necessarily follow a 'squeeze of profits' unless the ratio of proceeds to prime costs is permitted to rise. As a result, there may arise a tacit agreement among the firms of an industry to 'protect' profits, and consequently to increase prices in relation to unit prime costs. For instance, the increase in capital costs per unit of output as a result of the introduction of techniques which increase capital intensity may tend to raise the degree of monopoly in this way. (ibid., p. 17)

Trade unions Strong trade unions, according to Kalecki, may for a number of reasons provide a check to the expansion of the degree of monopoly:

> A high ratio of profits to wages strengthens the bargaining position of trade unions in their demands for wage increases since higher wages are then compatible with 'reasonable profits' at existing price levels. If after such increases are granted prices should be raised, this would call forth new demands for wage increases. It follows that a high ratio of profits to wages cannot be maintained without creating a tendency towards rising costs. This adverse effect upon the competitive position of a firm or an industry encourages the adoption of a policy of lower profit margins. Thus, the degree of monopoly will be kept down to some extent by the activity of trade unions, and this the more the stronger the trade unions are. (ibid., p. 18)

Trade union power is thus the only factor which negatively influences the degree of monopoly.

Summing up, two observations can be made: First, the list of influences on the degree of monopoly differs considerably from the one presented in *Studies in Economic Dynamics*. I would argue, however, that the new list represents an extension and clarification of the old list, rather than a refutation of the same. Second, whilst being very indeterminate as to the influence on and the development of the degree of monopoly in the mathematical part of his analysis, Kalecki paints a very rich picture of the issue in the verbal exposition.

Phase 3: 1971

In the last version of his pricing theory, the posthumously published *Class Struggle and Distribution of National Income* (Kalecki, 1991 [1971]), Kalecki again changed the exposition of his ideas and explicitly included some aspects which were included only implicitly in earlier versions. Despite changes in the details of the analysis, the main idea remained the same:

> Each firm in an industry arrives at the price of its product p by 'marking up' its direct cost u, consisting of average costs of wages plus raw materials, in order to cover overheads and achieve profits. (ibid., p. 99)

After this general observation, Kalecki goes on to introduce the following equation for the mark-up (ibid., p. 99):

$$\frac{p-u}{u} = f\left(\frac{\overline{p}}{p}\right)$$

According to this equation, the mark-up $\frac{p-u}{u}$ is a function of the relation of the weighted average price of the industry to the firm's price:

> [...] the lower p is in relation to $\overline{p}$, the higher the mark-up will be fixed. (ibid., p. 99)

Equating $f\left(\frac{\overline{p}}{p}\right)$ with the mark-up represents a very strong recognition of the interdependence of firms. It may even be objected that this is too one-sided a focus on inter-firm relations. Yet, it could be argued that via the function f other factors influencing the extent of price competition indirectly enter into this equation as well. In this formulation function f remains a black box, however, and Kalecki does not tell us much about how it could be determined. The only influence on the mark-up which Kalecki discusses in this paper is trade union power (Kalecki, 1991 [1971], p. 100). The argument is very similar, if, as I would argue, somewhat more pessimistic than the analysis in *Theory of Economic Dynamics*. Having discussed the possible redistributive consequences of increasing bargaining power of trade unions, Kalecki concludes:

> The rise in wages is to a great extent 'shifted to consumers'. And 'normal' wage increases will usually leave functions f unaffected while mark-ups may otherwise tend to get higher because of the rise in productivity of labour. (ibid., p. 101)

In a nutshell, it can be said that while Kalecki concedes the possibility of trade unions restraining the mark-up, he nonetheless seems to be very cautious in his evaluation of the effectiveness of such a strategy. Rather than restraining the mark-up, demands for price increases may just set into motion an inflationary wage-price spiral: As wages are part of primary costs which enter the price calculations of firms, wage rises are likely to be offset by a corresponding rise in prices. Accordingly, real wages - and thus the living standard of the workers - would remain unchanged. There is one reason why wage bargaining may still have the desired effect, however: Firms may try to stop the detrimental wage-price spiral for fear of their declining competitive position relative to other industries (ibid., p. 100). Robinson later on introduces a second scenario for successful wage bargaining: Ongoing technological progress often results in rising productivity and thus higher profits in the more innovative sectors of the economy. The workers in those sectors will want their share in the gains and demand a wage rise. The entrepreneurs in these highly profitable parts of the economy may indeed be happy to accord a pay rise, knowing that their competitors will be pressured to pay the same wage rates. Weaker competitors who cannot cover the higher wage costs through productivity gains subsequently have to raise prices and thus get into an even worse competitive position. In this case granting higher wages, for some entrepreneurs, may be a small price to pay for a higher degree of monopoly (Robinson, 1979, p. 44). Nevertheless, Kalecki concludes that

> It should be noted that it is possible to devise forms of class struggle other than wage bargaining, which would affect the distribution of national income in a more direct way. (Kalecki, 1991 [1971], p. 102)

The alternative strategies he proposes, e.g. price control or subsidising the prices of consumption goods for workers, aim at “keeping down the cost of living” (ibid., p. 102) and thus avoiding the inflationary wage-price spiral which is likely to result from a distributive struggle exclusively conducted at the level of wage bargaining.

Another interesting feature of *Class Struggle and Distribution of National Income* is that Kalecki introduces yet another slightly different term for the mark-up, namely $\frac{p-u}{u}$ (ibid., p. 99). In his earlier versions the degree of monopoly μ used to be defined as follows: $\mu = \frac{p-a_k}{p}$. Kalecki does in no way explain the change of denominator. In addition to that he avoids to talk about the ‘degree of monopoly’, a term which, according to Osiatyński, “evoked so many misinterpretations and accusations of tautology” (Osiatyński, 1991a, p. 529). Instead, he only refers to influences on the mark-up. It is thus difficult to establish with absolute certainty whether his new formula represents just a strategic reformulation or hints at more profound conceptual changes.

Having retraced the development of Kalecki’s pricing theory throughout his career, in conclusion I fully agree with Kriesler’s appraisal:

> [Although] Kalecki was unable to defend his conclusions with a rigorous formalization of his microdistribution theory [...] and despite the changes to the theory, particularly the ‘degree of monopoly’, the essential aspects of the analysis of price determination were adhered to by Kalecki in all his writings. (Kriesler, 1987, pp. 100-101)

I would argue that, leaving aside the attempts at formalisation, one can deduce from Kalecki a very good descriptive understanding of price formation and its relation to income distribution and consequently poverty production.

5.2 Joan Robinson

When discussing Joan Robinson's analysis of price formation, first of all it must be mentioned that for great parts of her analysis she relied on Kalecki's work in the field. On many occasions she referred to him, taking his theory as the point of departure for her own analysis. Robinson did not just uncritically accept Kalecki's theory, however. She criticised and amended it, pointing out where she thought more research would be needed. On the other hand, she also defended Kalecki's theory against some of its critics, trying to jump in with clarifications of misunderstandings which arose due to Kalecki's terse style of exposition. In what follows, I will first present Robinson's attempts at conceptual clarification of Kalecki's contested key concepts 'industry' and 'degree of monopoly'. Next, her critique of Kalecki's pricing theory as well as her appraisal of the theoretical status of pricing theory will be discussed.

5.2.1 Industry

As has already been mentioned in the last section, Joan Robinson defended Kalecki's use of the concept of 'industry', despite it being "amorphous and impossible to demarcate sharply at the edges" (Robinson, 1980 [1953], p. 223). Consequently, contrary to Kalecki, she does not try to come up with a quantifiable definition. Hers is a definition which comes very close to what Thurman Arnold recommended in his 1937 book *The Folklore of Capitalism*:

> Definition is ordinarily supposed to produce clarity in thinking. It is not generally recognized that the more we define our terms the less descriptive they become and the more difficulty we have in using them. The reason for this paradox is that we never attempt to define words which obtain a proper emotional response from our listeners. Logical definition enters when we are using words which we are sure "ought" to mean something, but none of us can put our finger on just what that meaning is. (Arnold, 1937, p. 180) [...] How may the observer of social institutions avoid such traps? The answer is that in writing about social institutions, he should never define anything. He should try to choose words and illustrations which will arouse the proper

> mental associations with his readers. If he doesn't succeed with these, he should try others. If he ever is led into an attempt at definition, he is lost. (Arnold, 1937, pp. 182-183)

Rather than logically explaining what 'industry' ought to mean, Robinson describes what is generally understood by the term:

> In ordinary language when we speak of the cotton industry, the iron-founding industry, the boot-and-shoe industry (leather) we are thinking of a group of firms engaged in a certain type of production, governed by the kinds of object produced and the materials of which they are made. [...]
>
> There are often certain basic processes required for the production of the most diverse commodities (tennis balls, motor tyres and mattresses) and economies in the utilization of by-products under one roof. The know-how and trade connections established for one range of products make it easier to add different commodities of the same technical nature to a firm's output than it is to add mutually substitutable commodities made of different materials, or made or marketed by radically different methods. Moreover, the members of an industry have common interests and a common language, and feel a kind of patriotism which links them together, even when they are in competition with each other. It is much easier to organize control over one industry serving many markets than over one market served by the products of several industries. (Robinson, 1980 [1953], pp. 222-223)

This description is not much help in operationalising the concept for empirical analysis, but it most certainly "will arouse the proper mental associations" (Arnold, 1937, pp. 182-183). Perhaps, after all, the way forward for a fruitful definition of industry is empirical, rather than logical. Rather than imposing a definition top-down we could ask the entrepreneurs which firms they think constitute the industry they are part of. Joan Robinson's approach, I would suggest, may lead us in that direction.

Another interesting aspect of Robinson's analysis of 'industry' is her stress of

> the distinction between *output of an industry* - that is, a group of firms engaged in the production of commodities alike in their methods of manufacture, and the *supply to a market* - that is, the demand for a group of commodities which are close substitutes for each other. (Robinson, 1980 [1953], p. 222, emphasis added)

This distinction arises out of Robinson's observation that the firms of an industry are characterised by similar modes of production rather than the mutual substitutability of their goods. As one industry can serve many different markets, and one market can be served by many different industries, the degree of monopoly of an industry obviously is not the same as the degree of monopoly of a market (Robinson, 1980 [1953], pp. 222-223). Which of the two is relevant for price formation, though? Joan Robinson's answer to this question can be found in the following statement:

> The degree of concentration in an industry, measured by the proportion of its output produced by, say, the three largest firms, or the degree of monopoly in the sense of the closeness of the organization binding the firms, may have little relation to the degree of monopoly in the markets which it serves, in the sense of power to control prices. (ibid., p. 223)

Thus, Robinson seems to suggest that it is the degree of monopoly in the market which is relevant to price formation rather than the degree of monopoly in the industry. On the other hand, it is obvious that her definition of the degree of monopoly in the market, that is, a measure of the power to control prices, corresponds to Kalecki's definition of the degree of monopoly of an industry. Thus, upon closer consideration it becomes apparent that Robinson advocated a very different understanding of 'industry' than Kalecki. While Kalecki gives interdependencies of pricing decisions a main definitional role for the industry, Robinson locates them in the sphere of the market. This observation is quite confusing for the reader as these conceptual differences are by no means acknowledged or followed-up. It thus remains uncertain whether Robinson was fully aware of those differences and what theoretical consequences she may have drawn from them.

5.2.2 The degree of monopoly

Unsurprisingly, this unacknowledged mix-up can be found also in Robinson's discussion of the degree of monopoly. In their 1973 textbook *Introduction to modern economics* Robinson and Eatwell wrote:

> In every case, the prices that any seller can charge are mainly determined by the prices that other sellers charge for similar products or for commodities that, from the buyer's point of view, are close substitutes for them. (Robinson and Eatwell, 1974, p. 154)

Here again, they are referring to the market rather than the industry, whilst at the same time referring to Kalecki's theory. In her paper *Michał Kalecki* which was published in 1977 Robinson comes back to a discussion of the degree of monopoly. Stating that the concept has been misunderstood by its critics, she goes on to explain what Kalecki really meant:

> What it means is the absence of price competition (there are other forms of competition in salesmanship, product differentiation etc.). The weaker is price competition in any market, the greater is the freedom of firms to set prices in excess of costs. The ratio of margins to prices is a symptom of the degree of monopoly. (Robinson, 1980 [1977][a], pp. 188-189)

The absence of price competition, however, should not be interpreted as a general lack of competition. Robinson stresses the fact that price competition is neither the only nor the most important form of competition in advanced capitalist economies (Robinson, 1980 [1953], p. 228). Competition has many faces. Robinson lists seven major forms of competition:

> (1) imitation of products; (2) differentiation of products – and these may be in respect of qualities which affect practical usefulness or pleasure to the consumer, qualities which appeal to snobbishness or to pseudo-scientific notions, or simply methods of packing and labelling artcles [sic!]; (3) services of all kinds, prompt delivery, long credit; (4) advertisement; (5) pure salesmanship, in the sense of the persuasiveness of travellers, etc.; (6) higher price – giving the impression of better quality; (7) lower price. (ibid., p. 228)

A high degree of monopoly only signifies a lack of (7), that is, price competition. It does not say anything about the state of the other forms of competition. This interpretation leads Robinson to doubt the explanatory power of the degree of monopoly, stating that

> [...] the hypothesis that the pattern of gross margins for various commodities can be explained solely by "the degree of monopoly" was in the nature of a shot in the dark. (Robinson, 1980 [1977][c], pp. 18-19)

She then goes on to argue that the mark-up on costs is influenced also by overhead and selling costs such as "the expenses of nonprice competition" (ibid., p. 19). These costs have been accounted for by Kalecki as influences upon the degree of monopoly. It thus appears that Kalecki had a more comprehensive understanding of the degree of monopoly than Robinson. While Robinson promoted a narrow understanding of the degree of monopoly, claiming the consideration of other factors in the determination of the mark-up, Kalecki integrated all these influences under the roof of the degree of monopoly. Kalecki thus could be interpreted as putting a stress on the interrelations between the different parameters.

5.2.3 Robinson's critique of Kalecki's pricing theory

This difference in approach might partly be due to Robinson's concern with long-period developments. Robinson criticised Kalecki for concentrating solely on the short period, arguing that

> [...] there must be some long-period element in the relation of prices to costs. The ratio of overheads to prime costs, which varies between industries for technical reasons, must have some influence on the gross profits that they require. (Robinson, 1980 [1977][a], p. 189)

Furthermore, in *Solving the Stagflation Puzzle* (Robinson, 1979) she argues that

> Keynes' crack that in the long run we are all dead was quite unfair – we are living in the long period every week, from Monday to Friday. Long-period movements are those that take place through capital accumulation and technical change. They are slow relatively to swings of effective demand but, in prosperous times they are going on at quite an appreciable pace. (ibid., p. 44)

Technical change results in differences in the cost structure of production and consequently influences the mark-up. These influences, according to Robinson, were not adequately accounted for in Kalecki's theory (Robinson, 1980 [1977][a], pp. 188-189). It may thus be argued that Robinson has put considerable effort into dividing out short-period and long-period influences. This could well be one reason for her differentiation between the degree of monopoly in the narrow sense of the word and other factors influencing the mark-up.

In conclusion, whilst in general supporting Kalecki's approach, Robinson was not convinced that he succeeded in solving the enigma of price formation.

> I wrote in 1942, "It seems that economic science has not yet solved its first problem. What determines the price of a commodity?" I think that this is still largely true, but meanwhile we have made some advance in formulating hypotheses that are worth pursuing. (Robinson, 1979, p. 41)

Kalecki, she argues, has pointed us in the right direction, asking the right questions, but the answers he gives are "not thoroughly worked out" (Robinson, 1980 [1977][c], p. 18).

5.3 Thorstein Veblen

Price formation certainly played a more secondary role in Veblen's work compared to Kalecki and Robinson. He did have a basic theory of price formation, however. In what follows, I will lay out Veblen's analysis and discuss the differences and similarities to Kalecki's and Robinson's work. Broadly, I will discuss Veblen's answers to two key questions:

1. What determines prices?

2. What determines the profit margin?

5.3.1 What determines prices?

In terms of influences on price formation Veblen describes three key factors :

- The purchasing-power available for consumption (Veblen, 1996 [1923], p. 390)
- The degree of scarcity of the goods available for purchase (ibid., p. 388)
- The degree of competition amongst competing sellers (ibid., p. 349)

The first two factors show that at the heart of Veblen's analysis lies an understanding of prices being determined by supply and demand. Everything that exerts an influence on either the supply- or the demand-side changes the prices. Veblen does not regard the interplay of supply and demand as an independent mechanism, though. It can be and is steered.

The purchasing-power of the people is highly influenced by the availability of credit. The more easily credit is available, the higher the purchasing-power, the higher the level of prices. Credit, according to Veblen, thus can be regarded as an important price-making factor (Veblen, 1905, pp. 462-469). This brings us back to what has been discussed in chapter 4.5 where we questioned the sustainability of loan-financed consumption patterns. There we argued that loan-financed conspicuous consumption contributes to poverty production in that it enables the capitalist class to keep wages low whilst at the same time ensuring sufficient levels of effective demand to maintain profitable sales. In the context of Veblen's theory of price formation another aspect of loan-financed consumption becomes apparent: on top of stabilising demand, credit also helps to maintain or even raise the price-level. In chapter 4.5 it was argued that a system based on loan-financed conspicuous consumption is bound to collapse at some point because there comes the time when people become unable to service their debts. Veblen refers to this problem in his discussion of credit as a price-making factor, stressing the important role of government. Government agencies, he argues, enhance "prices by contributing to the security of this expanded volume of credit and so helping to make it indefinitely expansible without risk" (Veblen, 1996 [1923], p. 400). The events of the current economic crisis, with bank bailouts being a regular phenomenon, seem to affirm this view, whilst at the same time showing that this may reach dimensions where even governments are no longer able to stabilise this high-risk strategy.

On the supply side, the major regulatory mechanisms are different strategies of output restriction which Veblen groups under the notion 'industrial sabotage'. Whilst pointing out that it is in the workers best interest to restrict the efficiency of their work, Veblen nonetheless focuses his analysis of sabotage on the entrepreneurs. They are the main culprits of industrial sabotage (Veblen, 1954 [1921]). As industrial sabotage will be discussed at length in chapter 6, suffice it to say that it is a highly effective means of output restriction and thus supply regulation. Another possibility to create scarcity, at least on the level of the individual firm, is through good salesmanship. Good salesmanship increases sales and thus creates scarcity (provided that the output of the goods is restricted) and thus raises prices. However, this strategy is always restrained by the purchasing-power available for consumption and thus can only ever be successful for some entrepreneurs at the expense of others (Veblen, 1996 [1923]).

The third influence on price-formation mentioned by Veblen, the degree of competition, shows that Veblen was not fully taken in by a simplistic framework of supply and demand. He argues that, apart from the factors influencing supply and demand, the extent of competition amongst firms is a major price-making factor (ibid., p. 349). The argument develops as follows: as the accumulated productive capacity of firms exceeds the purchasing-capacity of the market, free competition would quickly develop into 'cut-throat competition', minimising the earning capacity of the firms (ibid., p. 337). In order to protect themselves from this 'dangerous' level of competition firms fall back on different kinds of collusive behaviour and concerted action (ibid., p. 349). Thus minimising price-competition they are able to maintain or even enhance the price-level. This tendency towards less and less competition, according to Veblen, can be observed in most key industries, with the exception of agricultural food products and crude oil (ibid., pp. 126-128). Diminishing price-competition, however, does not mean absence of competition altogether. Rather it means a shift towards competition in salesmanship (Veblen, 1996 [1923], p. 385). Increasing competition in salesmanship results in rising sales-costs and thus an increasing part of turnover being spent on sales-promotion (ibid., p. 312). These expenditures, according to Veblen, become imperative because "none of the competing sellers can afford to fall short in his expenditures on salesmanship" (ibid., p. 304). Otherwise he would risk to fall behind his competitors in non-price competition. This form of collusion, according to Veblen, has one important positive effect on the economy: it provides stability. Unhindered competition, from the point of view of business, for the reasons laid out above, is impracticable in times of excess capacity. Concerted action is needed in order to guarantee a viable business environment. In order to satisfactorily fulfil this task concentration must go as far as to create monopolies; oligopolies still entail competition and thus a destabilising element (Veblen, 1932 [1904], pp. 257-263).

5.3.2 What influences the profit margin?

On top of these more general observations of price formation, Veblen also hints at how the mark-up[4] is determined. The mark-up can be enlarged via two different strategies (Veblen, 1996 [1923], p. 390):

- The increase of sales-prices
- The reduction of production-costs

How to influence sales-prices has already been discussed extensively above; I will thus only add a few remarks on the second strategy, namely cost-reduction.

Veblen argues that there is usually not much room for manoeuvre in the negotiation of raw-material prices. Consequently, cost-reduction most often is reached through the reduction of wage-costs (ibid., p. 287). This, Veblen stresses, obviously creates resistance amongst the workers but they are unlikely to be able to organise themselves well enough

[4]Veblen calls it "the margin of sales-prices over production-costs" (Veblen, 1996 [1923], p. 403).

to effectively defend themselves against wage-cuts any time soon (Veblen, 1996 [1923], p. 287). The dynamic arising from this distributive struggle is best summed up in the following quote from *Absentee ownership* (ibid.):

> While the business men are endeavoring to enhance the reasonable gains of business by expanding the volume of capital and lifting the level of prices, and so widening the margin of sales-prices over production-costs, the organized workmen are forever cutting in on the same margin by pushing up the labor cost. (ibid., p. 403)

However, whilst depicting the workers in a weak position, Veblen also stresses the danger of failing effective demand due to these distributional imbalances. For the realisation of profit entrepreneurs (at least partly) rely on the purchasing power of the workers (ibid., p. 214). The strategy of escaping this problematique via the creation of credit has already been discussed in some detail above.

Another possibility to cut costs is through technical progress. This option is only ever available to those who employ the newest and most efficient means of production. As technical progress, according to Veblen, develops quite rapidly, this differential advantage usually is of short duration (Veblen, 1932 [1904], pp. 229-230).

Comparing Veblen's analysis of pricing to Kalecki's and Robinson's work a number of similarities and divergences become apparent: Veblen's assumption of capacity underutilisation and the wide-spread existence of imperfect competition, as well as his observation that price competition is replaced by non-price competition and thus rising sales-costs reminds of what Kalecki and Robinson wrote some 10 to 15 years later. The same holds true for his assertion that agricultural food-products and crude oil are still sold on competitive markets. Considerable differences can be spotted in the details of the analysis, however.

Despite stressing the importance of imperfect competition, Veblen still holds on to the basic price-making principle of supply and demand. The question of how these two can be combined is not addressed by Veblen. In terms of how much collusion is needed in order to provide for stability Veblen goes even farther than Kalecki and Robinson stating that only monopolies can provide for stability in the long run. On top of that, Veblen is even more restrictive than Kalecki as regards the delineation of the competitive sectors of the economy. While Kalecki includes all the raw material producing sectors of the economy, Veblen only speaks of the sectors producing agricultural food products and crude oil as exemptions to the rule.

In a nutshell, we can say that despite pricing not being amongst his major concerns, Veblen's work includes many interesting thoughts on the matter. Indeed, it is astonishing to see that spread throughout Veblen's work are the essentials of some of the ideas which laid the ground for Kalecki's prominence some 10 to 20 years later. Despite touching on many key issues of modern pricing theory, however, Veblen never ventured into the details of the analysis.

Concluding remarks

In this chapter I have enquired into the processes of price determination at work in advanced capitalist economies. These are of particular relevance for an analysis of poverty producing processes because, as we have seen in chapter 2.1.3, the conditions of the provision of goods do play a role in the creation of poverty.

I have opened this chapter with a thorough discussion of Kalecki's theoretical work on pricing. Although the details of his analysis changed considerably throughout his long career, Kalecki's core argument remained fundamentally unchanged. The great majority of firms in advanced capitalism, Kalecki observes, operate on oligopolistic markets. On these markets prices are set by a mark-up on costs. The size of the mark-up depends on a variety of factors, an important one being the relative competitive position of the respective firm. The mark-up consists of overhead costs and profits and thus plays a decisive role for the determination of the rate of profits of the firm. The size of the mark-up, consequently, in this framework, is to a considerable extent an outcome of the distributive struggle between workers and entrepreneurs. The power relations in this struggle are highly unequal, however, as the firms always have the last say and the workers' only way to exert pressure is through trade unions. One consequence of this is that whilst wage bargaining may have a redistributive effect, due to the interrelation of wages and prices this effect is likely to be rather small. Workers would thus be better advised to concentrate their redistributive efforts at enforcing price control.

Robinson often referred to Kalecki's work and primarily aimed at clarifying and complementing parts of his analysis. I believe to have shown, however, that upon closer reading these attempts appear to have resulted in even more confusion and fundamental incompatibilities between these two authors' works rather than in clarification.

Veblen, on the other hand, whilst on the surface adopting a completely different pricing theory, was shown to have anticipated in many respects Kalecki's later work.

Overview of the main poverty producing effects

It is in this broad context that I want to point out three instances related to mark-up pricing which may be seen as contributing to the production of poverty:

Firstly, the most directly poverty producing effect of mark-up pricing is simply the fact that the lack of price competition tends to keep prices high and thus purchasing power low. The higher the general price level the more income is needed to achieve a predefined standard of living. In cases when inflation is higher than wage increases and/or benefits are not adjusted for inflation, real incomes decline. This, in turn bears the risk of putting people in poverty who formerly were able to make a living free from material deprivation.

Secondly, a more indirect poverty producing effect of mark-up pricing can be found in the fact that in this model entrepreneurs are understood to set prices after wage bargaining is completed. Consequently, entrepreneurs always have the last say on the level of real wages and thus purchasing power. Therefore, as wage increases are understood to usually result in price increases, the workers' power to negotiate a fairer income distribution is very limited. Even more so as wage dumping, according to Veblen, is one of the favoured strategies to keep costs down and margins up.

Finally, it needs to be mentioned that the entrepreneurs' power to keep prices high and wages low is reinforced by the phenomenon of increasing debt-financed consumption described in chapter 4. As consumption becomes increasingly independent of wage income, entrepreneurs are not even seriously limited by the threat of a lack of effective demand resulting from the problematic combination of high prices and low wages. Their room for manoeuvre for exploitatively enlarging profits is increasing.

It can be observed that all of the poverty producing effects discussed above concern the material deprivation aspect of poverty. Furthermore, the second and third items on the list confirm the significance of at least complementing the conventional definition of poverty (an income of less than 60 percent of median income) with a measure of material deprivation. Exclusive reliance on a nominal income measure would fail to take account of important price-related influences on the real distribution of income.

6 Poverty producing process n° 3: Industrial sabotage

Industrial sabotage, Veblen argued, can be considered as the single most important hindrance to social provisioning in modern capitalism. This makes it an obvious choice to be included in the analysis of poverty production. This chapter starts with a detailed discussion of Veblen's work on industrial sabotage. Next, the related Kaleckian notion of 'capacity underutilisation' will be outlined and the differences between the two theorists are discussed. Subsequently, Robinson's approach to the topic is analysed and will be shown to be situated in between the Veblenian and the Kaleckian approach. Finally, the argument will be summed up and the main poverty producing effects of industrial sabotage will be mapped out.

6.1 Thorstein Veblen

The term sabotage, as Veblen explains at the beginning of *The engineers and the price system*, derives from the French word 'sabot' which denotes a specific type of wooden shoe (Veblen, 1954 [1921], p. 1). Sabotage thus, according to Veblen, means

> going slow, with a dragging, clumsy movement, such as that manner of footgear may be expected to bring on. So it has come to describe any manoeuvre of slowing-down, inefficiency, bungling, obstruction. (ibid., p. 1)

In Veblen's time sabotage was primarily asociated with trade unions. Veblen, however, pointed out that acts of hindrance and obstruction of the productive process can be and indeed often are administered by the possessing classes as well (Veblen, 1954 [1921], pp. 3-4). Thus he coined the term 'industrial sabotage' to describe those business strategies which make use of the power to control production in order to maximise pecuniary gain (Clark, 2002, p. 419). In effect, according to Veblen, everything that keeps production "short of productive capacity" (Veblen, 1954 [1921], p. 8) is to be counted as industrial sabotage.

> Such manoeuvres of restriction, delay, and hindrance have a large share in the ordinary conduct of business; but it is only lately that this ordinary line of business strategy has come to be recognized as being substantially of the same nature as the ordinary tactics of the syndicalists. So that it has not been usual until the last few years to speak of manoeuvres of this kind as sabotage when they are employed by employers and their business concerns. But all this strategy of delay, restriction, hindrance, and defeat is manifestly of the same character, and should conveniently be called by the same name, whether it is carried on by business men or by workmen; (ibid., pp. 3-4)

Thus Veblen, as Samuels points out, had a symmetrical understanding of sabotage, treating workers and captialists alike (Samuels, 1994, pp. 1249-1250). Nonetheless, the focus of his work was decidedly on industrial sabotage. As will be seen in this chapter, this is most probably due to its potentially great negative impact on social provisioning.

At the heart of the phenomenon of industrial sabotage lies a double conflict of interests. While the capitalists are interested in pecuniary gain only, the community is interested in the sufficient supply of necessary goods at reasonable prices (Veblen, 1919, pp. 91-93). The provision for the material well-being of the community, however, is not part of the incentive structure of capitalists. To put it bluntly, they do not care whether the underlying population's needs are provided for or whether they are going hungry. In Veblen's view, they have little scruple to curtail the material well-being of the community as long as this serves their aim of profit maximisation (Veblen, 1932 [1904], pp. 28-29).

As I have shown in chapter 5.3 Veblen subscribed to a supply-and-demand pricing framework. Thus, in Veblen's understanding, capitalists' primary "means of keeping up prices" (Veblen, 1954 [1921], p. 15) and maximising profit is the curtailment of production, that is, industrial sabotage (Veblen, 1919, p. 91). It thus becomes apparent that the interests of capitalists regularly run counter to the interests of the community at large.

This conflict of interests is further aggravated by the fact that capitalists are interested in the vendibility of their products, not in their serviceability (Veblen, 1932 [1904], p. 51). Veblen concedes that "a modicum of serviceability, for some purpose or other, the output must have if it is to be salable" (ibid., p. 51) but he stresses the fact that a higher level of serviceability does not necessarily coincide with better vendibility (ibid., p. 51). Two different interpretations of this observation are possible:

1. Producers prefer to produce luxury goods for the wealthy classes instead of producing necessary goods for the low-income classes because of differences in purchasing power.

2. Due to psychological inclinations towards the consumption of conspicuous consumption goods, people are more willing to pay for conspicuous goods than for necessary goods. This interpretation would mean that the people themselves do not act according to what would be best for them.

The first interpretation would signify a misallocation of productive capacity due to differences in purchasing power of social classes, the second interpretation would ascribe causality to the psychological factor of invidious comparison. Veblen himself does not go into the details of this assumption, but judging from the entirety of his work, it seems reasonable to assume a certain relevance for both factors.

Alongside the conflict of interests of business men and the community as a whole, modern capitalism has seen the emergence of a further interest group: the managers of corporate capital. Their sole interest lies in the vendibility of the corporate capital under their management. Theirs is a purely short-period perspective, they are in no way interested in the long-term development of the firm. Thus, their interest is even farther removed from the interest of the community as a whole than the business men's and their potential to do harm even greater (Veblen, 1932 [1904], pp. 158-159). Veblen leaves little doubt as to whose interests he expects to become dominant in this unequal constellation - he predicts the growing dominance of business and capital interests (Veblen, 1954 [1921], p. 100).

This development also finds expression in a re-definition of the notion of 'common welfare'. Whereas it used to "turn[ed] on the ease and certainty with which enough of the means of life could be supplied" (Veblen, 1932 [1904], p. 177), common welfare is now interpreted as the profitability of business. Or, to put it another way:

> Prosperity now means, primarily, business prosperity; whereas it used to mean industrial sufficiency. (ibid., p. 178)

This new benchmark for economic well-being has also led to the emergence of the notion of 'overproduction' which is often refered to as a legitimation for the limitation of output. According to Veblen, overproduction is a pure business phenomenon (ibid., pp. 215-217). In *The Theory of Business Enterprise* he remarks that "[t]he supply of consumable goods is, practically, never greater than the community's capacity for consuming them" (ibid., p. 215). Overproduction thus means not the production of more goods than the community could use, but the production of more goods than the community is able or willing to buy at prices which the entrepreneurs regard as reasonable (ibid., pp. 216-217). In this context it is important to add that, according to Veblen, "[a] reasonable profit always means, in effect, the largest obtainable profit" (Veblen, 1954 [1921], p. 13). Overproduction thus is not a phenomenon rooted in the scarcity of resources or the saturation of demand, its sole point of reference are the expected profits of entrepreneurs. The level of employment of plant and man power accordingly is determined by "what the traffic will bear" (Veblen, 1919, p. 91), that is,

> [P]rices are fixed by consideration of what scale of prices will bring the largest aggregate net earnings, due to regard being had to the effect of a lower price in increasing sales as well as to the reduction of cost through the increase of output. (Veblen, 1932 [1904], p. 259)

As industrial planning always retains a certain level of uncertainty, to be on the safe side, according to Veblen, conservative business management tends to produce less rather than more than what they expect 'the traffic to bear' (Veblen, 1996 [1923], pp. 67-68). As soon as they see the danger of overproduction looming in the distance entrepreneurs start to restrain production in order to maintain the profitability of their investment.

This power of entrepreneurs to control production for their own benefit originates in the modern definition of property rights. The right of property, contrary to how it was understood in earlier times, has come to be understood not only as the right to hold property but also as the right to withhold property from productive use[1] (ibid., pp. 66-67). As the greatest part of the population in modern economies does not own means of production, their subsistence depends on the will of those who do to put their property to productive use. This vests the owners of the means of production with a considerable power "to impose terms and exact obedience" (ibid., p. 65). Or, to put it differently, "[o]wnership confers a legal right of sabotage" (ibid., p. 66).

All the above combined, that is the right to withhold their property from productive use in combination with the class interests of entrepreneurs and their avoidance of overproduction, according to Veblen results in the "chronic perturbation" (Veblen, 1932 [1904], p. 34) of modern industry. This disruption, however, is only partial. Despite not being interested in production per se, capitalists' earning capacity is ultimately bound up with the production and sale of goods. Productive capacities left completely idle usually do not obtain profits (Veblen, 1996 [1923], p. 66).

As regards his evaluation of the overall effects of an economic system marked by important amounts of industrial sabotage, Veblen seems to have grown more and more

[1] For a more detailed discussion see Commons' *Legal Foundations of Capitalism* (Commons, 1995 [1924]).

pessimistic throughout his career. He started out with a rather optimistic appraisal in *The Theory of Business Enterprise*, arguing that

> While it is in the nature of things unavoidable that the management of industry by modern business methods should involve a large misdirection of effort and a very large waste of goods and services, it is also true that the aims and ideals to which this manner of economic life gives effect act forcibly to offset all this incidental futility. These pecuniary aims and ideals have a very great effect, for instance, in making men work hard and unremittingly, so that on this ground alone the business system probably compensates for any wastes involved in its working. There seems, therefore, to be no tenable ground for thinking that the working of the modern business system involves a curtailment of the community's livelihood. It makes up for its wastefulness by the added strain which it throws upon those engaged in productive work. (Veblen, 1932 [1904], p. 65)

15 years later, in *The Vested Interests and the State of the Industrial Arts* he comes to a very different conclusion:

> But it is also evident that the private gain which the business concerns come in for by this management entails a loss on the rest of the community, and that the loss suffered by the rest of the community is necessarily larger than the total gains which these manoeuvres bring to the business concerns; inasmuch as the friction, obstruction and retardation of the moving equilibrium of production involved in this businesslike sabotage necessarily entail a disproportionate curtailment of output. (Veblen, 1919, pp. 93-94)

Veblen then goes on to soften this argument by adding that

> However, it is well to call to mind that the community will still be able to get along, perhaps even to get along very tolerably, in spite of a very appreciable volume of sabotage of this kind; even though it does reduce the net productive capacity to a fraction of what it would be in the absence of all this interference and retardation; for the current state of the industrial arts is highly productive. (ibid., p. 94)

But still, the argument has obviously shifted. Far from crediting the business class with an overall positive effect of their management, Veblen states that the community may have enough to live on despite the considerable negative impact of business management.

This is due to technical progress and the incredible productivity of modern industry. The following quotation should give an impression of how dramatic Veblen seems to have judged the negative consequences of industrial sabotage:

> But it should be kept in mind and should be duly credited to the good intentions of these businesslike managers, that the ulterior object sought by all this management is not the 100 per cent of mischief to the community but only the 10 per cent of private gain for themselves and their clients. (Veblen, 1919, p. 106)

This resounds another recurrent theme in Veblen's work, namely the cumulative nature of social change. Similar to what is known as multiplicator effects in modern macroeconomics, Veblen argued that modern economies are so close-knit and interdependent that slight disturbances in one area quickly spread throughout the whole system and in a kind of domino effect result in far greater disturbances than what would be expected judging from the original cause (Veblen, 1932 [1904], pp. 16-18).

In *The Engineers and the Price System* Veblen restates the gloomy prediction made two years earlier:

> The experience of the past few years teaches that the usual management of industry by business methods has become highly inefficient and wasteful, and the indications are many and obvious that any businesslike control of production and distribution is bound to run more and more consistently at cross purposes with the community's livelihood, the farther the industrial arts advance and the wider the industrial system extends. (Veblen, 1954 [1921], p. 100)

It should not go unmentioned, however, that earlier on in the same book he writes:

> It should not be difficult to show that the common welfare in any community which is organized on the price system cannot be maintained without a salutary use of sabotage – that is to say, such habitual recourse to delay and obstruction of industry and such restriction of output as will maintain prices at a reasonably profitable level and so guard against business depression. (ibid., p. 7)

This should not be misinterpreted as meaning that Veblen was in favour of industrial sabotage, however, as seems to be done by LaJeunesse (LaJeunesse, 2004). The above statement, I would argue, is related to Veblen's analysis of economic crises. Depression, according to Veblen, is primarily "a malady of the affections" (Veblen, 1932 [1904], p. 241) of the business men. Depression occurs when the profit expectations of business men get frustrated (ibid., p. 213). Nonetheless, Veblen stresses the fact that depression, despite being a psychological phenomenon originating with the business class, has "grave consequences for industry and for the material welfare of the community outside the range of business interests" (ibid., p. 238). It is thus in everybody's interest to ensure 'reasonable' profits for business men in order to avoid the even more detrimental effects of economic crisis which impend in the case of a loss of business confidence (ibid., pp. 237-238). The above statement thus is simply a recognition of systemic necessities. Veblen concedes that within a system based on pecuniary relations, it is of utmost importance for the community to ensure profits high enough to keep the business men willing to invest and to produce; this does not mean that he believes this system to be the best in terms of the common good, however (Veblen, 1954 [1921], p. 7). Veblen is very explicit about this in *The Engineers and the Price System* where he argues that a new economic system should be created under the leadership of a "soviet of technicians" (ibid., p. 134) with the aim of heightened efficiency and improved social provisioning.

All this paints a rather unsympathetic picture of the business men. They are portrayed as solely pecuniarily motivated, selfish individuals with no social conscience whatsoever. In his *Theory of the Business Class* Veblen mitigates this picture a bit, stating that

> In common with other men, the business man is moved by ideals of serviceability and an aspiration to make the way of life easier for his fellows. Like other men, he has something of the instinct of workmanship. No doubt such aspirations move the great business man less urgently than many others, who are, on that account, less successful in business affairs. Motives of this kind detract from business efficiency, and an undue yielding to them on the part of business men is to be deprecated as an infirmity. Still, throughout men's

> dealings with one another and with the interests of the community there runs a sense of equity, fair dealing, and workmanlike integrity; and in an uncertain degree this bent discountenances gain that is got at an undue cost to others, or without rendering some colorable equivalent. Business men are also, in a measure, guided by the ambition to effect a creditable improvement in the industrial processes which their business traffic touches. These sentimental factors in business exercise something of a constraint, varying greatly from one person to another, but not measurable in its aggregate results. (Veblen, 1932 [1904], pp. 41-42)

He hastens to add, though, that all these ethical restraints operate within the ethics of capitalist enterprise.

> It touches primarily the dealings of man with man, and only less directly and less searchingly inculcates temperance and circumspection as regards the ulterior interests of the community at large. Where this moral need of a balance between the services rendered the community and the gain derived from a given business transaction asserts itself at all, the balance is commonly sought to be maintained in some sort of pecuniary terms; but pecuniary terms afford only a very inadequate measure of serviceability to the community. (ibid., pp. 43-44)

Whilst restraining the unfolding of capitalist greed, the ethical restraints observed by Veblen thus never question the capitalist logic of the dominance of profit over serviceability itself (ibid., pp. 43-44).

Veblen also points toward the structural necessity of profit-maximising behaviour on the part of the business class. He asserts that business men, in order to survive under modern economic conditions cannot afford to let themselves be guided by non-pecuniary motives to a large extent. If they did, they would not survive for long (Veblen, 1954 [1921], pp. 13-14). Thus, as long as the foundations of our economic system remain unchanged, the conflict of interest on which industrial sabotage is based is indissoluble.

6.2 Michał Kalecki

In Kalecki's work we find a very different perspective on those phenomena which Veblen causally ascribed to the workings of industrial sabotage. Indeed, Kalecki himself never used the term 'industrial sabotage', instead he worked on the assumption of "surplus capacity" (Kalecki, 1991 [1942], p. 487). This difference in terminology points towards a fundamental conceptual discrepancy: whilst Veblen, as I have shown above, was highly critical of the regular employment of industrial sabotage as one of the major causes of problems of social provisioning, Kalecki locates the problem elsewhere. In Kalecki's point of view, industries are producing below capacity level because there is not enough demand to sell full capacity output. The limiting factor in this framework is demand, not supply. The enhancement of the level of capacity utilisation is thus contingent upon the stimulation of effective demand and therefore on income redistribution. Redistributing income from higher income groups to low income groups with a higher propensity to consume, as I have pointed out in chapter 4.3, would increase effective demand and in direct consequence capacity utilisation. Veblen's understanding of entrepreneurs artificially limiting output in order to raise prices only makes sense in a supply-and-demand pricing framework. In a Kaleckian framework based on mark-up pricing, prices are fixed first and output is then adjusted to demand. The dependent variables differ in the two frameworks: in one case it is price, in the other it is output.

The only instance in which Kalecki questions the assumption of capacity underutilisation is his discussion of bottle-necks in production. Whilst granting that production may reach the level of full capacity utilisation in times of boom, he still counters:

> It seems, however, that as a result of the availability of reserve capacities and the possibility of increasing the volume of equipment whenever bottlenecks occur, this phenomenon is not frequently encountered even in booms. In general, it seems to be restricted to war or post-war developments, where shortages of raw materials or equipment limit severely the supply in relation to demand. (Kalecki, 1965 [1954], p. 20)

Contemporary capitalism, Kalecki holds, is characterised by the existence of unused productive capacity (Kalecki, 1991 [1971], p. 103). This assertion is related to Kalecki's assumption of imperfect competition being the dominant modus operandi of contemporary capitalism. In perfectly competitive capitalism firms could not survive on only partial employment of capital (Kalecki, 1991 [1938], p. 10).

In a nutshell, it seems that whilst both adopting the assumption of unused productive capacity, Veblen and Kalecki still arrive at diverging conclusions. Veblen's understanding of industrial sabotage seems to be incompatible with a Kaleckian theoretical framework. Nonetheless, in the next section I will show how Robinson once again to a certain extent managed to fuse the two approaches and point us towards a more multifarious analysis.

6.3 Joan Robinson

Similar to Kalecki, Joan Robinson never explicitly discussed industrial sabotage. Nonetheless, she considered certain phenomena which Veblen would have classified as acts of industrial sabotage. This puts her into an interesting intermediary position between Veblen's exclusive focus on output limitation and Kalecki's exclusive focus on demand management.

The starting point of Robinson's analysis from her early writings onwards was the assumption of the predominance of imperfect competition and the wide-spread existence of buyer's markets (Robinson, 1968, p. 28). A buyer's market is a market in which the existing capacity to produce exceeds the ability or willingness of the consumers to buy the goods offered at a price which the entrepreneurs consider appropriate (Robinson, 1986 [1956], pp. 188-190). That is, to put it in Kalecki's terms, a buyer's market is a market with constant capacity underutilisation. Just like Kalecki, Robinson concedes the possibility of a seller's market, that is demand exceeding supply, but holds that this is the (temporary) exception rather than the rule in advanced capitalism (Robinson and Eatwell, 1974, pp. 153-154). As far as the degree of utilisation of existing productive capacities is concerned, Robinson's argumentation is thus fully in line with both Veblen and Kalecki.

As regards pricing, we have seen in the last chapter that Robinson considers prices on imperfectly competitive markets as being determined by a mark-up over primary production costs. Thus, prices are set by the entrepreneurs themselves and not via the interplay of supply and demand. In such a framework it would be nonsensical to assume output restriction as a means to regulate prices. There is no need for entrepreneurs to take this detour.

Nonetheless Robinson concedes a certain relevance to supply-restraining practices. Her starting point is very similar to Veblen's: she detects a major conflict of interests between the entrepreneurs and the rest of the population. Whilst the material well-being of the community as a whole feeds on the sufficient supply of goods at low prices, entrepreneurs are only secondarily interested in production. Their primary interest lies with the maximisation of profit, an aim which may sometimes better be served by producing less and selling it at a higher price. The decisive variable for entrepreneurs is maximum profit and this may be reached either through selling large amounts of goods with a low profit margin or by selling less with a high profit margin (Robinson, 1943a, pp. 4-8). Being faced with the choice entrepreneurs, according to Robinson, prefer the second option to the first one. However, entrepreneurs are not interested in output restriction per se either, they aim at selling as much as possible at a price which they regard as reasonable. Thus, the preferred business strategy of entrepreneurs is to expand and conquer new markets, be that through geographical expansion or the development of new technologies and new products (Robinson, 1980 [1977][c]; Robinson, 1971, p. 103). Only if these strategies do not suffice to ensure their expected profits, which they hardly ever do, entrepreneurs fall back on measures of output restriction (Robinson, 1942, p. 402). This business strategy obviously runs counter to common interest.

Whilst being highly critical of the negative social outcome of these business strategies Robinson nonetheless holds that one should not blame the business men for they have to play according to the rules of the game in order to survive (Robinson, 1943a, p. 7).

In line with Kalecki, Robinson argues that the necessity for strategies of output limitation arises not from a defect of needs or wants but from the fact that the wealthy classes (who have a relatively low propensity to consume) are cornering ever larger parts of the national income and thus destroying the purchasing power of the underlying population (Robinson, 1943a, pp. 4-5). Responding to the lack of demand each enterprise by itself employs a conservative business strategy, trying to make sure not to produce more than they can sell at existing price levels. Each, to be on the safe side, produces less rather than more than what can be sold (Robinson, 1943b, p. 12). This results in the curtailment of employment and subsequently a decline in the wage share. As workers have a higher propensity to consume than capitalists, the resulting loss of purchasing power leads to an absolute fall in effective demand and thus from the entrepreneurs' point of view necessitates a further reduction of output; then the whole process starts anew (Robinson, 1943a, pp. 4-5). As the capitalist economic system is highly integrated, a small fall in output in one industry quickly gains momentum and spreads over large parts of the economy. Thus, what is a perfectly reasonable business strategy from the individual entrepreneur's point of view develops into a highly disruptive, socially harmful vicious circle. In effect, the cumulated outcome is not only harmful to the workers but even to the entrepreneurs themselves as they end up facing ever higher deficits in effective demand (Robinson, 1949, p. 13).

> The tendency to fall into this deadlock is inherent in a private enterprise economy, and exists even under competition. Under monopoly it is much exaggerated. (Robinson, 1943b, p. 12)

Thus, on imperfectly competitive markets output restriction is always a response to effective demand lagging behind the expansion of productive capacity. Nonetheless, on some occasions, Robinson described a second rationale for output restriction which resembles what Veblen labelled 'industrial sabotage': destroying part of the output in order to create artificial scarcities and keep prices up (Robinson, 1943a, p. 6).

> It was a common feature of the inter-war period that productive resources

> were actually destroyed in order to keep up the value of what remained. The Brazilians found that it paid them better to burn part of their coffee crop rather than to lower the price of coffee by throwing the whole crop on to the market. A special company was formed in this country to smash up shipyards, to prevent new ships from being built to compete with those already afloat, and so to reduce freight rates. Such blatant examples are only an extreme form of a process of limitation of output which runs, in greater or less degree, throughout the profit system. For wherever any group of producers can get together and control the supply of the commodity they produce, it will pay them better, up to a certain point to sell less at a higher price rather than more at a lower price. (Robinson, 1943a, p. 6)

As the artificial creation of scarcities makes sense only in a supply-and-demand pricing framework, the inclusion of the shipping industry seems to be very difficult to reconcile with Robinson's mark-up pricing framework. Consequently, in *The Accumulation of Capital* Robinson restricts the relevance of these practices to the competitive primary industries:

> One of the most dramatic paradoxes of the capitalist rules of the game is the spectacle of primary producers trying to cancel the effect of increased productivity by organising schemes to burn a proportion of their output and so keep the price of the remainder at a level which enables them to live. (Robinson, 1986 [1956], p. 362)

Prices on primary goods markets in the mark-up pricing framework are conceptualised as being determined through supply-and-demand. In these cases, thus, the creation of artificial scarcities seems to be a reasonable profit maximisation strategy. Nonetheless, I would argue that even in a perfectly competitive scenario output restriction is rather unlikely. In a truly competitive scenario, with no collusion whatsoever, entrepreneurs would find themselves in a prisoner's dilemma situation: limiting output and thus stabilising or even raising prices collectively would provide the best outcome for all; if a single entrepreneur limits his output and the others do not, the single producer would loose, the others gain; if none of them limit their output, all of them loose. So, in order for output restriction to be a reasonable strategy for profit maximisation, a certain level of market imperfection needs to be assumed. In a competitive environment there would always be an incentive for low-cost producers to produce more and undercut the prices of others.

On top of the above quoted rather traditional examples of industrial sabotage Robinson describes another business strategy which, as I would argue, is fully in line with Veblen's discussion of industrial sabotage: the entrepreneurs' ability and willingness to reduce the durability of commodities in order to raise the demand for their goods (Robinson, 1962, p. 133). To put it in Robinson's words:

> Suppose that a manufacturer has discovered a way, without extra cost, to make his products more durable. Should he adopt this method, so as to benefit his customers, or should he rather consider the danger of satisfying their demands and reducing the market for replacements? Would he not be well advised to turn his research workers on to find a less durable material, provided that it can be made to look as attractive and is not much more costly? Here the doctrine that the most profitable is the most socially beneficial course of conduct hits an awkward snag. (ibid., p. 133)

This phenomenon has in the meantime become (in)famous under the label 'planned obsolescence'. Planned obsolescence is a strategy of entrepreneurs to indirectly raise prices through enforcing frequent replacement. Another way to achieve this has been described by Robinson under the name 'psychological obsolescence':

> There are many objects of daily use, untouched by fashion, in which resistance to wear and tear is a great benefit to the buyer. The producer, of course, prefers frequent replacement. The producer controls design and quality. Moreover it is to the producer's interest to speed up the wheel of fashion and spread its influence over ever wider fields, inducing psychological obsolescence of models already sold by making small improvements in new models or merely by changing appearances, so as to appeal to the consumer's desire to show off to the Joneses. (Robinson, 1968, p. 62)

This, however, whilst often being highly manipulative can hardly be considered an act of industrial sabotage as it is understood here.

In this subchapter I have shown that in Joan Robinson's work we find aspects of both Veblen's concern with the harmful effects of consciously set acts of industrial sabotage and Kalecki's stance of output restriction as a mere reaction to a lack of effective demand. As these matters were not at the heart of Robinson's analysis no carefully elaborated discussion exists, but she still provides us with valuable inspiration for theory development.

6.4 Excursus: Alternatives to business efficiency

In his denunciation of industrial sabotage Veblen has effectively done away with business efficiency as a valid guideline for economic action. In modern capitalism the key criterion to decide between different lines of investment and thus allocation of resources is profitability. Resources are allocated where they are expected to create most profit for the possessing classes. As Veblen clearly and repeatedly highlights that he regards this focus on business efficiency as being highly detrimental to the common good, the question arises what alternatives he would suggest. In the institutionalist literature we find a diversity of different and often contradictory answers to this question.

Hobson for example argues that the question of alternative ends cannot be answered because Veblen does not provide us with any criteria as to how to determine the most socially beneficial allocation of resources (Hobson, 1994 [1936], pp. 134-135).

Knoedler, on the other hand, is quite confident in stating that Veblen clearly employed a definition of technical efficiency that was influenced by the work of a group of progressive young engineers of his time (Knoedler, 1997, p. 1011). An economy in this understanding can be seen as technically efficient

> when interdependent mechanized production processes throughout the economy worked together "in an efficient manner, without idleness, waste, and hardship" [Veblen 1988, 18] to produce the maximum possible amount of output, using the most technologically sophisticated industrial techniques available. (ibid., p. 1011)

She contrasts this view with the now-dominant approach which sees efficiency as being "represented by the minimum point on a U-shaped long-run average total cost curve" (Knoedler, 1997, p. 1011). This, Knoedler holds, is a very different understanding of efficiency compared to Veblen's appeal for the maximisation of physical output.

Knoedler's interpretation is contradicted by Samuels who agrees with an anonymous referee of his journal article that

> Veblen was talking about a kind of "normal working capacity output" notion that would be well short of maximum possible output, perhaps not all that different from minimum average cost output. Veblen's concern was with idle plant or plant that was obviously underutilized and not with running the plant at an absolute maximum. (Samuels, 1994, p. 1250)

It is obvious that this interpretation of Veblen is diametrically opposed to Knoedler's point of view. Whilst discussing the same alternative conceptions, that is, maximum possible output of goods vs. minimum average cost output, the two authors arrive at very different conclusions as to which of the two applies to Veblen's work. Interestingly enough, Samuels goes on to contradict himself and argue along the lines of Knoedler when two pages after the above cited paragraph he stresses that we must "consider what Veblen's argument implies: production should be undertaken at its maximum physical technological level" (ibid., p. 1252). This is a line of argument which is most likely to find Knoedler's full approval.

A fourth interpretation of Veblen is put forward by LaJeunesse in his article *Keeping labor productive*. He argues that

> Clearly, Veblen was not intent on running the plant at an absolute maximum but on finding some harmony among the vested interests of capitalists, workers, and consumers. His salient concern was with an underutilization of capacity that detracted from real living standards. (LaJeunesse, 2004, p. 618)

Thus, whilst subscribing to the interpretation that Veblen did not aim for maximum capacity output, LaJeunesse adds yet another dimension when arguing that the optimum output is determined through a compromise between the interests of the different social groups rather than by minimum average costs.

Which of these interpretations best covers Veblen's own understanding of the matter is difficult to tell as I would agree with Hobson that Veblen did not provide us with much guidance. Certainly, throughout his writings he stresses the importance of removing business constraints on production but, as Hobson suggested, this does not yet provide us with a definite answer as to his alternative ends. Is it the minimisation of cost that should regulate industry, as suggested by Samuels, or is it yet another aim?

What can be said with reasonable confidence, however, I would argue, is that the interpretation put forward by LaJeunesse is least covered by Veblen's own writings. In the last chapter of his book *The Engineers and the Price System* Veblen concludes by describing what he thinks would need to be done in order to establish a new, more efficient economic order (Veblen, 1954 [1921]). One of the imperatives he keeps stressing is that

> To avoid persistent confusion and prospective defeat, it will be necessary to exclude from all positions of trust and executive responsibility all persons who have been trained for business or who have had experience in business undertakings of the larger sort. [...] What is wanted is training in the ways and means of productive industry, not in the ways and means of salesmanship and profitable investment. (ibid., p. 146)

Veblen's determination to eliminate all kinds of business-induced waste does not leave much room for LaJeunesse's proposed line of argumentation. Veblen does not not seem to be willing to make any concessions to business interests in his utopian new order.

Having presented all these diverging contemporary interpretations of Veblen, it appears most reasonable to agree with Tilman's evaluation that "the exact nature of the new order will probably remain a matter of debate for Veblen scholars" (Tilman, 1972, p. 315). Nonetheless I want to put forward yet another different conception of efficiency which can be found in contemporary institutionalist literature, namely 'social efficiency', and argue that this may prove to be a promising way forward in the quest for alternatives to the regime of business efficiency and capitalistic sabotage.

Social efficiency, or instrumental efficiency as it is also called, has come to be widely accepted as the value principle characteristic for contemporary institutional economics in the Veblenian tradition (see for example the contributions to Clark, 1995). The most accurate definition of social efficiency to my knowledge can be found in Miller's book chapter on *Institutional Economics and the Theory of Social Value*:

> Social efficiency is measured in real, rather than in pecuniary, terms. Efficiency is identified with the consequences, in terms of serviceability and reasonableness, of the application of particular policies to specific problems. It is a matter of how well the community can be made to work for its inhabitants; the extent to which productive participation, the realization of potential, the nurture and protection of the vulnerable and the powerless is facilitated; and the extent to which polarization and isolation is thwarted. (Miller, 1995, p. 126)

This definition, as Miller herself acknowledges, has the drawback of not being easily quantifiable and thus making it hard to formulate measurable policy objectives (ibid., p. 126). Yet, Miller counters, the same could be said of the neoclassical conception of Pareto efficiency and still "it is widely accepted as a standard" (ibid., p. 126).

I would argue that the multidimensionality of the definition of social efficiency reflects the multidimensional nature of social life. It provides us with a value criterion that avoids the social and moral pitfalls of business efficiency without at the same time falling prey to a purely mechanistic output maximisation framework. Regardless of the question whether the absolute maximisation of output would be socially desirable in an economy with as high productive potential as ours, Hobson's question as to the allocation of resources between different uses would still remain unresolved in Knoedler's purely mechanistic conception. The concept of social efficiency, on the other hand, provides us with some guidance on how to choose between possible alternative uses of resources.

On top of that, I want to argue that there is a paragraph in Veblen's *The Engineers and the Price System* which may be taken to indicate that Veblen subscribed to a view not all that different to what today is known as 'social efficiency'. In the following paragraph

Veblen describes the key challenges of a new industrial administration:

> The incoming industrial order is designed to correct the shortcomings of the old. The duties and powers of the incoming directorate will accordingly converge on those points in the administration of industry where the old order has most signally fallen short; that is to say, on the due allocation of resources and a consequent full and reasonably proportioned employment of the available equipment and man power; on the avoidance of waste and duplication of work; and on an equitable and sufficient supply of goods and services to consumers. (Veblen, 1954 [1921], p. 142)

Whilst having a far more pronounced focus on industry than Miller's definition of social efficiency (which can at least partly be explained by the important economic changes since the time of Veblen's writing), parts of the argument still sound familiar:

1. Veblen's stress on the importance of the "reasonably proportioned employment" of resources.

2. The focus on the equitableness of supply.

3. The ever present urge to avoid waste resembles Miller's claim for the realisation of potential.

Thus, I would argue that despite his inclination towards industrial efficiency Veblen indeed had a multidimensional understanding of efficiency which may be circumscribed as social efficiency.

Furthermore, I want to argue that Joan Robinson as well might have had subscribed to the concept of social efficiency had she known of it. Spread throughout Robinson's writing we find a number of criteria against which to judge economic performance and policy making:

- The availability of decent housing for all citizens (Robinson, 1980 [1962], p. 124).

- A good health service (ibid., p. 124).

- A sufficient supply of necessary goods and services (e.g. food, clothing and entertainment) (Robinson, 1943a, p. 1).

- “[T]he best possible education” (Robinson, 1980 [1962], p. 124) for the population.

She also stresses the fact that these basic human needs should be provided for equitably and thus “irrespective of means to pay” (ibid., p. 124). Thus, I would argue that Robinson seems to have implicitly subscribed to a social ideal that is fully in line with what is known in contemporary institutionalist theory as social efficiency.

Concluding remarks

Industrial sabotage, according to Veblen, constitutes the major hindrance to productive efficiency and social provisioning in advanced capitalist economies. It comprises all business strategies aimed at the limitation of output in order to maximise pecuniary gain. As modern economies are highly interdependent, instances of industrial sabotage quickly spread throughout the economy and through cumulative reinforcement result in far greater disruption than would have been expected judging from the initial cause. The origin of this phenomenon lies in a fundamental conflict of interest between the business men, the owners of corporate capital and the working class.

Despite also starting from the assumption of class conflict, Kalecki never problematised industrial sabotage. He did speak of capacity underutilisation but regarded it as a consequence of a lack in demand rather than an important explanatory variable. This can be explained by the differences in the pricing theories underlying Veblen’s and Kalecki’s work: as Kalecki, contrary to Veblen, conceptualised entrepreneurs as price makers rather than price takers, the limitation of production in order to raise prices would seem nonsensical from his point of view.

Robinson, I have argued, to a certain extent integrates the basic ideas of industrial sabotage into a post-Keynesian theoretical framework. Whilst, analogous to Kalecki, she stresses the importance of effective demand, she still cites some historical examples of industrial sabotage. On top of that, her discussion of planned obsolescence points us towards a new form of industrial sabotage which Veblen omitted from his analysis and which is perfectly compatible with the Robinsonian-Kaleckian theoretical framework. Indeed, it was argued that planned obsolescence has significantly gained in importance and can probably be regarded as one of the most important instances of industrial sabotage in advanced capitalist economies.

Finally, the last section of this chapter considered the question as to what alternatives to the business understanding of efficiency underlying industrial sabotage Veblen and Robinson propose. It was shown that this question is difficult to settle to the last instance, but a case was made for a multidimensional understanding of efficiency as discussed in contemporary institutionalism under the label of social efficiency.

Overview of the main poverty producing effects

Industrial sabotage can be argued to contribute to poverty production in two ways:

First and foremost, poverty may be produced by planned obsolescence. The strategic decision of entrepreneurs to deliberately limit the durability of their products is likely to have a direct impact on the material deprivation aspect of poverty. In its official measure of deprivation, the material deprivation rate, the EU for example includes, amongst others, not being able to afford a TV set, a washing machine, a car or a telephone as indicators for material deprivation. Now, if it were common practice, as it is often suspected, that the producers of such devices regularly furnish their products with a built in 'expiry date' of a little more than the legal warranty of two years, it would mean that in order to attain the accepted minimum standard of living people would need for example to buy a new TV approximately every two years. The effect on poverty, I would suspect, would be similar to the effect of a direct price increase. The validity of this argument is not confined to items included in the material deprivation rate, however. It can be extended to all kinds of products which are commonly considered to be a precondition for the full participation in society. Further examples may be light bulbs, mobile phones, computers or printers.

Secondly, poverty may be produced by industrial sabotage in the original sense of the term. Entrepreneurs may resort to strategies of deliberate restriction of output with the aim of influencing prices. Broadly speaking, entrepreneurs have two possible options: they can either restrict production from the outset, or destroy parts of their produce in case the necessity to stabilise prices arise. Whichever of these two options they choose, the aim of this undertaking is to stabilise prices at a higher level than would otherwise be the case. We have seen above that, in a mark-up pricing framework this strategy is only available on markets producing raw materials and unprocessed foodstuff. A possible consequence of industrial sabotage could thus be a situation in which the price of food is kept artificially high, thus resulting in higher costs of living and possibly material deprivation. Whether this scenario is of actual practical relevance in our age of abundance, however, would need to be investigated empirically.

7 Poverty producing process n° 4: Hegemonic policy-making

Hegemonic policy-making, the poverty producing process to be discussed in this chapter, differs from the processes discussed before in several respects. First, none of the authors discussed in this thesis, to my knowledge, ever used the expression 'hegemonic policy-making'. Certainly not in a systematic way. In fact, as I could not find an accurate expression in either Robinson's, Kalecki's or Veblen's work I made an exemption to my rule to stick to the authors' own labels and chose the term 'hegemonic policy-making' to describe certain phenomena analysed by the authors. Second, and closely related to the first difference, hegemonic policy-making does not denominate one clearly specified poverty producing process; rather, it should be understood as an umbrella term covering a diverse set of different, yet closely related processes. I decided to subsume under this heading all those poverty producing processes which can directly be ascribed to public policy.

As government-initiated poverty producing processes are a wide field of enquiry the specific processes discussed below can only provide an exemplary list. Due to the nature of the present study I focus on the processes which Robinson, Kalecki and Veblen focused on, namely the political business cycle, taxation, inflation targeting, government-administered conspicuous waste and government-administered sabotage. This brings me to yet another peculiarity of hegemonic policy-making as a poverty producing process: except maybe for government-administered sabotage and government-administered conspicuous waste, none of the policies listed above is poverty producing per se. What makes them qualify as poverty producing processes is that they represent the outcome of a choice between different social aims. Inflation targeting and the sound finance paradigm, for example, produce poverty because they conflict with and are opposed to employment policy. The poverty producing element in these examples is that they stand for a policy mix which is biased in favour of the interests of the possessing classes.

The argument develops as follows: First, I provide an overview of the potentially poverty producing public policies discussed by Kalecki, namely the political business cycle and taxation. Then follows a discussion of Robinson's analyses of taxation and inflation targeting. Next, by outlining Veblen's discussion of government-administered sabotage and government-administered conspicuous waste a radically different perspective on public policy-making is presented. Finally, the chapter is concluded by a short summary of the key arguments and an overview of the main poverty producing effects.

7.1 Michał Kalecki

Apart from his writings on rationing during World War II discussed in chapter 4 Kalecki's focus in the analysis of public policy certainly was on the preconditions for and hindrances to the achievement of full employment. His work on full employment had two major foci: Firstly, the question of whether full employment is actually achievable on the political level; secondly, assuming the general achievability of full employment, he analysed the advantages and disadvantages of different policies for achieving full employment.

As the aim of this chapter is not to provide a comprehensive overview of Kalecki's policy analyses but rather to point out the poverty producing processes described in his work, I will focus on two topics: the political business cycle first described by Kalecki in 1943 and his analysis of taxation. These, I want to argue, are the main poverty producing processes to be found in Kalecki's analysis of the political sphere.

7.1.1 The political business cycle

In *Political Aspects of Full Employment* Kalecki (1990 [1943]) analysed the question why governments do not secure permanent full employment even though the tools for doing so - Keynesian demand management - have already been developed. The answer, Kalecki reasons, lies in big business' opposition to government intervention in general and employment policy in particular (Kalecki, 1990 [1943], pp. 349-350). This failure of governments, it can safely be argued, constitutes a major poverty producing element.

Kalecki lists three reasons for big business' opposition to full employment policy:

1. Business is opposed to government pursuing an active fiscal policy because this is very likely to lessen their own political influence. So far, public policy had been greatly constrained by the importance of securing 'business confidence'. Economic growth and employment levels ultimately were seen as dependent on business' confidence in the profitability of investment. Upsetting business confidence was very likely to have important negative effects and thus had to be avoided at all cost. Kalecki predicted that governments learning to secure economic growth and full employment through public investment would quickly discover that they need not be considerate of the state of business confidence in their decisions on economic policy-making. Thus, business would lose much of its political influence. It does not come as a surprise then, that business leaders, according to Kalecki, do everything in their power to keep governments from reaching this conclusion in the first place. Thus, they are generally opposed to government intervention (ibid., p. 350). The only government intervention which might find business leaders' support is the stimulation of private investment. This, however, whilst often being politically opportune, according to Kalecki is not an advisable policy for two reasons: Firstly, the stimulation of private investment is not a directly employment-generating measure. Rather its effectiveness is dependent upon the entrepreneurs' reaction to governmental stimuli. It is easily possible to imagine a scenario in which entrepreneurs

decide not to increase investment despite major reductions in interest or taxation. According to Kalecki this is most likely to happen in times of low business confidence. In such situations the outcome for governments would be all costs and no gain. The stimulation of private investment, because of being an indirect measure, thus is a highly unreliable strategy for achieving full employment. It keeps governments dependent upon the mood of the entrepreneurs (Kalecki, 1990 [1943], pp. 353-354). Secondly, in order to be effective in the long-run, a strategy of stimulating private investment would have to entail regular interest or tax rate reductions. It does not suffice to reduce the interest rate once; in order to keep investment flowing governments have to continually lower the interest rate. Sooner rather than later, this cumulative process would reach a point where the interest rate is zero or even negative. Continuous reductions of the interest or tax rates thus, in Kalecki's eyes, even if they were effective, are not a sustainable strategy for achieving full employment (ibid., p. 350)[1].

2. The business class is particularly critical of some forms of government spending, namely all kinds of subsidies and public investment. The opposition to public investment results from the fear that governments may start to interfere in profitable private markets and thus compete with business interests. Subsidies, on the other hand, are opposed on purely ideological grounds because, according to the prevailing business ethic, one should not get something for nothing. Or, to put it in Kalecki's words, "'you shall earn your bread in sweat'—unless you happen to have private means" (ibid., pp. 350-351). Consequently, despite being a highly efficient measure, Kalecki observes, direct consumption benefits are among the most fiercely opposed policy measures. Direct benefit payments, thus, in spite of being highly advantageous from a policy point of view are often difficult to implement politically (ibid., pp. 350-351).

[1] see also Kalecki (1990 [1945]).

3. On top of being opposed to government intervention in general and government investment and consumption subsidies in particular, business leaders are highly apprehensive of the social effects of long-term full employment. They are afraid that permanent full employment would shift the power balance to the workers' benefit, thus causing unrest in the factories and political instability (Kalecki, 1990 [1943], p. 351).

Summing up, it can be said that the business class is opposed to government intervention for three reasons: they oppose the government discovering its power to steer the economy and thus government spending as such. They particularly dislike direct government investment and consumption subsidies. Finally, independent of the particular policies employed, they fear the social consequences of long-term full employment. Consequently, the business class is likely to mobilise all its political influence in order to impede far-reaching government intervention. At the same time, however, due to theoretical and historical developments - the development of the "full employment doctrine" (ibid., p. 349) in economics and the experience of very high levels of employment during WWII - governments can no longer afford a strict laissez-faire policy. People demand that the government take responsibility for securing high levels of employment (ibid., p. 353). Thus, governments, in Kalecki's understanding, are torn between the conflicting demands of workers and business. As a consequence, Kalecki predicts the development of a political business cycle which replaces the purely economic business cycle (ibid., pp. 354-355).

This political business cycle unfolds as follows:

When elections are approaching or in times of slump when unemployment levels are getting unacceptably high, governments adopt a policy of active state involvement in order to create employment. It is in their own interest to do so because they need the workers' support in order to be re-elected. But as we have seen above, business interests, despite pecuniarily profiting from it, are opposed to prolonged periods of government-induced full employment for political reasons. Thus they start to mobilise their political influence to stop government intervention (Kalecki, 1990 [1943], pp. 354-355). They often do so, Kalecki reasons, by declaring the government's financial situation "unsound" (ibid., p. 355) and unsustainable, thus forcing it to return to a more passive role. Consequently, the unemployment level is going up again. With the next election approaching or unemployment nearing dangerously high levels, political pressure for government intervention increases and the political business cycle starts anew again (ibid., p. 355).

The political business cycle differs from the conventional business cycle in two respects: Firstly, the political business cycle can be expected to be far less violent than the regular business cycle. Secondly, the development of the political business cycle can be ascribed to the government rather than to the vagaries of business enterprise as such (ibid., p. 355).

In a nutshell, the argument can be summarised as follows: despite having developed the policy tools for creating and maintaining full employment and thus eliminating the up- and downturns of the business cycle, governments only use them very partially. This is due to the great political influence of the business class. The influence of the business class upon governmental policy-making, however, is always counter-balanced by the requirement, in modern democracies, to assure certain minimum standards for the working class in order to be re-elected and avoid public unrest. This means that, although it often serves them well, government cannot be said to be fully instrumentalised by economic elites.

Nevertheless, Kalecki concludes that in order for permanent full employment to be possible

> 'Full employment capitalism' will, of course, have to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment, a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped. (ibid., p. 356)

Despite its length of only ten pages, *The Political Aspects of Full Employment* certainly is one of Kalecki's best known and most cited works. Accordingly, it is not surprising that the accuracy of Kalecki's predictions and the continuing validity of his theses have been re-evaluated on several occasions by different authors.

In 2004 Arestis and Skuse published an article enquiring into the continued relevance of *The Political Aspects of Full Employment* at the close of the twentieth century (Arestis and Skuse, 2004). Having summarised the main features of Kalecki's argument, the authors re-evaluate his predictions in light of the major political and economic changes in the UK and Europe since the time of his writing (ibid., p. 10).

The first major change Arestis and Skuse point out are the changing economic power relations between the financial and the real sector of the economy. Whereas Kalecki used to assume the dominance of the real sector the situation has changed considerably over the last decades. The financial sector has grown ever more important and finally gained dominance over the real sector (ibid., pp. 14-15).

This has resulted in dramatic changes in economic policy-making. Firstly, governments have replaced their engagement in fiscal policy by an increasingly exclusive focus on monetary policy (ibid., p. 15). Secondly, responsibility for monetary policy has largely been handed over to independent central banks (ibid., p. 15). These have been "given the sole objective of price stability, and interest rate manipulation is the primary instrument" (ibid., p. 15). According to Arestis and Skuse this move was largely motivated by the desire to assure the financial elite of freedom from politically motivated interference and thus keep in check the volatility of financial markets (ibid., p. 15). In this connection the authors quote Galbraith who spoke of "the surrender of economic policy" (Galbraith, 1996) and reasoned that "[t]o accept a balanced budget and the unchallenged monetary judgement of the Federal Reserve is, by definition, to remove macroeconomics from the political sphere" (ibid.). Thirdly, these changes, according to Arestis and Skuse, have culminated in

> the attempt to take economic policy out of politics, thus throwing into ques-

tion the notion of a 'political business cycle' (Arestis and Skuse, 2004, p. 16)

The authors thus observe an ideological shift towards the increasing dominance of market ideology (ibid., p. 16).

Concluding from these changes, the authors argue that a fourth major constraint on economic policy-making which was not included in Kalecki's original argument has arisen: the fear of inflation (ibid., p. 22). They even go as far as arguing that

> This has probably become the most powerful constraint in turning governments and policy-makers away from concern with the goal of full employment [...]. (ibid., p. 22)

Notwithstanding these important political and economic changes, the authors argue that Kalecki's main theses concerning the political business cycle still remain valid. Nonetheless, they reason, the major changes of the past decades certainly imply a need for modernisation of Kaleckian theory (ibid., p. 25). This modernisation of the Kaleckian framework remains for future generations of Kaleckians to achieve.

Another often cited re-evaluation of Kalecki's political business cycle has been contributed by Feiwel. In *Reflection on Kalecki's Theory of Political Business Cycle* (Feiwel, 1999) he summarises the main argument of Kalecki's paper, then proceeds to introduce a further constraint on fiscal policy which, as he argues, has not been mentioned by Kalecki

> the intrinsic [business class'] apprehension of resulting redistribution of income. (ibid., p. 542)

I want to argue that it is at the very least debatable whether the fear of redistribution really constitutes a novel political constraint not mentioned in Kalecki's original paper. Despite not explicitly mentioning redistribution in the context of his analysis of the political business cycle, Kalecki's whole oeuvre was marked by questions of class conflict and the struggle over the distribution of income. The quest for redistribution and the opposition to redistribution respectively can thus be regarded as major undercurrents of

Kalecki's thought. In addition to that, it seems to be quite clearly implied in Kalecki's third constraint, that is the opposition to permanent full employment per se for fear of power shifts to the workers' benefit. Introducing "the intrinsic apprehension of resulting redistribution of income" (Feiwel, 1999, p. 542) as an additional fourth constraint, in my opinion, would thus mean to seriously misunderstand Kalecki's original work. Having said this, let me come back to Feiwel's re-evaluation. Overall, Feiwel arrives at broadly the same conclusion as Arestis and Skuse, arguing that

> His political business cycle is in many respects a brilliant and perceptive piece. One should remember that it was written in 1943, and one could not expect the 'prophet' to be right in every smallest detail or to foresee all the ramifications. But this compact work germinated with ideas. A tentative attempt at scrutinizing to what extent Kalecki's predictions of the political business cycle have been applicable to the U.S.A. and U.K. supports the view, that the concept of the political business cycle was strikingly in advance of its time, though it has not been borne out in all respects. (ibid., p. 546)

Feiwel also presents an extended quote from the preface to a collection of essays - amongst them *The Political Aspects of Full Employment* - in which Kalecki reflects on the accuracy of his predictions with the hindsight of about twenty years:

> Were the forecasts I made then accurate? I suppose so, but as usual with historical forecasts, not always in every detail. After analyzing the nature of the opposition of big business to stimulating economic activity by government expenditure, I foresaw that future crises will be mitigated that way, but not entirely eliminated. Furthermore, I foresaw that government intervention in the course of the business cycle will give rise to a "political business cycle". It appears that current events correspond grosso modo to these forecasts. (Kalecki 1962 quoted in ibid., p. 548)

Thus it seems that Kalecki's own re-evaluation, published some twenty years after the original paper, broadly corresponds with the later re-evaluations by Arestis and Skuse and Feiwel. All agree that despite some errors in detail, history has more or less validated Kalecki's predictions made in 1943.

7.1.2 Taxation

In his analysis of taxation Kalecki primarily refers to capital and income taxation with some discussion of commodity taxes (Kalecki, 1990 [1937]). In what follows I will briefly summarise his major findings concerning the advantages and drawbacks of the different forms of taxation as a policy for achieving full employment. Furthermore, a short excursus will point out some more recent theoretical developments aiming at the better integration of Kaleckian tax theory into Kalecki's general theoretical framework.

By capital taxation Kalecki refers to a tax payable on all forms of capital - reinvested or not - and levied in an equal manner on firms and persons (Kalecki, 1990 [1944], p. 363). Kalecki reasons that capital taxation may be the best tool to achieve full employment and income redistribution (Kalecki, 1990 [1937], p. 325). Firstly, because unlike in the case of public investment financed by deficit spending, governments do not have to take on debt (ibid., p. 325). Secondly, in terms of income redistribution capital taxation is likely to be far more efficient than for example wage bargaining for, unlike wages, capital taxes do not affect prime costs and thus do not kick off the inflationary wage-price-spiral (Kalecki, 1990 [1939], p. 285). On top of that, as it has to be paid in an equal manner out of all forms of capital, capital taxation leaves "the comparative advantage [...] unchanged" (Kalecki, 1990 [1944], p. 363) and thus should not affect the profitability of investment (ibid., p. 363). However, Kalecki concedes, capital taxation runs counter to "the principle of private property" (Kalecki, 1990 [1937], p. 325) and thus is very likely to encounter strong political opposition. This leads him to the pessimistic conclusion that "[i]t is difficult to believe, however, that capital taxation will ever be applied for this purpose on a large scale" (ibid., p. 325).

As regards income taxation, Kalecki detects the same potential for social change as for capital taxation with one important difference: unlike capital taxation, taxes levied on income reduce the profitability of investment and thus the incentive to invest. Thus, it risks having an adverse effect on private investment (Kalecki, 1990 [1944], p. 364).

In order to avoid this, Kalecki proposes to introduce a modified income tax which he describes as follows:

> Imagine that income tax is charged on gross income, i.e. before deduction of wear and tear. On the other hand, all investment in fixed capital, whether for the sake of replacement or expansion, is deducted from the taxable amount. (If it exceeds the taxable income, the excess is carried over for deduction in subsequent years.) It is easy to show that such a tax does not affect the rate of profit expected on new investment. (Kalecki, 1990 [1944], p. 364)

This modified income tax, he holds, would not affect the profitability of investment and would thus represent an equally good alternative to capital taxation (ibid., p. 364).

In addition to these general thoughts about income taxation, in *A Comment on "Monetary Policy"* Kalecki (1990 [1946]) discusses Mints' proposition to raise income tax exemption limits in order to increase effective demand. Whilst conceding that such a measure would certainly have the desired result of a heightened effective demand, he still holds that

> This is, however, by no means the best way of stimulating consumption, either from a social or from an economic point of view. People below the exemption limit at the moment of the application of the measure, that is, the poorest, would not benefit from it. Moreover, with the reduction of income tax revenue achieved by stepping up the exemption limits, the rich would share in tax reductions to an increasing extent. Apart from the social aspect, this would gradually diminish the effectiveness of the tax reduction because people in higher income brackets spend a smaller part of the addition to their income. The larger the reduction of income tax revenue, the lower in relation to it would be the consequent increase in consumption. (Kalecki, 1990 [1946], p. 404)

Thus, raising the income tax exemption limits, he concludes, is neither an effective nor an efficient means for achieving full employment (ibid., pp. 403-404).

As regards commodity taxation, in *Commodity, Income and Capital Taxation* Kalecki (1990 [1937]) argues that commodity taxes merely redistribute purchasing power between different groups of workers. This evaluation, however, is based on the - in my opinion most unrealistic - assumption that all income which is raised through commodity taxation is then paid out in the form of doles and salaries for government officials (Kalecki, 1990 [1937], p. 320). Laramie and Mair, on the other hand, point out that commodity taxation in a Kaleckian framework can be shown to redistribute income to the detriment of the workers. This is primarily due to the fact that workers have a higher propensity to consume and thus would have to spend relatively larger parts of their income on commodity taxes. Commodity taxes, being part of primary cost, in a Kaleckian mark-up pricing framework would raise prices (Laramie and Mair, 2000, p. 452). Thus, nominal wages left constant, this tax-induced rise of prices would signify a fall in purchasing power of the workers. Commodity taxation can therefore be expected to reduce effective demand by workers.

These differences in argumentation between Kalecki and Laramie and Mair - who claim to build on Kalecki - are most likely due to a major defect of Kalecki's analysis of taxation highlighted by the latter, namely its missing integration into Kalecki's overall theoretical framework (Laramie, 1991, p. 583). In an attempt to correct this, Laramie (1991) and Laramie and Mair (1996) thus proceed to devise a Kaleckian tax incidence theory, further elaborating upon the distributive effects of taxation. These, according to Laramie, are primarily determined by the following three elements:

> the types of taxes levied, firms' treatment of taxes (as prime costs or as overheads), and the impact of taxation on the markup. (ibid., p. 587)

A few years later Laramie and Mair then go on to formulate a Kaleckian tax incidence theory which

> is concerned with the macroeconomic impact of taxation and demonstrates that the legal incidence and economic incidence of taxes differ in both the short and the long run. (Laramie and Mair, 1996, p. 452)

These aspects are of utmost importance for analyses of the real economic incidence of taxation. And "tax incidence theory", the authors hold, "is, after all, applied income distribution theory" (Laramie and Mair, 1996, p. 461). Tax incidence theory, Laramie argues, extends the "analysis of class struggle [...] to the revenue side of the state's budget" (Laramie, 1991, p. 589). He also points out that

> Conflicts over the distribution of income at the industry level, in part through the prompting of industry itself, have been and are likely to continue to be transferred to the political level and muted or coopted by industry's control over key centers of power in the state [...]. (ibid., p. 590)

Thus, the distributive struggle can be said to have increasingly been transferred to the political arena (ibid., p. 590). This means that the thorough analysis of the distributive effects of taxation and other public policies is gaining in importance.

Summing up, two important poverty producing moments can be found in Kalecki's analysis of the politico-economic nexus. His study of the political business cycle points towards the strong political influence of the business class resulting in a tendency for policy-makers to neglect policies favouring the interests of the economically vulnerable parts of the population. Kaleckian analysis of taxation - developed further by Laramie and Mair (Laramie, 1991; Laramie and Mair, 1996) - on the other hand, points towards the importance of scrutinising not only the expenses but also the revenue side of the state's budget. Again due to the strong political influence of the business class, a high risk exists of taxation not being as progressive as would be desirable from a social provisioning point of view, or even being outright regressive, thus degrading the relative economic position of the poor.

Issues of taxation have also received considerable attention from Robinson's part and will thus be further discussed in the next subchapter.

7.2 Joan Robinson

Robinson agrees with Kalecki's evaluation that the primary aim of public policy should be to ensure sustained full employment. As unemployment, as we have seen in chapter 2, is often regarded as one of the primary causes of poverty in advanced capitalist economies, full employment policy can be argued to be of primary importance for the fight against poverty. Consequently, all of Robinson's analysis of full employment policy may be worth including in this chapter. However, in order to stay focused on the major poverty producing processes arising from public policy-making I will limit myself to two aspects of the analysis: taxation and inflation targeting.

7.2.1 Taxation

Joan Robinson never formulated a coherent theory of taxation. Nevertheless, as her work was very policy-oriented, at various points in her career she was concerned with issues of taxation. Certainly, not all parts of her analysis were particularly well elaborated - some arguments are only hinted at in half-sentences or short paragraphs. The following discussion thus necessarily contains a certain element of interpretation of these brief remarks in the light of Robinson's general theoretical oeuvre. In what follows, I will give a structured overview of Robinson's thoughts on taxation. Firstly, I will enquire into the most fundamental question with regard to taxation, that is: 'Why do we want to tax people? What aims do we want to achieve through taxation?' Secondly, I will analyse the more specific questions of whom and what to tax and how to design the tax system in detail.

One general issue that needs to be raised with regard to taxation is that it cannot be evaluated in the abstract. The social and economic effects of taxation depend entirely upon the structure of the tax system as a whole and of fiscal policy more broadly. Taxation simply denotes a process of the state collecting money. Concretely, this can be done in a way as to redistribute income from lower income groups to higher income groups, to redistribute income from higher income groups to lower income groups, or, theoretically, to leave income distribution unaffected (Robinson, 1980a, p. 165). The concrete effects of taxation depend on the answers to three questions:

- Who is taxed?
- What is taxed?
- How much is it taxed?

Dependent on the specific design of the tax system, taxation can have important poverty producing effects.

Unfortunately, in Robinson we do not have much detailed discussion of the social and economic consequences of different taxes. She highlights the relevance of the above questions for public policy and - as I will show below - provides us with some general guidelines for taxation, but does not go into a detailed discussion of the specifics of different forms of taxation. Thus, the task to evaluate in detail the distributive effects of different tax regimes remained to be completed by younger generations of economists.

What aims do we want to achieve through taxation?

From Robinson's writings, I want to argue, arise at least four different goals which may be pursued through taxation.

1. A government may decide to design its tax system so as to take from those with high incomes and use the money to subsidise those on low incomes. That is, taxation may simply be used as a means for the redistribution of income (Robinson, 1949, p. 22).

2. Income redistribution through taxation may be pursued as desirable in itself, or alternatively can be regarded as a necessity for the regulation of purchasing power and thus effective demand (Robinson, 1944, p. 88). Taxing high income groups with a low propensity to consume and using the money to subsidise low income groups with a high propensity to consume can be used as an important demand regulating strategy (Robinson and Eatwell, 1974, p. 299). Alternatively, in specific

circumstances, governments may aim at restricting the purchasing power of the public in order to avoid inflation. As we have seen in chapter 4 this problematique only arises in supply-restrained markets where demand exceeds supply. Taxation as part of a deflationary policy aimed at the reduction of total purchasing power of the population accordingly used to be a highly important fiscal policy measure during World War II when the supply of goods for general consumption was low and employment levels high. In peace time, however, excessive demand is not likely to be a problem that governments struggle with.

3. Again closely related to what has been said before, taxation obviously is also amongst the most important ways for governments to raise the money they need to finance their outlays, be it on administration, subsidies or other (Robinson, 1949, p. 34). Particularly, Robinson argues that taxation is necessary to provide the funds for the provision of those basic necessities which for whatever reason "do not lend themselves to mass production" (Robinson, 1980 [1962], p. 124). This resounds a very old argument, already formulated in 1776 by Adam Smith[2], stating that there exists a number of public goods which fulfil an important social function and thus should be provided by the state and (at least in part) irrespective of the individual's ability to pay for them. Education and the health system are examples of such public goods. Another government expense which may need to be covered by taxation are interest payments on public debt (Robinson, 1949, p. 34).

4. Last but certainly not least, government may make use of taxation to direct investment. They may do so in two different ways: First, governments may try to influence the general level of investment. They may do so, for example by designing a tax regime which is favourable to the interests of entrepreneurs, or by levying lower taxes on re-invested profits (Robinson, 1980a, p. 165). Second, in a more direct way, governments may use tax receipts for financing direct government in-

[2]see his *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 1976 [1776]).

vestment rather than encouraging private investment (Robinson, 1944, pp. 93-94). Also, I want to add, even if this has only been hinted at by Robinson, governments may direct investment through favouring certain lines of investment over others (through tax exemptions or different tax rates) and thus creating a pecuniary incentive to invest where government thinks it to be desirable.

Summing up, it can be said that governments may choose to pursue a variety of social and economic aims through taxation. The prioritisation of those different aims has a large influence on the specific design of the tax regime. This brings us to our second question, namely what tax regime would Robinson recommend and why?

Guidelines for taxation

From Robinson's writings three guidelines for taxation can be discerned:

Firstly, in order to avoid negative economic effects, governments should try to tax away only income which would otherwise be saved (Beveridge Committee, 1943, p. 1). Taxing income which would be spent on consumption reduces the purchasing power of the population and thus effective demand. Consequently, there is a risk of creating contractionary economic effects which run counter to the aims pursued through taxation. Assuming, for example, that a government levies taxes in order to finance employment measures, reducing the purchasing power of the population is likely to result in further unemployment which would have to be offset by even more government investment (Robinson, 1944, p. 85). If this again is financed by taxing income that would otherwise be spent on consumption the same dynamic would start all over again. Thus, a cumulatively self-reinforcing vicious circle is likely to develop resulting in ever greater needs for government expenditure. In order to avoid this, Robinson recommends to aim at the taxation of savings.

Closely connected to this is the second rule: "the tax system should be progressive" (ibid., p. 90). That is, the tax rate should be higher on high incomes than on low incomes.

This can be justified in two ways: Firstly, allowing the tax burden to fall primarily on higher incomes reduces the risk of adversely affecting consumption as described above. Secondly, progressive taxation usually redistributes income from higher to lower income groups and thus has an equalising effect on the distribution of income. Apart from maybe being desirable from an ideological point of view, this redistribution of income potentially raises the purchasing power of the low income groups, thus raising effective demand and stimulating the economy (Robinson and Eatwell, 1974, p. 299).

There are, however, limits to the progressiveness and of taxation. Robinson discusses two problems which may arise in connection with high levels of taxation: it may reduce the willingness to invest, and it may "reduce the supply of capital available for investment" (Robinson, 1944, p. 92).

Entrepreneurs may not be willing to take the risk of investing their income if large parts of future profits may have to be paid in taxes. In modern capitalism the drive to invest and work harder most often results from expectations of pecuniary gain. If these expectations are drastically curtailed by taxation, this may indeed dampen the willingness to perform of entrepreneurs (ibid., pp. 91-92). This problem, however, according to Robinson may be solved by the right choice of tax. She proposes to introduce

> a tax assessed on capital wealth, at rates which would normally be paid out of income. Such a tax would fall on wealth whether it was invested in safe or risky lines, or merely kept in the chimney, and would therefore not discriminate against enterprise. (ibid., p. 92)

Another possibility to progressively raise taxes without adversely affecting enterprise would be through the collection of death duties (ibid., p. 92). Taxation thus does not necessarily run counter to entrepreneurial motivation; the tax system can be designed in a way as to foster the motivation to reinvest profits and to stimulate economic growth just as well as to foster consumption (Robinson, 1980a, p. 165).

In a similar vein, Robinson shows that high levels of taxation do not necessarily result in a lack of capital available for investment. She argues that the only real limiting factor for productive investment is the availability of natural resources and capital goods. As long as the resources and material goods needed for an expansion of productive capacities and production are available, investment is possible. Robinson's main argument, however, is that there is no guarantee that those firms who make most profits are best suited for further investment (Robinson, 1944, p. 93).

> A system of distribution of capital on the principle of to him who hath shall be given sets up a vicious circle. Industries which have been depressed in the past are those most in need of modernisation. New, expanding firms which have not yet made great profits have a higher claim to share in new development than old firms which may have sunk into inertia and excessive conservatism. The distribution of new capital according to who happens to have funds cuts entirely across any rational scale of priorities. (ibid., p. 93)

She thus concludes that the best way to ensure effective investment would be for governments to centrally plan investment and directly invest according to this plan. Alternatively, the state could make loans available for private investment projects which comply with national development goals (ibid., pp. 93-94). Nevertheless, on another occasion Robinson reasons that establishing a centralised public investment regime is a necessary but not a sufficient condition for the achievement of a sustainable, socially balanced investment regime. The state itself is a locus of power struggles and thus governmental policy, at least partly, depends on existing power structures rather than considerations of the common good.

> True enough – the State would have the power. But who is the State? In whose interests will its power be exercised? Unless there is a real change in the balance of forces within society, mere nationalisation of this and that can produce only superficial changes. (Robinson, 1942, p. 405)

Thus, Robinson's proposition - the nationalisation of investment planning - is highly dependent on a fundamental shift in societal power structures. This precondition, in my point of view, makes it a highly unlikely strategy to be successfully employed with the aim of promoting social change and social justice.

Robinson appears to have come to a similar conclusion, when, in spite of her above discussed strategies to circumvent the negative effects of taxation on investment, she still concedes that, without profound systemic changes, at the end of the day there may still be a limit to the progressiveness of taxation:

> in peace time an economic system which depends on the money motive will not function unless the individual can keep at least a substantial part of the money that he gets for himself. (Robinson, 1949, p. 22)

Tax rule number three to be deduced from Robinson's writings is that

> [...] when unemployment is threatening, taxation should not be increased, and expenditure should not be cut. (Robinson, 1944, p. 81)

This again relates closely to what has been discussed above and links the question of taxation to another often discussed matter of public policy: the controversy of deficit spending versus sound finance.

A regime of sound finance, that is a permanently balanced budget, is often advocated with recourse to the unsustainability of deficit spending. As we will see below, Robinson disagrees on this evaluation. She does not think that a continuously growing budget deficit is necessarily problematic (ibid.).

Generally speaking, a government has two options when deciding to take on a loan: it can borrow money from its own people or it can borrow abroad. Whilst mentioning the latter option in passing, Robinson concentrates her analysis on the case of a government being indebted to its own people. In this case, she argues, there is no limit to public debt.

> A nation which is in debt has to pay interest to its own citizens (a foreign debt is a different story and is much more like a private debt). That is to say, the Government has to raise taxes from Peter and Paul and pay interest to Paul and Peter. Taking the country as a whole, there is no burden of the debt. Moreover, the debt need never be repaid. As one lot of bonds fall due to be redeemed a fresh lot can be sold to the public. If the debt is finally

> repaid, it is repaid out of the wealth of the citizens of the country, and this, like interest payments, is merely a swap round among the members of the community. (Robinson, 1949, p. 34)

Thus the money, to use one of Robinson's analogies, stays within the family. Now, as a nation obviously is a very big family the question presents itself whether those who receive interest payments and those who have to pay for them through taxation really are the same members of the family. Although this might be the ideal case, Robinson concedes that in reality this often does not apply (ibid., p. 34). Thus she concludes that

> we may still feel that there is something wrong in endlessly piling up paper claims on the wealth of the nation in the hands of a group of the nation's citizens – in fostering the growth of a rentier class whose only claim on society is that they happened to be well enough off to save while loan-expenditure was going on. I think there is a great deal in this view. (Robinson, 1944, p. 84)

Nevertheless, from Robinson's perspective the advantages of deficit-financed public investment outweigh the drawback of strengthening a rentier class. The most important advantage of deficit-financed public investment as opposed to tax-financed investment is that deficit spending does not impair the purchasing power of the people. On the contrary, as government loans are taken out of the voluntary savings of the wealthy classes, public investment is likely to have an unambiguously positive effect on the overall purchasing power of the population. It is thus a more effective means to fight unemployment and invigorate the economy (ibid., pp. 83-86).

As far as taxation is concerned, Robinson was quite outspoken with regard to providing general guidelines for taxation but rather less concerned about a detailed analysis of the distributive effects of taxation. Nonetheless, two potentially poverty-producing elements can be discerned: Firstly, every reduction in the progressivity of the tax system is potentially poverty-producing. Second, a government's failure to devise a tax system which minimises the negative effects on effective demand produces unnecessary economic hardship and poverty.

Another directly poverty-producing process analysed by Robinson is the political focus on inflation targeting at the expense of employment policy. This will be discussed in some detail below.

7.2.2 Inflation targeting

A second major policy issue arising from Robinson's writings is the often-assumed trade-off between full employment and inflation. Inflation, it is widely argued, is primarily caused on the labour market. High levels of employment strengthen the bargaining position of the unions and thus ignite the never-ending inflationary wage-price spiral. From this it is concluded that in order to prevent inflation a certain amount of unemployment - just enough to discipline the workers and keep the unions from getting too demanding - has to be accepted (Robinson, 1980 [1958], p. 278). This conclusion, Robinson points out, originates in Keynes who in *The General Theory of Employment, Interest and Money* has shown that

> [...] unemployment is not just an accidental blemish in a private-enterprise system – it has a function. The function of unemployment in the laisser-faire system is to preserve the value of money. (ibid., p. 271)

Despite acknowledging this interpretation, in *Full Employment and Inflation* (ibid.) Robinson stresses that she would not want to be so pessimistic (ibid., p. 278). A big part of the inflation-unemployment trade-off, she argues, can be ascribed to the specific historical situation in which this theory has been formulated. High levels of employment during the twentieth century were obtained in times of war and thus high military expenses, be that during World War II or the Cold War. In these situations, Robinson reasons, inflation is created by the fact that much productive capacity is used for the production of armaments. Increasingly high levels of employment and purchasing power are facing an unchanging or even decreasing supply of consumption goods, thus creating inflationary pressure. Had high levels of employment been facing high productive investment, that is investment in the production of investment and consumption goods, a resulting inflationary tendency may well have been checked by increases in supply (Robinson, 1980 [1958], p. 278). Thus, Robinson concludes that

> It seems to me that the question of whether it is possible to have full employment without a falling value of money cannot be answered until we know whether it is possible to have full employment without the cold war. (ibid., p. 279)

Nevertheless, in the mean time, governments are torn between two conflicting policy aims to an extent that, according to Robinson, leaves them almost paralysed (Robinson, 1976, p. 7). Or, to put it in Robinson's words

> Nowadays, it seems that even the political trade cycle has come to an end, and the governments of all the capitalist nations are stuck in immobility, dithering between the fear of inflation and the fear of unemployment. (ibid., p. 7)

This problematique is further exacerbated by the fact that unemployment and inflation affect different parts of the population in different ways (Robinson, 1979, p. 45). Whilst unemployment is most detrimental for lower income groups, inflation is most harmful for middle and higher income groups, such as "rentiers, professionals and business executives, civil servants and politicians" (ibid., p. 45). The political question as to whether to prioritise the fight against unemployment or inflation is yet another instance of the fundamental conflict of interest between classes.

The strong political focus on inflation targeting which can be observed in many countries, thus can be understood as an important example of a potentially poverty producing hegemonic policy.

In a nutshell, quite similar to Kalecki, in Robinson's writings we can find references towards important poverty producing processes on both the revenue and the expenses side of the state's budget. On the revenue side we have the regressiveness or lack of progressiveness of taxation as well as possible adverse macroeconomic effects of the tax regime. On the expenses side, on the other hand, we find a reluctance to use active fiscal policy paired with a strong political focus on the stabilisation of the value of money.

7.3 Thorstein Veblen

Whereas with Kalecki and Robinson the state had the ambiguous role of being both potentially poverty producing and poverty reducing, Veblen was far more pessimistic as regards the beneficial potential of public policy. These differences in the evaluation of public policy, it must be stressed however, can to a great extent be explained by the different historical circumstances in which the authors were living. Veblen lived in the US and died shortly before the Great Crash of 1929, thus he indeed experienced the State in a very passive role. Robinson and Kalecki, on the other hand, were deeply influenced by their experiences of the Great Crash and the active state policy during and after WWII.

Having said this, it can be observed that Veblen did not develop a sophisticated theory of the state. His analysis of the political sphere remained rather sketchy. Nonetheless, from what he wrote on the matter it becomes clear that Veblen regarded the state as catering solely to the interests of the business community (Veblen, 1932 [1904], pp. 268-269). He even went as far as saying that "[r]epresentative government means, chiefly, representation of business interests" (ibid., p. 286). Government officials, in Veblen's view, are recruited from members of the business class and thus firmly embedded in its habits and values. Consequently, it is not surprising that their work, even though pursued with the best intentions should first and foremost promote business interests. The recruitement process of these officials, on the other hand, according to Veblen, follows some sort of cultural selection process. Business values have become so dominant in modern economies that they serve as a general reference point. Life is increasingly conceptualised in pecuniary terms. Thus, it follows logically that the management of national interest should be entrusted to citizens with good knowledge of and ample experience in pecuniary business affairs. Citizens with no background in business would not be regarded as capable of the management of the nation's economic interest. Thus, the cultural dominance of business values directly secures the political dominance of business interests (Veblen, 1996 [1923], pp. 404-406).

Taking into account this conceptualisation of national politics Veblen's pessimistic assessment of public policy is hardly surprising. In particular, Veblen mentions two broad categories of public policy favouring business interests to the detriment of the common good:

1. Government-administered sabotage

2. Government-administered conspicuous waste

Both of these policies are evidently closely connected to the poverty producing processes discussed at length in chapters 4 to 6 and will thus only be explained in brief.

7.3.1 Government-administered sabotage

It has been argued in chapter 6 that large-scale industrial sabotage is one of the main preconditions for modern business success. As achieving the "necessary modicum of sabotage" (Veblen, 1954 [1921], p. 19) is such a vital and at the same time highly sensitive task, it has come to be partly assigned to the government's control. Government officials are regarded as having the advantage of better being able to overlook the whole industrial system and thus being capable of 'fine-tuning' the required amounts of sabotage (ibid., p. 18). On top of that, the nation state "being in effect a licenced predatory concern, is not bound by the decencies of that code of law and morals that governs private conduct" (Veblen, 1996 [1923], p. 35). Thus, governments have greater power than the business men themselves to enforce pecuniarily advantageous - but morally questionable - business dealings (ibid., p. 35). Examples for government-administered sabotage listed by Veblen are: the protective tariff, the prohibition or rationing of specific goods such as drugs, alcohol and explosives[3], or regulations concerning the properties of certain products[4]. All these policies have in common that they are aimed at limiting supply in order to keep up prices (Veblen, 1954 [1921], pp. 20-21).

7.3.2 Government-administered conspicuous waste

The policy of government-administered conspicuous waste is based on the recognition that private consumption by itself is not capable of generating the level of effective demand which would be needed to accommodate the incredible efficiency of modern industrial production. Thus, the government steps into the breach, generating additional demand through public spending. Contrary to Kalecki and Robinson, for reasons outlined above, Veblen does not expect government spending to be geared towards socially beneficial investments (Veblen, 1932 [1904], pp. 255-257). Rather, he expects it to fund large-scale conspicuous consumption.

> Armaments, public edifices, courtly and diplomatic establishments, and the like, are almost altogether wasteful, so far as bears on the present question. They have the additional advantage that the public securities which represent this waste serve as attractive investment securities for private savings, at the same time that, taken in the aggregate, the savings so invested are purely fictitious savings and therefore do not act to lower profits or prices. (ibid., p. 256)

Thus, what in a Robinsonian or Kaleckian framework would have been regarded as potentially poverty-reducing policies, from Veblen's perspective, with a strong focus on the wasteful use of national resources, turns out to bear a strong risk of actually exacerbating poverty. On top of that, Veblen concludes that

> however extraordinary this public waste of substance latterly has been, it is apparently altogether inadequate to offset the surplus productivity of the

[3]Veblen concedes that sabotage may not be the sole or indeed primary reason for restricting or prohibiting the sale of these goods.

[4]This is one important obstruction of international trade which has been recognized by the EU upon foundation of the common market and which it is trying to abolish by legislation on the free movement of goods.

> machine industry, particularly when this productivity is seconded by the great facility which the modern business organization affords for the accumulation of savings in relatively few hands. (Veblen, 1932 [1904], p. 257)

Thus, government spending, in Veblen's view, is not even capable of achieving its primary aim, that is the control of the business cycle. This is where the second policy described above, government-administered sabotage, comes into play. All in all those two strategies can be regarded as complementary: Sabotage aims at restraining supply whilst conspicuous waste keeps up demand - the two strategies combined ensure high prices and thus high profit margins. As has already been pointed out earlier, this analysis in its original formulation is contingent upon a Veblenian supply-and-demand pricing framework and thus fundamentally incompatible with a post-Keynesian mark-up pricing framework.

Concluding remarks

This chapter has been devoted to the discussion of a rather peculiar group of poverty producing processes. These processes differ from those discussed in earlier chapters in that they are located at the intersection of the political and the economic sphere. The poverty producing processes discussed were: taxation, inflation targeting, the political business cycle, government-administered conspicuous waste and government-administered sabotage. All of these processes describe the outcome of policy choices with detrimental effects for the poor. Most often governments have to establish political priorities as to whose interests to support in practical policy-making. In case they regularly choose to side with business interests at the expense of the standard of living of the economically vulnerable, these policy choices can effectively be classified as poverty producing processes.

Overview of the main poverty producing effects

Three ways can be identified in which public policy may contribute to the production of poverty:

Firstly, a government may decide to adopt a policy which has directly detrimental effects on financially vulnerable parts of the population. Above all, this includes all sorts of policies which redistribute income from the bottom to the top of the income distribution, such as regressive taxation. It has been pointed out in the welfare state literature that the redistributive effects of different welfare state regimes are insufficiently measured by simply counting welfare expenses. Quite often, it has been shown, those states who grant particularly generous welfare benefits also levy high direct and indirect taxes and other duties which have to be paid (also) out of benefit income, thus effectively curtailing the disposable income of benefit recipients. More generally speaking, the specific fiscal policy regime of a country has a huge impact upon the disposable income at different income levels. Thus, whilst progressive taxation may be a powerful means for the alleviation of poverty, regressive taxation regimes must be recognised as important poverty producing factors.

Secondly, rather than actively producing poverty, governments may sustain poverty by failing to provide support and protection to financially vulnerable groups. This allegation may be seen as corresponding to the legal charge of 'non-assistance of a person in danger'. In terms of examples for such governmental acts of non-assistance can be named the failure to engage in active employment policy, or to provide essential public services and social security. It may seem peculiar to include not doing something as a poverty producing process, yet, I would argue that this can be justified on grounds of the particular role accruing to democratically elected governments. Certainly, it can not reasonably be expected, nor would it be advisable, that public policy only caters to the needs of the poor. Policy-makers always need to find a balance between different interests. In practice, however, we are rather more likely to encounter a tendency within governments to attach disproportional weight to the vested interests of the more affluent classes.

Thirdly, governments may assist in the administration of industrial sabotage. Veblen uses the idea of government-administered sabotage to denounce public policies which in his view favour the vested interests of industry to the detriment of the rest of the population.

Of the poverty producing effects discussed above, the first two can be expected to impact upon nominal incomes, while the second and third may exert considerable influence upon material deprivation.

In conclusion, I may point out that 'hegemonic policy making' has been included as a poverty producing process as a means of highlighting Veblen's, Kalecki's and Robinson's concern with the legal and political institutionals shaping everyday economic life. The legal and political superstructure heavily impacts upon individual life chances and the distribution of income. Thus, it can also be regarded as an important influence factor on the (re)production of poverty. The approach to investigate the superstructure in terms of individual processes has the advantage of emphasising an insight which appears to have been self-evident to Robinson, Kalecki and Veblen but is all too often blinded out in current political discourse: every single political act is based on a choice of one versted interest over others. The theoretical legacy of Kalecki, Veblen and Robinson, I want to suggest, encourages us to question and critically evaluate these choices. This is particularly important when it comes to identifying and abolishing the causes of poverty in advanced capitalism.

8 Synthesis and evaluation

The following chapter starts off by answering the second research question posed in the introduction, namely whether it is possible to synthesise the different poverty producing processes identified in this thesis into a theory of poverty production. It then goes beyond that by asking whether this arguably new approach is really all that different from established economic analyses of poverty. Finally, potential routes for further development of the poverty production approach are explored.

8.1 Is a synthesis of Veblen's, Kalecki's and Robinson's thought possible?

In the introduction the question has been posed whether the analysis of poverty producing processes presented in this thesis can actually be said to constitute a cohesive approach. In order to answer this question, at first differences and similarities between Kalecki, Robinson and Veblen in their theoretical treatment of conspicuous consumption, mark-up pricing, industrial sabotage and hegemonic policy-making will be recapitulated. Only after that a final evaluation of the overall coherence of the three authors' approaches will be made.

Conspicuous consumption

Of the three authors, the only one who explicitly used the concept of conspicuous consumption was Veblen. Robinson at some point approvingly referred to it, while Kalecki never even mentioned it. It can be argued that Veblen's and Robinson's work on consumption can to a certain extent be regarded as complementary. Veblen described the phenomenon of conspicuous consumption at great length and pointed out its immensely important role in modern capitalism. He stressed the negative effects likely to arise from widespread conspicuous consumption but did not analyse them in much detail. Robinson, on the other hand, did not develop a general theory of consumption but paid considerable attention to an elaboration of the negative effects of unregulated (conspicuous) consumption. Thus, Robinson can be said to take the analysis of consumption up where Veblen left it. Kalecki's position is far more difficult to fit in this picture because his theoretical focus certainly lay elsewhere than on the analysis of consumption. Nevertheless, some hints can be detected as to his thoughts on the topic. A recurring theme in Kalecki's work is the differentiation between workers' consumption and capitalist consumption and, accordingly consumption goods for workers and consumption goods for capitalists. As has already been pointed out earlier, the differentiation between workers' consumption goods and capitalists' consumption goods proves to be problematic when taken literally, because obviously a considerable overlap exists between these two categories. Kalecki's use of 'luxury goods' as a synonym for consumption goods for capitalists has prompted me to suggest that the difference between the two kinds of consumption goods may be better understood along the lines of conspicuous and serviceable consumption. It must be stressed, however, that this is my ex post interpretation rather than Kalecki's explicit statement. Being such a peripheral issue in his work, Kalecki's analysis of consumption remained underdeveloped, and thus very little can be said about it with absolute certainty.

To sum things up it can be said that some level of complementarity can be detected in Veblen's and Robinson's work on consumption, while a positive evaluation of the compatibility of Kalecki's thoughts on that issue rests on far more speculative grounds.

Mark-up pricing

In the present thesis, pricing theory has turned out to be most interesting in terms of comparison. Even when considering the development of Kalecki's theory on its own, a complex picture emerges, combining fundamental changes of some aspects with considerable continuity with regard to others. When it comes to comparisons with Veblen and Robinson, things get even more complex.

It has been pointed out in the literature that, despite considerable changes in the details of the analysis, the theoretical core of Kalecki's pricing theory remained the same throughout his long career. Kalecki consistently argued that oligopolistic markets are the rule in modern capitalist economies and that on these markets prices are determined via a mark-up on primary costs. The size of the mark-up, in turn, depends on the level of competition in the industry. A central assumption of this framework is that entrepreneurs ultimately are price makers - they decide on the mark-up and thus the price of their products. Robinson has often referred to Kalecki's mark-up pricing framework and pointed out that, while imperfect, it is the best existing pricing theory. Consequently, she often built upon Kalecki's mark-up pricing framework in her own theoretical work. Robinson introduced conceptual clarifications of some key concepts, however. Thus, she discussed the definitions of 'industry' and of the 'degree of monopoly'. As argued in chapter 5, it becomes apparent upon a close reading of Robinson's elaborations that rather than just clarifying Kalecki's use of these key concepts, Robinson indeed put forward her own distinct interpretations. This is far from obvious upon more superficial reading, however, and has never been acknowledged by Robinson herself. Thus, the question whether she was aware of these rather far-reaching differences in interpretation remains unanswered. In spite of these differences, the established understanding is that Robinson and Kalecki based their work on the same pricing theory.

Veblen, on the other hand, is said to have adopted a very simple supply-and-demand pricing theory. As pricing certainly was not at the centre of Veblen's theoretical interest, no detailed elaboration of this issue can be found in his writings. Most often, Veblen indeed simply relies on evoking the mechanism of supply-and-demand. Nevertheless, some bits and pieces of a more elaborate pricing theory can be found in his work too: just like Kalecki, Veblen differentiated between competitive and non-competitive markets, stressing that the latter are the rule in modern capitalism. Non-competitive markets, according to Veblen, are characterised by capacity underutilisation and non-price competition. Veblen further acknowledged the importance of the degree of competition for price determination. The lower the competition, the higher the mark-up which can be charged by entrepreneurs. Notwithstanding these important similarities to Kalecki's approach, considerable differences in the details of the analysis remain. Veblen continuously holds on to supply-and-demand as the basic price making principle. The fact that this contradicts some of his other ideas is left unacknowledged. Furthermore, Veblen's definition of competitive markets was even more restrictive than Kalecki's in that he did not include all primary goods markets.

Everything considered, the result of the present analysis is that Veblen's pricing theory is underdeveloped and lacks theoretical coherence. Surprisingly, it nevertheless already includes some of the key findings of Kalecki's later mark-up pricing framework. Thus, whilst their theories certainly can not be said to be fully compatible, I would argue that Kalecki's theory might be interpreted as a more advanced version of the pricing theory only hinted at in Veblen.

Industrial sabotage

Industrial sabotage as it was originally defined by Veblen was based on a supply-and-demand pricing framework. Veblen employed the concept to describe those situations in which entrepreneurs curtail production in order to keep their goods artificially scarce and thus raise their prices. Through these interventions, Veblen held, entrepreneurs were sabotaging production and as a consequence social provisioning. According to Veblen, the partial retreat to industrial sabotage is the entrepreneurs' response to the immense - and constantly increasing - productivity of the modern industrial system. Business logic requires them to curtail supply in order to keep prices from falling continuously. The imperatives of modern business enterprise notwithstanding, Veblen declared industrial sabotage to be the single most important hindrance to social provisioning in modern capitalism.

Kalecki, on the other hand, was not particularly concerned about acts of industrial sabotage. In fact, this concept does not exist in the Kaleckian framework. The closest equivalent to industrial sabotage to be found in Kalecki is his assumption of wide-spread capacity underutilisation. Whilst these two concepts describe the same empirical situation - the less than full utilisation of productive capacities - their interpretations differ fundamentally. In the Veblenian understanding, supply is fixed by the entrepreneurs and prices react. Capacity underutilisation, on the other hand, conceptualises the entrepreneur as limiting production in response to a lack of demand. The limiting variable in this framework is demand, not supply. It would be nonsensical from this point of view to assume the deliberate curtailment of supply. Accordingly, Kalecki was far more concerned about price regulation than about the prevention of industrial sabotage.

Despite subscribing to the same mark-up pricing framework as Kalecki, Robinson seems to attribute a certain relevance to acts of industrial sabotage. She never actually uses the term 'industrial sabotage', but describes situations which correspond to Veblen's definition of industrial sabotage. Upon first reading Robinson's position appears to be theoretically inconsistent. The question arises as to how she could possibly adopt a mark-up pricing framework and still employ a concept that presupposes a simple supply-and-demand pricing mechanism. Robinson never explicitly discusses this question and indeed some insurmountable contradictions can be found in her early writings. In later writings, however, she appears to restrict the relevance of industrial sabotage to perfectly competitive primary goods markets. This limitation enables Robinson to reconcile the mark-up pricing framework with the concept of industrial sabotage. In addition to these rather limited applications Robinson described another phenomenon which, as pointed out above, might well be considered a contemporary variant of industrial sabotage: planned obsolescence. This phenomenon does not strictly fit in with Veblen's original definition because it does not involve any curtailment of supply. Indeed, it constitutes a more subtle strategy, as it curtails the durability of the goods supplied. In effect, fully in line with Veblen's original conceptualisation, this strategy increases demand in the long-run and indirectly raises prices through shortening the economic lifetime of commodities. Planned obsolescence can thus be regarded as another example of the successful reconciliation of two apparently irreconcilable theoretical ideas.

Consequently, it can be argued that Robinson has unwittingly shown that, despite great initial differences, the theoretical frameworks of Veblen and Kalecki are not as irreconcilable as they may appear to be with regard to industrial sabotage.

Hegemonic policy-making

In terms of comparison hegemonic policy-making certainly is the most demanding poverty producing process outlined in this thesis. As I have subsumed under this label a diversity of different poverty producing processes originating in the political sphere, relatively little overlap can be found between the different authors. Thus, the comparative analysis will be restricted to the key question of what economic role the three authors assign to governments. Here again, considerable differences can be made out between Veblen on the one hand and Kalecki and Robinson on the other hand.

Veblen regarded the government as being fully instrumentalised by business elites. Therefore, his evaluation of public policy was devastating: rather than benefiting the common good, governments, in Veblen's view, partake in large scale conspicuous waste and industrial sabotage.

Kalecki and Robinson were far more sympathetic to public policy. In fact, they regarded the governments of modern capitalist economies to be among the key agents in the fight against poverty. Governments, in their view, can be expected to fulfil an important economic and social responsibility through stabilising the vagaries of the economic business cycle. This, they argue, should be primarily achieved through active demand management and employment policy. Nevertheless, Kalecki and Robinson were very well aware of the fact that governments often do not live up to their responsibilities for political reasons. In their understanding, economic elites do not manage to fully instrumentalise public policy, but still exert a strong influence. Governments are thus torn between the diverging interests of the different social classes and public policy always is the result of a power struggle between those interests.

These great differences in the conceptualisation of the political sphere can be attributed to a large extent to the different historical contexts in which the authors were living. Veblen lived in the US during the late nineteenth and early twentieth century. He died just before the Great Crash of 1929. Therefore, the politics he experienced were indeed far more passive and in line with business interests than those experienced by Kalecki and Robinson, whose writings were highly influenced by their experiences of the Great Crash and WWII. Robinson and Kalecki - who died in 1983 and 1971 respectively - indeed experienced the golden age of Keynesian policy making. Thus, they had every reason to be more optimistic than Veblen.

A possible synthesis

The detailed comparison of Veblen's, Kalecki's and Robinson's theoretical treatment of the poverty producing processes identified in this thesis suggests the conclusion that the three authors can hardly be regarded as constituting a coherent school of thought. It is of little surprise that Kalecki and Robinson share more commonalities than Kalecki and Veblen, but even between those two authors important differences have emerged. Robinson has been shown in many cases to occupy middle-ground between Veblen and

Kalecki.

Yet, despite these undeniable theoretical differences, the findings of the present thesis allow for a fruitful integration of the three authors' approaches into one coherent framework. It appears that simple differences in theoretical focus are unproblematic in this respect, as they do not hinder synthesis but rather broaden the explanatory scope of the approach. However, as already pointed out above, there are two more fundamental differences in theoretical approach which demand further attention: differences in the conceptualisation of the political sphere on the one hand and different pricing theories on the other hand.

The theoretical differences regarding the political sphere have been shown to be largely due to changes in historical circumstances and therefore should not be overestimated. Contemporary applications of these theories need to identify the conceptualisation which best represents the current political situation and adapt the theory accordingly.

The different pricing theories, however, can not simply be attributed to differences in historical context. Nevertheless, I have shown that Veblen's very rudimentary formulation of a pricing theory already included most of the key elements of Kalecki's later formulation. Thus, I want to suggest to interpret Veblen's theory as a little elaborated precursor to the mark-up pricing framework and to make the latter the price-theoretical core of the new integrated approach. The analysis of industrial sabotage would then have to be adapted accordingly and most likely follow the lines of what I have deduced from Robinson's writings. The analysis of conspicuous consumption should not be difficult to be fitted in with this new approach as differences between the authors can be said to be primarily due to different theoretical foci.

The resulting integrated approach - henceforth called 'poverty production approach' - combines important insights of Veblen, Kalecki and Robinson and thus provides us with a relatively comprehensive understanding of the key economic processes underlying the production of wealth and poverty in contemporary capitalism. It goes without saying that in order to unfold its full potential, the approach sketched out above needs to be further developed. Promising routes for further (theoretical) work in this field will thus be discussed in section 8.3. The following section compares the poverty production approach to mainstream economic and Marxist poverty research. It has been argued in chapter 2 that the welfare state literature, overall, appears to be primarily concerned with the analysis of specific policies rather than with an attempt to causally understand poverty. Due to this fundamentally different foci, it will not be included for comparison.

8.2 Differences and similarities to other approaches

Rather than simply criticising the work of others, as has been done in the literature review, the explicit aim of this thesis was to succeed at developing a better alternative. In order to evaluate the merits of this thesis' approach, it will be necessary to point out the differences between the established and the new theories. The starting point for this will be to briefly restate the original criticism of mainstream economic and Marxist poverty research put forward in chapter 2 and contrast it with the novel poverty production approach.

8.2.1 Mainstream economic poverty research

The present enquiry started from the assertion that mainstream economic poverty research is wanting on two levels: firstly, its methodological focus on individualism results in a very disembedded and partial analysis. Secondly, as regards content there is a strong focus on measurement, behaviouristic explanations and the empirical analysis of the correlation between inequality and growth. Many other important hypotheses remain underresearched.

On the methodological level the major criticism to be brought forward against mainstream economic poverty research is its strict individualism. This narrow focus on individual behaviour results in a tendency to 'blame the victim' and to overlook greater social relations. The poverty production approach, on the other hand, follows a more holistic approach, considering individual as well as institutional and structural influences. It must be noted, however, that - due to Kalecki's, Robinson's and Veblen's methodological focus on social class - the details of the analysis presented in this thesis might be slightly better developed on the institutional and structural level. Individual agency, whilst being acknowledged as an important influence factor, often seems to be highly constrained by the class position of the individual and its institutional environment. In order to avoid slipping into the same methodological monodimensionality as mainstream economic poverty research, this tendency has to be dealt with very carefully in future research. There is great potential for the development of a truly holistic approach but also a great risk of slipping into a simple collectivist methodology.

On the level of content, the major points of criticism have been the relative neglect of theoretical analysis on the one hand and the incompleteness of the existing theoretical explanations on the other hand. The measurement of poverty as well as behaviouristic explanations of poverty have been identified as the main theoretical foci of mainstream economic poverty research.

The measurement of poverty has not been discussed at all in the present study, as it is of no particular relevance to the objectives of this thesis. The focus of the present study was not on the measurement of poverty but rather on a better theoretical understanding of the processes causing poverty. Nevertheless, in future research measurement issues will have to be taken up in order to be able to combine theoretical and empirical analysis.

Even if disregarding differences in the emphasis on measurement issues, the mainstream economic analysis of poverty and the poverty production approach developed in this thesis could hardly be more different. Very little theoretical overlap can be found. While behaviouristic explanations are dominant in mainstream theory, they are irrelevant in the poverty production approach. The four poverty producing processes identified and discussed in this thesis, on the other hand, are virtually absent from most mainstream accounts of poverty. There are some notable exceptions, however. Surprisingly, a considerable number of the issues discussed in this thesis under the headings of conspicuous consumption, mark-up pricing, industrial sabotage and hegemonic policy-making are taken up in a small fraction of the mainstream economic literature on poverty.

In *Poverty in Europe*, for example, Tony Atkinson indirectly acknowledges the relevance of conspicuous consumption and mark-up pricing for the understanding of poverty. He starts from the observation that a comprehensive account of poverty in advanced capitalism needs to take into account the sphere of production as well as the sphere of distribution - a central theme of the poverty production approach. Atkinson then goes on to argue that the increasing demand for some goods by the better-off parts of the population may lead to price increases and thus exclude poor people from consumption. Atkinson's argument is based on the assumption of competitive markets and a simple supply-and-demand mechanism. The same phenomenon is discussed in this thesis in the section on the special case of conspicuous consumption on supply-restrained markets. It goes without saying, however, that Atkinson would most probably disagree with the judgement that competitive markets constitute a 'special case' in modern capitalism and indeed argue that non-competitive markets should be regarded as the exception. Nonetheless, Atkinson acknowledges the importance of non-competitive markets for the analysis of poverty and goes on to analyse the pricing behaviour of monopolists. Monopolists, he argues, are free to choose whatever profit-making strategy they like and to set prices at whichever level they find most profitable. This may lead monopolists to decide to charge high prices and supply their goods only to the wealthy part of the population that is able to afford them. Atkinson stresses that this business strategy is particularly detrimental when it comes to the provisioning of basic necessities such as electricity, which historically have often been supplied by monopolists. He thus demands that such markets be regulated and the monopolists pledged to supply their goods at prices which everyone can afford. This argument is very similar to those put forward in the discussion of mark-up pricing in chapter 5 of this thesis. There are some important differences, however: firstly, as has already been pointed out above, contrary to the mark-up pricing framework, Atkinson seems to take competitive markets to be the rule and monopolistic markets to be the exemption. Secondly, Atkinson only considers monopolistic markets and does not mention oligopolistic market structures, whilst the mark-up pricing framework only applies to oligopolistic markets.

Following this brief discussion of the influence of prices on poverty, Atkinson goes on to argue that another potentially poverty-creating factor is the limited availability of basic necessities. This limited availability may, on the one hand, be due to the diversion of productive capacities away from the production of goods which are in demand by the poor strata of society and on the other hand it may result from shops closing down in poorer neighbourhoods. Whatever the reason, Atkinson holds, the question of the quantity and quality of goods available for purchase needs to be considered in the analysis of poverty. This again brings us back to what has been discussed in chapter 4 of this thesis.

Finally, Atkinson also enquires into the redistributive effects of public policy, showing that it has tended to become less progressive. He concludes that the analysis of public policy needs to be included in poverty research. This, as has been shown in chapter 2, has been achieved in part by Blank and Blinder who have demonstrated that the US tax system has become increasingly regressive and thus has exacerbated the problem of poverty. Blank and Blinder have also discussed the question of whether inflation targeting benefits or harms the poor. Thus, a considerable number of the issues raised in chapter 7 of this thesis have at least been acknowledged in mainstream economic poverty research.

Having pointed out the overlaps between mainstream economic accounts of poverty and the poverty production approach, a number of qualifications need to be made: firstly, while these overlaps do exist, they are limited to the writings of only a few authors, since the majority of the profession does not cover these questions. Secondly, for the greatest part these issues are analysed only superficially in mainstream theory and are far from being integrated into a comprehensive theoretical account of poverty. Thus, the mainstream economic accounts of the poverty producing processes identified in this thesis can be shown to be very limited. When adding this observation to the important methodological differences pointed out above, it can be concluded with some confidence that the poverty production approach represents a fundamentally distinct attempt at the explanation of poverty which in many respects is more comprehensive than mainstream economic poverty research.

8.2.2 Marxist poverty research

The differences between the poverty production framework and Marxist poverty research can be said to be far less pronounced. Both start from a conflictual world view, stressing the fact that the poverty of some to a certain extent constitutes the wealth of others. Furthermore, both approaches highlight the importance of the sphere of production for the explanation of poverty. The two approaches thus can be said to share an embedded understanding of poverty and to regard poverty as an inherent feature of capitalism. Indeed, a large extent of agreement can be observed between the two approaches. I would even go as far as arguing that both approaches could be conceived of as 'poverty production approaches' insofar as both regard poverty as being systematically produced and make the structures and/or processes causing poverty their analytical starting point. Nonetheless, some noteworthy differences between the two approaches can be detected too.

Broadly speaking, I want to suggest that, on the methodological level, the poverty production approach may be shown to pay more attention to questions of agency than parts of the contemporary Marxist literature. This is most pronounced in its discussion of consumption and public policy. Nonetheless, the fact that the poverty production approach too builds upon a class-based understanding of society means that it shares the risk of overly relying upon a collectivist methodology. As pointed out above, this risk deserves to be kept under close observation. Still, provided that this pitfall is avoided, the poverty production approach may succeed at putting economic poverty research on a slightly more holistic foundation.

On the theoretical level the most pronounced difference between the two approaches seems to be a difference in focus. Broadly speaking, Marxist analyses of poverty tend to display a focus on the exploitative nature of the wage-relation, the inherent tendency of capitalism to generate unemployment and different processes of social stratification within the working class. On top of this, they have developed quite differentiated categorisations of different groups of poor people.

The poverty production framework developed in this dissertation, on the other hand, in its present, very tentative and preliminary formulation, focuses on the role of consumption, pricing, industrial sabotage and policy-making. It would certainly benefit from a better coverage of some of the themes that emerge from the Marxist literature, most notably: a thorough discussion of wage differentiation and the causes of unemployment. Furthermore, given the complexity of the phenomenon, it may be more acurate to adopt a differentiated understanding of poverty, analysing the specific circumstances of different groups of poor people rather than discussing poverty in general. Such an analysis may be able to build upon the categorisations developed by Wright and Wachtel respectively.

Summing up, plenty of potential for theoretical integration of the analysis developed in this dissertation and the Marxist approach can be detected. Whether such a synthesis can be achieved depends largely on whether a way can be found to bridge the methodological and theoretical differences which continue to exist in other parts of the analysis.

Having argued that the poverty production approach indeed constitutes a distinct new approach to the economic analysis of poverty, the next question to be answered is what is needed for this approach to develop to its full potential. This question will be preliminarily explored in the next section.

8.3 Promising ways forward

As pointed out above, the poverty production approach is still in its fledgling stages. In order to unfold its full potential, further development of the approach is needed. Generally speaking, theoretical amendments of the poverty production approach may originate in different schools of thought within economics or even in related disciplines. It is of utmost importance, however, to ensure that these contributions respect the methodological and theoretical core principles of the poverty production approach. On the methodological level, the principles which must be abided by are historicity, openness, holism and interdisciplinarity. With regard to theoretical assumptions these core principles can be described as the acknowledgement of the conflictual nature of social reality, of power differentials and of the existence of - even if only loosely defined - social collectives or interest groups. Failure to conform to these principles signifies that a theoretical perspective is incompatible with the poverty production approach.

The final part of the present chapter is devoted to the discussion of four propositions of promising routes for further theoretical development of the poverty production approach and two suggestions for its empirical operationalisation.

The integration of recent theoretical developments

The obvious first step to take is to extend the theoretical framework through the inclusion of more recent theoretical developments in the post-Keynesian and institutionalist literature. This has two important advantages: firstly, contemporary contributions may be able to fill the gaps in Veblen's, Kalecki's and Robinson's analyses. Examples of such gaps are the personal distribution of income, the integration of a more differentiated class structure and a more detailed analysis of the distributive effects of public policy. Secondly, one of the basic methodological principles of the poverty production approach has been shown to be its historicity. Theories are understood to be context-specific. Thus, it goes without saying that the theoretical framework sketched out in this thesis needs to be re-evaluated regularly with regard to its continual applicability to a changing social and economic environment - and, if necessary, adapted accordingly. A prime example for a fundamental economic change which still awaits theoretical accommodation in the poverty production framework but has been covered in the post-Keynesian and institutionalist literature is the increasingly dominant role of financial markets.

Strengthening of the interdisciplinarity of the approach

Closely related to the first reason identified above for the integration of contemporary institutionalist and post-Keynesian thought - the need to fill explanatory gaps in Veblen's, Kalecki's and Robinson's analysis - is an appeal for the further expansion of the interdisciplinarity of the poverty production approach. Much could be gained from closer collaboration with sociological poverty research, social psychology or the political sciences. The political sciences, for example, may provide a more nuanced conceptualisation of the political sphere. Sociological poverty research, on the other hand, has a long tradition of enquiring into a diversity of empirically-proven poverty-related factors such as disability, old age and bad education. Whilst not being economic in the strict sense, these factors have repeatedly been shown to exert considerable influence upon economic results. Sociological poverty research may provide some ideas as to potential poverty producing processes arising from these conditions without falling prey to deterministic culture-of-poverty theses. Social psychology, again, may contribute important insights into a number of psychological factors which have been touched upon in post-Keynesian and institutionalist theories but got stuck in a very ad hoc formulation. The social psychology of legitimacy, for example, might increase our understanding of poverty-sustaining myths and institutions considerably.

The integration of findings from feminist economics

It has repeatedly been shown in empirical poverty research that women bear a far greater risk of experiencing poverty than men. This important gender dimension has been neglected in the poverty production approach so far. Yet, an important feminist economic literature exists, showing that women tend to be integrated into and affected by economic structures differently. These gender-specific differences between the economic situation of women and men are likely to have considerable poverty-producing effects. Therefore, it is imperative for the poverty production approach to take into account the gender dimension of the problem of poverty.

Empirical research on economic poverty production

As the present analysis has explicitly focused on the development of a theoretical framework, an empirical analysis of the poverty producing processes identified in this thesis is obviously missing so far. As has been pointed out already, economic poverty research is far stronger on empirical than on theoretical analysis. Relevant empirical data could thus be expected to be widely available. While this may certainly be true for some aspects of the analysis, the overall theoretical approach is so distinct in other respects that the necessary data are likely to be more difficult to obtain. Even if all data needed for an empirical study of economic poverty production were available, a fundamentally different interpretation of the data would be required. Thus, there is ample space for methodological innovation in the empirical analysis of poverty production.

I want to suggest that a case study approach combining quantitative and qualitative research methods may be a promising route to explore in the empirical analysis of poverty production. The exclusive reliance on quantitative methods which is common in economics is unlikely to be able to do justice to the complexity of the phenomenon under study.

Development of a 'social budgeting' framework

The need to integrate an analysis of the gender-specific effects of public budget management is starting to be widely recognised. An important result of this study was to show that equal consideration should be given to its poverty-producing effects. It is thus imperative to develop a framework for the analysis of public budgets with respect to their likely poverty-producing effects. In short, a poverty-production equivalent to the gender budgeting framework is required.

An analysis of economic poverty production in developing countries

Finally, the poverty production approach could theoretically be extended in order to be able to explain economic poverty production in developing countries. As considerable differences between advanced capitalist economies and developing economies undoubtedly exist, this would most certainly need to entail a reconsideration of fundamental theoretical propositions. Yet, in this case too, a good starting point might well be found in the works of Robinson and Kalecki as both have published extensively on developing economies. However, the analysis of economic poverty production in the developing world must be considered an independent and distinct theoretical project.

9 Conclusion

Economic poverty research can be considered to be a predominantly empirical discipline. Nevertheless, theoretical contributions exist across all schools of thought. Theoretical poverty research in mainstream economics, broadly speaking, tends to be largely behaviouristic. Amongst the behaviouristic explanations offered are the simple marginal productivity story, the somewhat more complex culture-of-poverty thesis defended, amongst others, by Akerlof and Lawrance's attempt to justify poverty by referring to the impatience of the poor. Due to its focus on the behaviour of the poor, mainstream economic poverty research has an overall tendency to neglect the analysis of possible institutional or structural influences on poverty. Marxism, on the other hand, provides us with a rich analysis of the structural causes of poverty. As important explanatory variables for understanding the problem of poverty have been identified, amongst others, the exploitative nature of the wage-relation, the changing composition of capital, the existence of an industrial reserve army and processes of social stratification within the working class. A weak point of many Marxist analyses, however, appears to be a relative neglect of individual scopes of action. Finally, a review of the literature in other heterodox schools of thought - not exclusively but primarily in the post-Keynesian and institutionalist tradition - shows that a considerable variety of theoretical accounts of poverty can be deteced. These accounts cover a broad range of possible influence factors, not least among which are luxury consumption of supply-restrained markets, questions of social validation of different occupations and processes of social exclusion. These nnn On top of that some of the aspects of the problem of poverty which are well covered in the Marxist literature, broadly speaking, appear to receive little attention. I have thus concluded from my review of the literature that a framework which helps to integrate the rich diversity of different - and often seemingly complementary - approaches to the problem of poverty might be needed.

The poverty production approach advanced above is meant to be a step in this direction. It aims to provide a framework for integrating the multiplicity of partial theoretical explanations of poverty which can be found in the post-Keynesian, institutionalist and - if some methodological and theoretical incompatibilities can be overcome - Marxist literature. Its major contribution may thus be argued to be methodological rather than theoretical. The poverty production framework does not so much aim at building a theory, rather it extends an invitation to adopt a novel, processual perspective on poverty. Conceptualising the production of poverty via the identification of specific poverty producing processes, I want to suggest, has two advantages: on the one hand the framework is succificiently open to allow for the integration of a diversity of variables from different spheres of social life. On the other hand, it forces us to surmount the oldfashioned dichotomy of individual and structural explanations and brings us to focus on different kinds of institutions. Thus, the poverty production approach may be regarded as a thoroughly institutionalist approach to the study of poverty.

The post-Keynesian-institutionalist synthesis sketched out in the last chapter identifies a first set of poverty producing processes around which a more comprehensive analysis might be built in the future. This may be achieved simply by scanning existing contributions for (even if sometimes only implicit) descriptions of poverty producing processes which then can be used to complement the theoretical framework established in this thesis. Generally speaking, every theoretical contribution can thus be integrated into the poverty production approach as long as it respects the fundamental methodological and theoretical principles of the new approach. Contributions which violate these principles must be regarded as incompatible with the poverty production framework.

The strengths of this novel framework for the analysis of poverty are:

1. Through its stress on the dimension of agency it breaks up the wide-spread 'harmony-myth' which claims that it were in everyone's interest to reduce poverty. Only through the acknowledgement of the conflictual dimension of poverty eradication can effective policies be devised.

2. Through its focus on specific poverty producing processes rather than the characteristics of the poor people themselves, it enables us to arrive at a more embedded understanding of poverty. Of course, analysing the specific milieus of people living in poverty or at risk of poverty, can provide us with valuable hints as to the origins of their problems. This is, however, only one side of the coin and must be complemented by an enquiry into the causal factors lying outside of the poor person.

3. The identification of poverty producing processes clearly shows that policies aiming at the eradication of poverty in order to be effective, first and foremost need to stop poverty production. As long as poverty production is not brought to a halt, anti-poverty measures can be little more than a drop in the ocean. This approach thus suggests a fundamental reorientation of public policy. Not only does it question the strict separation of social and economic policy, it is also highly critical of anti-poverty measures which are exclusively targeted at the poor. Public policy, too, needs to arrive at a more embedded understanding of poverty.

4. Through questioning the exclusive focus on the poor and pointing out the necessity to enquire into economic processes more generally, the poverty production approach integrates economic poverty research into broader economic discourse.

5. The poverty production approach provides us with a dynamic tool for the analysis of poverty. Whilst the details may change, we will most likely always be able

to identify poverty producing processes as long as poverty persists. The poverty producing processes discussed in this thesis, I would argue, are situated at an intermediary level of abstraction which makes it likely that they can be observed at different points of time and in many different advanced capitalist nations. Thus, whilst allowing considerable room for historically specific adaptations, the poverty production framework presented here also avoids the pitfall of becoming completely relativist.

The previous chapters have sketched out a preliminary formulation of the poverty production approach based on the economic thought of Robinson, Veblen and Kalecki. Four major poverty producing processes have been identified: conspicuous consumption, mark-up pricing, industrial sabotage and hegemonic policy-making. These processes generate a multiplicity of poverty producing effects. Abstracting from the process-specific details, these can be summarised in four categories:

- The artificial creation of scarcity. This category includes such different effects as the diversion of productive capacities resulting from conspicuous consumption, scarcity arising from conspicuous consumption on supply-restrained markets, output restriction through industrial sabotage and the negative effects of government-administered conspicuous waste and sabotage.

- A high-price policy of entrepreneurs. Apart from the obvious, that is high prices resulting from high mark-ups, this category includes price increases through conspicuous consumption on supply-restrained markets, indirect price increases through planned obsolescence, as well as in some cases price increases resulting from industrial sabotage in its original Veblenian interpretation, that is the obstruction of the production process or even the destruction of already produced commodities.

- Increasing unemployment. This is the only category included in this list which does not cut across different poverty producing processes. According to the present theoretical framework responsibility for unemployment can be ascribed at least in part to the unwillingness of governments to adopt an active employment policy. It goes without saying that further unemployment-related poverty producing processes may be identified in other sectors of the economy. These will have to be covered in future extensions of this approach, however, and are not part of its present preliminary formulation.

- THE LOW WAGE - DEBT SPIRAL. This category originates in the discussion of debt-financed conspicuous consumption, but is also related to mark-up pricing. The combined effects of the relative inelasticity of the demand for conspicuous consumption goods and the ready availability of consumer credit put entrepreneurs in a problematic position when judged from a social provisioning persepctive. They are vested with considerable power to influence the distribution of income to their benefit.

The above categories describe the major poverty producing effects of the four central poverty producing processes analysed in this thesis. They can thus be understood as delineating important focal points of the production and sustainment of poverty in advanced capitalism.

Whilst certainly including some of the most important poverty producing processes in contemporary capitalism, however, the list of poverty producing economic processes identified in this thesis can not be said to be exhaustive. The comprehensiveness of the present study is limited by the methodological approach followed. As in essence this thesis represents an exercise in the history of economic thought, the resulting analysis can only ever be as comprehensive as the theories which are drawn upon. Thus, for example, as Kalecki and Robinson were primarily concerned with the functional distribution of income and Veblen's analysis remained rather vague, little can be said in this context about processes influencing the personal distribution of income. Consequently, further research is needed in order to complement the present analysis and to arrive at a comprehensive, theoretically well founded understanding of the economic causes of poverty. Promising ways forward would be to include more recent theoretical developments in institutional and post-Keynesian thought, to integrate findings from feminist economics as well as to strengthen the interdisciplinarity of the approach through closer collaboration with sociological poverty research, social psychology and political science.

Notwithstanding the obvious incompleteness of the poverty production approach in its present formulation, one conclusion can already at this stage of research be drawn with some confidence: poverty producing processes are deeply engrained into the structure of our modern capitalist economies. The processes described in this thesis - i.e. conspicuous consumption, mark-up pricing and industrial sabotage - play a pivotal role in ensuring the continued functioning of our modern economies. Therefore, poverty can be regarded as a functional core element of the modus operandi of modern capitalism. Efforts aiming at the eradication of poverty will thus need to entail fundamental systemic changes in order to be successful.

The next step therefore should be to develop alternatives to the identified poverty producing processes. How could these processes be altered or stopped in order to bring poverty production to a halt? This is the big question looming in the background. And, as difficult as it may be, this question urgently needs to be addressed in order to allow for everyone to share in the abundance of modern capitalism.

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