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THORSTEIN VEBLEN'İN KURUMSALCILIK EKOLÜ VE DÖNEMSEL İKTİSADİ DALGALANMALAR TEORİSİ

INSTITUTIONALISM OF THORSTEIN VEBLEN AND THE THEORY OF BUSINESS CYCLES

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ÖZET

Veblen'in dönemsel dalgalanmalar konusundaki iktisadi düşünceleri, yaşamış olduğu dönemdeki finansal kurumlar ve endüstriyel işleyiş günümüze oranla oldukça ilkel olmasına rağmen, özellikle son yıllarda bazı endüstrileşmiş ekonomilerde ve Türkiye'de yaşanan derin ekonomik kriz sürecini anlamamıza önemli bir ışık tutmaktadır. Ancak, bu konudaki çalışmalar Veblen'nin sözkonusu katkılarını ihmal etmektedirler. Dolayısıyla bu çalışma Veblen'in ilgili görüşlerini, kendisinin geliştirmiş olduğu temel kavramlara ve evrimsel değişim teorisine dayandırarak, açıklamaktadır.

1. INTRODUCTION

Thorstein Veblen (1857-1929) is the founder of single school of economic thought, *institutionalist doctrine,* in the American history. Economic thoughts of Veblen, in addition to the ideas of other economists, are mostly influenced by the conditions of the American economy and the rapid development of industrial process in the late nineteenth century[1]. Principally, his unique methodology to economic events as a social science distinguishes him from other economists. He treats economic facts within their own era and circumstances. Beside an historical approach, socio-economic phenomena are assumed as being living species. This Darwinian-evolutionist approach to socio-economic facts led Veblen to begin analyze economic agents within their ever changing circumstances surrounding their ongoing social life. In other words, in his view, behavior of individuals as a member of a particular social and economic environment, which is the basis of usual economic consequences, is to be investigated within a dynamic process through time.

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[1] Jr. Robert B. Ekelund and Robert F. Hebert, ***A History of Economic Theory and Methods***, New York: the McGraw-Hill Companies, Fourth Edition, 1997, p. 407-410.

In this regard, Veblen severely criticizes the classical and neoclassical orthodoxy in economics in aspect of theoretical consideration, on the one side. On the other side, he attacks against the rapidly developing American capitalism and its emerging problematic consequences in aspect of experienced facts. The orthodox economic theory assumes that individuals reveal passive behaviors as rational-benefit maximizing agents in the Benthamian view that they escape from pain and run after pleasure. This hedonic calculus of individual benefits has always been valid and center of this theory in each sequenced ages without considering how the social and economic circumstances have developed through time, so that it has supposed a passive human psychology and that the values of human beings have all the time been given. Indeed, benefits of human beings, to Veblen, cannot be measured simply by such physical material, wealth, in such a static position of individuals who are isolated from social concerns and economic conditions surrounding them.

Motivations of human behavior are essentially much more related to metaphysical factors rather than physical ones. Veblen rejects this simple basic assumption of human behavior in addition to other preconceptions that classical economists have employed in their analysis, such as the distribution theory regarding factor shares from production. Instead, he suggests more constraining and real looking assumptions in which the behavior of individuals is based on much more complex and an active psychology. That is, the tests of individuals with regard to changing instincts and habits within changing material facts and social conditions surrounding them have progressively changed, and then values and tendencies of individuals have also changed continually. Therefore, he argues that the analysis of the orthodox economics, which presents a deterministic relationship of cause and effect, is misleading. Despite that, the neoclassical theories have been broadly accepted to provide good predictions and explanations of many phenomena in a complex world, in which everything is related to everything. Likewise, Veblen accepts that those are still valid relations as given their assumptions. Such a Veblenian approach to the socio-economic matters relies primarily upon the evolutionary change view of Spencer-Darwin[2]. This theory of change is indeed the corner stone of his theory of business cycles.

Economic thoughts of Veblen, regarding the business cycles here, basically are very pertinent in and have shed inspiring light on grasping specifically the recent prolonged stages of economic crises experienced in Turkey as well as in certain industrialized market-oriented economies, even though the financial institutions and industrial process were so primitive and not complex relative to those of today in his era. However, studies that attempt explaining the business cycles, particularly the economic crises, in aspects of both theoretical and experimental facts, have avoided and not referred to the prominent contributions of Veblen. Thus, in this paper we put

2 Max Lerner, "The Editor's Introduction", ***The Portable Veblen***, in Max Lerner (Ed.), New York: The Viking Press, 1948, p. 1-35; Ekelund and Hebert, p. 405-412.

forward Veblen's views on business cycles on the basis of his key concepts and the evolutionary change theory.

2. BASIC CONCEPTS AND THE THEORY OF EVOLUTIONARY CHANGE

Particular concepts employed in the studies of Veblen reveal their full meaning within the contexts of them, and certain essential points are repeated over and over in and spread over his works. Accordingly, key concepts specific to this paper have been provided first in the following context by expecting those will help us grasp the issue down more clearly.

Upon his observations on the fundamental and rapid developments experienced in the American industrial process in his era, Veblen's economic thoughts set off by criticizing the distribution theory of orthodox economics that all production factors take a share from production at the end of process relative to their contributions to it. However, the active running of pecuniary interests of businessmen does not allow these ends in the price system, because what the *ordinary working class* (unorganized labor class) gets from the outcome of production process rests primarily upon the decisions of *absentee owners* (i.e., owners of industrial equipments and business financiers and creditors) about output, price, profits, and thus on what else left for them, considering their *vested interests* in the Veblenian view[3]. On the other hand, such kind of sabotage on production process and on efficient use of production factors could also come from the *organized workmen*, labor unions[4].

The primary reason for this outcome presumably relies on the *sabotage of absentee owners* and labor unions as well on output and on efficient use of production factors for their vested interests during the time of industrial development process. In the price system of modern economy, such a restriction upon production process could maintain prices at a reasonably profitable level for any considerable time. That is why, they have a permanent tendency to control and regulate output in order to guarantee balanced fair gains for a substantial period. They do this via under capacity use of production factors, by creating a balancing margin of unemployed labor and other production factors continually. It merely means that business community must run under imperfect competition in order to provide a stable output level for whole society[5]. Hence, the material needs of all society have rested on the financial management of the businessmen. Nevertheless, the business community has always turned the continual progress in technology and the permanent expansion of production factors into its own advantage in

3 Lerner, p. 26.

4 Thorstein Veblen, ***The Engineers and the Price System***, New York: The Viking Press, 1954, p. 4-5.

5 Veblen, 1954, p. 7-10.

the price system, and also it has always been an obstacle to this growth in the industrial process[6].

Moreover, absentee owners in modern price system have the incentive not to produce livelihood of society but to make money, so that business concerns have a tendency to control and direct the industrial system for that monetary end[7]. Hence, these common business interests of absentee owners in the price system have progressively made more and more pressure on them towards one big collusion, monopolization[8]. By active collusion, business concerns have controlled the industrial system getting more dominantly, and thus the fluctuations in the production process now significantly depend on the decisions of these pecuniary interest groups[9]. In short, absentee owners have been the main controlling force on the industrial system in the price system[10]. Nonetheless, their business interests are different than the interests of the working class. The real concern of the working class is their livelihood and it is best provided with maximum output at a low cost, whereas the concern of business community is the maximum gain which is maintained with low output at a high price[11]. So, the business interests do not let a competition in the production process for producing more output in aggregate, rather regulate the process for a stable return with a fluctuating size of unemployed labor and other factors of production at the margin, and hence a stable return requires a balancing unemployment rate in the price system.

In other words, the pecuniary gains of businessmen consist of the discrepancy between sales price and the cost of output. They may increase this margin and stably maintain it by raising the prices and restricting output or by declining the cost with expanded output continuously. However, the former option is in general chosen in the price system because it contains less risk, and does not require much familiarity with growing complex relations in management of the industrial system. Then, competition has been bounded purely with sales prices in order to make larger the share of any business line, given aggregate output more or less fixed in the market[12].

Furthermore, upon the theory of cultural and institutional change Veblen develops his *theory of business cycles*: The dynamic interactions between ever-changing technological institutions and ever-changing ceremonial institutions maintain the sources of evolutionary change through time in the system. Main factors building and developing these institutions permanently through time are human instincts. The technological institutions have a central role in motivating this dynamic relation by causing the evolution of the ceremonial institutions, and then those with some lag of time

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6 Veblen, 1954, p. 29-34.
7 Thorstein Veblen, ***Absentee Ownership and Business Enterprise in Recent Times: The Case of America***, New York: B. W. Huebsch, 1923, p. 248.
8 Veblen, 1923, p. 385.
9 Veblen, 1923, p. 238.
10 Veblen, 1923, p. 3-4.
11 Veblen, 1923, p. 10.
12 Veblen, 1954, p. 42.

have affected the technology, by encouraging it. That is, the ceremonial institutions might constrain the technological ones only temporarily[13].

The main roots of the Veblen's theory of change take a large place in his first popular book, *The Theory of the Leisure Class (1899)*, which was published in 1931. In fact, the next studies of Veblen have been largely formed around the arguments emerged in this book. Therefore, this classic by Veblen should be essential for any study regarding Veblen as so in our theme, otherwise the main spirit of the issue could not be grasped.

According to Stuart Chase, in his forward to the first book of Veblen[14], the chief argument in this classic is simple: People above the level of subsistence, through the human history, have not utilized the surplus, which has been transferred from the values of the society, principally for their comfort and in useful ways in a responsible manner to the society. Instead, they have continually sought to impress others via using this surplus in order to create ways and means of this impression within their social and economic surrounding. Thereby, they have vested money, time and effort in various businesses that simply give pleasure and inflate their ego, getting more rigorously, with *conspicuous consumption.* Veblen gives many examples from the earliest era to the recent modern industrial age considering this *pecuniary emulation.* Interesting one, cars are chosen mostly not to use, comfort or for transportation but to retain individual's statute in the community.

Thus, in view of Joseph Dorfman in Veblen[15], this book of Veblen (1931) mainly investigates how the leisure class emerges, and what kind of role it takes as a social and economic agent in the society. As an institution the leisure class is formed from a class of people who does not work in the production process of the industrial system, but rather wastes the time rigorously by occupying unproductive activities, having *conspicuous leisure*. The form of leisure is ever-changing with ever-changing material and social conditions, whereas it has taken place in all civilizations through the human history in one type of it. In words of Veblen[16],

> "the institution of a leisure class is found in its best development at the higher stages of the barbarian culture. ... In such communities the distinction between classes is very rigorously observed; the feature of most striking economic significance in these class differences is the distinction maintained between employments proper to the several classes. The upper classes are by custom except or excluded from industrial occupations, and are reserved for certain employments to which a degree of honor attaches. The occupations of the leisure class are correspondingly diversified, but they have the

13 Ekelund and Hebert, p. 415-416.
14 Thorstein Veblen, ***The Theory of the Leisure Class: An Economic Study of Institutions***, New York: The Viking Press, 1931, p. xiv-xv.
15 Thorstein Veblen, ***Essays Reviews and Reports: Previously Uncollected Writings***, Joseph Dorfman (Ed.), Clifton, New Jersey: Augustus M. Kelly Publishers, 1973, p. 29.
16 Veblen, 1931, p. 1-2.

common economic characteristic of being non industrial. And the leisure class is getting more classified through human civilization."

So, except primitive savagery groups, a passive static culture, the leisure class has gradually developed through ever-changing human cultures, as such an evolution of a living specie, by altering or taking some shapes in the ever-changing circumstances and following ever changing norms of society. In other words, the human instincts and habits upon which the institution of leisure class rests have developed in all dynamic cultures through the human history. Therefore, the only thing which does not change in ever-changing circumstances is the ownership instinct of human and his tendency of *pecuniary emulation*: Individuals have always developed the ways and tools that represent a ground as demonstrative evidence of their status in ever-changing circumstances so as to be honored from their communities. Hence, the ownership instinct has been a slave of pecuniary emulation of person, and in order to appreciate the pecuniary emulation in his community he has struggled to accumulate more and more wealth as a proof of his statute in his ever-changing material and social surrounding. Eventually, these unchanged instinct and tendency have been the source of ever-changing technological and social institutions. The context of this classic of Veblen (1931), in large extent, has principally turned around this notion, actually.

The main difference between the static era and the dynamic era of culture is subjective, not mechanical. The behaviors of individuals change gradually following ever-changing material circumstances and after its domination over the culture and thus with its impact on habits of society. The technological improvements and the use of tools have progressively led to such gradual change in human civilizations, and then habits have gradually followed that after innovations have dominated the life because those have maintained and developed the surplus above the subsistence of community. Consequently, the pecuniary emulation and hence the leisure class are extensions of that, and their shapes through the historical phases are formed with the fact that how this surplus is remained and improved, and how it is used for the conspicuous consumption by the conspicuous leisure. In the sequence of cultural evolution, the leisure class emerges from the beginning of ownership, and in the later stages the institution of private property rights replaces it[17]. For such an esteem or pecuniary reputability the desire of individuals for wealth becomes unsaturated. Since the struggle is principally a competition for reputability on the basis of individual comparison, each person observes the environment close to him, regarding economic and social status. In this sense, the passion of wealth accumulation is not for the necessities that make easier and comfortable the life, but primarily for pecuniary emulation, and to great extent this shapes the testes and the expenditure patterns of individuals. Thus, the pecuniary emulation particularly rather than others leads the accumulation of wealth[18]. At later

[17] Veblen, 1931, p. 21-22.
[18] Veblen, 1931, p. 32-34.

stages of cultural development, conspicuous consumption based on accumulation of wealth with private property rights would have taken more important place as demonstrative evidence of reputation for pecuniary emulation of leisure class[19].

However, the instinct of workmanship too arises from the reputability emulation. The only esteem open to them in their community is to produce efficiently more in quantity and quality by working hard because this class of people has lived primarily with concern of their livelihoods[20]. Thereby, the distinction between the occupations such as superior and inferior has a psychological basis. This emulative force for the instinct of workmanship satisfies his testes[21].

The second book of Veblen, *the Theory of Business Enterprise (1904)*, which is published in 1936, is another distinguished work of him upon which we have primarily relied our paper regarding *Veblen's Theory of Business Cycles*. As a matter of fact, Veblen places a large chapter in the book which explains the business cycles in great detail. However, his other works do not cover such a deep assessment of this specific issue. Therefore, we stick in great extent with this chapter in his second book.

3. THE THEORY OF BUSINESS CYCLES

Before the pecuniary interests of business community dominated the social life, since the main concern of a society was its subsistence, the fluctuations in economic activities implied whether the industrial process yielded enough output. However, after the business concerns have had a central and controlling role in the industrial process, the fluctuations in the economic values mean whether the system has submitted a fair rate of profit. Thereby, in modern industrial communities, the fluctuations in material well-being are wider and more frequent than in the case before the machine industry influenced the community substantially[22].

Veblen (1936) asserts that the cycles in the trend of economic well-being are indeed business-oriented and primarily raised from price disturbance in the considerably developed industrial system. The industrial process for the subsidies of community has merely secondary effect on this phenomenon. Thus, in the developed machine industry, in which modern business concerns run for a fair gain in the price system, the close interrelation and interdependence of the industrial process in a balanced price system can spread price disturbance over the industrial community causing a business cycle which will influence the whole economy in a short time[23].

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19 Veblen, 1931, p. 46-47.
20 Veblen, 1931, p. 35.
21 Veblen, 1931, p. 15-16.
22 Thorstein Veblen, ***The Theory of Business Enterprise***, New York: Charles Scrbner's Sons, 1936, p. 177-178.
23 Veblen, 1936, p. 182.

The Veblen's theory of business cycles is indigenous and dynamic in the nature of modern industrial system[24]:

"The true or the normal, crises, depressions, and exaltations in the business world are not result of accidents, such as the failure of a crop. They come in the regular course of business. The depression and the exaltation are in a measure bound together. ... every strongly marked period of exaltation (prosperity) has its attendant period of depression; although it does not follow that a wave of depression necessarily has its attendant reaction in the way of a period of business exaltation. ... It has been by no means anomalous to have a period of hard times, or a crisis, without a wave of marked exaltation either preceding or following it in such close sequence as conveniently to connect the two as action and reaction. ... But a wave of marked business exaltation (prosperity) was not promptly followed by a crisis or by a period of depression more or less pronounced and prolonged."

According to Veblen (1936), the issue is actually a business phenomenon, considering price, earnings, and capitalization rather than an industrial one regarding the mechanical facts of production and consumption. Then the approach to the problem just in aspect of the industrial life beyond business management could not explain it[25]. In Veblen's words[26],

> "... crises, depressions, and brisk times are in their first incidence phenomena of business, of prices and capitalization, and explanation of their appearance and disappearance, and of their bearing upon the common welfare, may be sought by harking back to those principles that underlie modern capitalistic enterprise. An analysis of the current, common-sense business views of price and investment should indicate the genesis and manner of growth of these mass movements of the business community, as well as the character of those circumstances which may further or inhibit such movements. Business depression and exaltation are, at least in their first incidence, of the nature of psychological fact, just as price movements are a psychological phenomenon."

That is why, Veblen sets the theory of business cycles based upon his approach to the dynamic change argument of institutions. The micro foundations behind this macro theory are evolving instincts and habits of individuals within ever-changing circumstances through time. The dynamic force in this process, which permanently activates the interaction between the technological and ceremonial institutions, is the ceaseless progress of technology. In his opinion, the business cycles are essentially a consequence of such a dynamic change and the dynamic change in the discrepancy between the expected money value and the real value of the industrial wealth, which is also influenced by technological change. This mostly psychological

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24 Veblen, 1936, p. 183.
25 Veblen, 1936, p. 185.
26 Veblen, 1936, p. 185-186.

balance is exploited in major part by the financiers of business and by the creditors since the modern industrial system cannot run without credit use.

As a consequence of both cause and effect, in the period of expansion the use of credit is large as it is somewhat restricted in the period of depression. But the periods of prolonged depression are not raised solely from a shortage of credit relations[27]. In view of Veblen[28],

> "Of the three phase of business activity, depression, exaltation, and crisis, ... an industrial crisis is a period of liquidation, cancelment of credits, high discount rates, falling prices and forced sales, and shrinkage of values. It has a sequel, both severe and lasting, a shrinkage of capitalization throughout the field affected by it. It leaves the business men collectively poorer, in terms of money value; but the property which they hold may not be appreciably smaller in point of physical magnitude or of mechanical efficiency than it was before the liquidation set in. It commonly also involves an appreciable curtailment of industry, ... It does not commonly involve an appreciable destruction of property or a large waste of material articles of wealth. It leaves the community at large poorer in point of market values, but not necessarily in terms of the material means of life. The shrinkage is chiefly a pecuniary, not a material one; it takes place primarily in the intangible items of wealth, secondarily in the price rating of the tangible items. Apart from such rerating of wealth, the most substantial immediate effect of a crisis is an extensive redistribution of the ownership of the industrial equipment."

After explaining the situation that is most probably faced during the period of crisis, Veblen (1936) stresses the role of business interests that lead such a period of liquidation. In a developed industrial system, in which all members are mutually and closely interdependent regarding the industrial and business interrelations, firms have sold materials and finished goods to each other, and bought from one another. On the other side, credit relations among them at the same form follow the physical flows beyond money flows, in addition to credits for investment of business entrepreneurs, because firms in this way can expand their activities and earning capacities. In other words, they strive to reach their future potential gains at the present and to make larger the discrepancy between the real earning capacity and the potential earning capacity because the capitalized value of its industrial wealth and the degree of rating its credibility and thus taking more credit and reaching the differential advantages in the competitive market depends on credit use, i.e. the process continues in such circle. Hence their mutual debts and credits to each other and particularly to creditor bankers getting pile upon the normal trend and expansion periods. Within such a circulation, the creak occurs when debtors feel that the capitalized value of the expected earnings capacity of the industrial equipment initially calculated exceeds the capitalized value

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27 Veblen, 1936, p. 190.
28 Veblen, 1936, p. 191-192.

of that currently calculated, and the due of those piled debts to each other and to creditors is close. Then, according to Veblen[29],

> "... to meet the demand of their creditors they call upon their debtors, who may have bills receivable or may hold loans on collateral. The initial move in the sequence of liquidation may be the calling in of a call loan, or a call for additional collateral on a call loan. At some point, earlier or later, in the sequence of liabilities the demand falls upon the holder of a loan on collateral which is, in the apprehension of his creditor, insufficient to secure ready liquidation, either by a shifting of the loan or by a sale of the collateral. The collateral is commonly a block of securities representing capitalized wealth, ... In other words, there is an apprehension that the property represented by the collateral is overcapitalized, ... The market capitalization of the collateral has taken place on the basis high prices and brisk trade which prevail in such a period of business exaltation as always precedes an acute crisis. When such a call comes upon a given debtor, the call is passed along to the debtors farther along in the sequence of liabilities, and the sequence of liquidation thereby gets under way, with the effect ... that the collateral all along the line declines in the market. The crisis is thereby in action, and the future consequences follow ... ."

Veblen[30] cites that the expansion period of economic activities rises from some predictable favorable disturbance of the business process. And in this period the vital force that stimulates the business activities comes from a rise of prices. Thus, a rise or an expectation of rise in demand for things and in prices in some lines of industry encourages businessmen to invest more, so that it results in an enlarged supply in the market. In fact, the rise in demand for goods and in prices in some branches of industry encourages business men to make more debt from creditors in order to benefit from the discrepancy between the expected gains from the relevant lines of industry and that from the rest of industry in the price system. This event may spread over the whole industrial system initially by the payment advances of businessmen to one another in the ordinary times, and this movement then is exploited by creditor class. So, they open new credits or expand the old ones for business community by new credit contracts based upon the expected earnings capacity, which relied on the re-capitalized industrial wealth. Consequently, through these dynamic relations, any differential advantage to the particular branches of industry is eliminated after some time. However, since the extended contracts for future in the business life cover the entire industrial process, it tends to maintain the expansion for some time. Hence, even though the initial favorable disturbance of demand and price falls to the earlier level, the close of an expansion period is always delayed. Among the reasons of which, the first is the speculative behavior that occurs under such business situations and the second is the extended mass of credit contracts for

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29 Veblen, 1936, p. 192-193.
30 Veblen, 1936, p. 196-209.

future earnings. Thus, the expansion period is called with rising prices. When prices stop to rise the expansion gets weaker, but it may not abruptly happens since the increase of earnings in money value in the market depends on a differential gain evaluated by the expectations of short-sighted businessmen in terms of raised selling prices of output over the cost of it. So, when such a differential advantage apprehended by such a business behavior stops, then the expansion era starts its closing era, after such a slackness period of business community. However, such a differential apprehended by short-sighted businessmen disappears when they find that the money value of the expected earnings based on the industrial capital was indeed perceived as higher than the real value of them after some time. Then, the business in debt is forced to sell its output at prices under its cost. Also, the value of its earnings capacity upon which its capitalization rated diminishes more and more. Eventually, this class of debtors is prevented from meeting its obligations through its current earnings in order to transfer the wealth from the debtor business side to the creditor business side. It is the other way of taking advantage of the values under such conditions for creditor business community. Briefly, the shortsightedness of businessmen makes them not to see the instability of money values and not to allow them to lessen the severe liquidation when it has reached the due.

On the other hand, industrial depression is mainly business oriented. A depression is primarily felt from business side of the economy since it is much more sensible to economic activities. And it is measured in business (monetary) terms. A disorder in the mechanical process in industry stems from the pecuniary concerns of business community. Depression and industrial stagnation occurs solely under the situation when the pecuniary interests are disturbed in an undesired way within the running of the business community, for example, with a disturbance on its vital motive of profit. Industrial depression implies that the business community does not see future to obtain a satisfactory gain from investments in the industrial process[31].

Another depression scenario[32] is that a low or declining rate of interest is effective in the way of depressing the business situation. Nevertheless, he assures that a depression may go on with other forces, without the low interest rate, and the explanation based on low interest rates is not certain. To Veblen, this argument would be convincing only on the assumption of progressively falling rate of interest, a condition not usually faced in a prolonged era of depression. That is, a discrepancy between accepted capitalized value of the industrial plant by business community and the real value of those based on the current earning capacity of them has a progressive feature, arises under modern conditions beyond falling rate of interest, particularly from continual progress in technology. So, through ever-increasing efficiency and hence ever-decreasing cost within different sectors of the industrial system through time, the new investment or the expansion of old investment competes for the emerging differential advantage which is

[31] Veblen, 1936, p. 213.
[32] Veblen, 1936, p. 221-230.

arising from the decreasing costs in sectors benefited from technological progress. This dynamic process repeats emerging for different sectors of the industrial system each time, and each process continues some period until the differential advantage stems from technological progress disappears in the relevant sectors, and then the next period runs with a new technological progress for some other sectors, and so on.

As a consequence, to Veblen[33], a fair rate of profits on industrial investments is not always guaranteed in the open competition. However, since the businessman's reputation in his community rests upon the monetary value of his property and transactions, not on the real value of those, he always resists against the falling of the monetary value of his property, so that it tends reluctantly to decline. Therefore, the discrepancy between the capitalized value of property in pecuniary term and the real earning capacity of that is chronic as long as any exogenous disturbance temporarily destroys the business trend. In this respect, chronic depression is ordinary fact to business under the fully developed order of the machine industry. Then, the problem of business is essentially related to price. A decline of prices that largely influences the pecuniary interests of business community brings depression. Conversely, a substantial rise in prices for any reason implies improvement in business transactions. Such a rise in prices may come from a speculative action, which may arise from various conditions, mostly exogenous to the industrial process.

Furthermore, Veblen (1936) argues that the depression is principally an emotional phenomenon regarding business community. The stagnation period in business transactions coincides with the stagnation period in industrial activities, of course, but the annual output does not usually vary much between the expansion era and the stagnation era, except as measured in price. So, real output on average does not fluctuates from its normal trend during the periods of a prolonged depression and succeeding expansion. In his words[34],

> "The volume of business as well as the volume of output ... of industry may increase during a few years of depression at nearly ... as during a corresponding period of good times. A transition from dull to brisk times, however, commonly involves a rapid rise in values, while a converse transition involves a corresponding shrinkage of values, through commonly a slower shrinkage."

In this sense, any proposed cure must rest upon such psychological basis of the problem and fix the balance between the nominal value of the business capital and the real earnings capacity of that. That is, a policy must stabilize the profits at a fair rate, so that prices must rise to the level on which the accepted capitalization by the business community has been made. Such an option encourages the business community to gathering under the

33 Veblen, 1936, p. 233-235.
34 Veblen, 1936, p. 239.

coalition for common interests, and hereby to regulating of prices and production process for constrained output level[35].

Furthermore, according to Veblen[36], the phenomenon experienced in the period between 1816 and 1873 at the first instance does not seem as a chronic depression. The ordinary cycle instead of that appears to follow sequentially inflation, crisis, transitory depression, gradual progress to inflation, and so on. However, when the measured cycles are corrected for the transitory disturbances exogenous to the industrial system, in that period, the usual order has been indeed determined as a chronic depression. Essentially, the technological progress in machine industry has made chronic depression as an ordinary case in modern business, given the habits of human considering the pecuniary emulation of business community[37].

4. SUMMARY AND CONCLUSION

The theory of business cycles in view of Thorstein Veblen principally emerges from the ever-changing institutions, and the dynamic interaction among them through time, based upon the evolutionary change theory of Spencer-Darwin. In particular, the technological institutions activate the relation, and then the ceremonial institutions, after some time lag, follow it, by encouraging the technological ones. In other words, the permanent progress of technology in the industrial process has continuously changed the circumstances upon which the human culture has been founded, and after some time the conditions dominate the ordinary life of community urging the community to change its technological institutions initially; however, ceremonial institutions have sluggishly changed following such cultural advance of society.

Indeed, the origin of this active relationship hinges chiefly on the instinct of human being. Habits and tendencies of a person have been influenced by economic, material, and social conditions surrounding him in his community. Even though a person initially resists against the change in those conditions, after his community changed the norms and every day life, on average, he tends to modify his habits based on that criterion. The only non-changing motivation of individual, which has always forced him to the ever-change, is the pecuniary emulation, and thus the ownership instinct. The proofs of those instincts have been always observed in some varying shapes through the human history. The instinct of workman is to produce efficiently more in quantity and quality in order to emulate his community because his primary concern is to maintain his subsistence, and thus only that esteem is open to him.

On the other hand, the instinct of businessman is, in a major extent, the pecuniary emulation. This (leisure) class of people, who have been

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[35] Veblen, 1936, p. 241-242.
[36] Veblen, 1936, p. 248-253.
[37] Veblen, 1936, p. 264.

enjoyed with wasting the surplus transferred from the output of society (conspicuous consumption) by wasting effort and time within unproductive activities (conspicuous leisure), have felt being privileged in his community by demonstrating his power which have maintained to support those esteems. The vital way and means of this pecuniary emulation to him is to permanently accumulate his monetary wealth. This psychological fact has encouraged the business community to compete for a reasonable and stable gain. The businessmen can simply obtain it from the price of output above the cost of its production. However, in the modern price system it is difficult to maintain such a balanced profit for competitive business concerns because of the short-sighted businessmen.

Thus, in a closely interdependent industrial system of recent machine industry, any disturbance rapidly spreads over the entire system. The initial disturbance can raise from any technological progress in some sectors of the industrial system, this dynamic and ceaseless progress can occur in different sectors in different times, and since it always changes the efficiency and hence the cost of output, it always causes a differential gain in different sectors for some time, until it is eliminated by the relevant dynamic status of the modern industrial system.

Moreover, the creditors exploit the situation by expanding their credits to them under the sound conditions. Indeed, they make their credit contracts based upon the current earning capacity of industrial wealth, but when the creditor businessmen feel that the mass of debt is piled excessively up and their maturities are close to the due, and that thus the new current earnings capacity of them exceeds the initial real capitalized value, they call in the debtors to repayment. Furthermore, the creditors' pressure on debtors brings about selling of their outputs under the cost of them, and the bankruptcy of some of them. Eventually, the whole system goes to a period of depression. Then, a succeeding period of expansion can again start with a favorable disturbance of price and develops, and the cycles continue in such a way.

In conclusion, following Veblen's arguments, basically the recent economic crises experienced in Turkey as well as in certain countries have in fact initiated in financial markets and in turn spread all over the real markets. Financial institutions have perceived the debt burden of government and private sector entrepreneurs are so excessive to sustain under the proceeding price-market conditions. So, they have revised the accounts of their debtors by lowering the expected rate of returns and hence the market values of their material wealth. In turn, the creditors have cut off new credits to and called in repayment from their debtors. Since business community could not sell the products at a reasonable price and hence could not repay the credits, they could not benefit from the new ones, so that they have had to decline the production and sell their properties as well at a market price much lower than their costs to repay their credits. This process would continue until the debt burden in the economy would decline to a sustainable level and so would do the uncertainty and risk levels of both financial and real sectors. Then, the creditors would set off revise their costumers' accounts by rising their expected returns and collaterals with new credit contracts, and hence the economy would transit into an expanding cycle.

In brief, the situation of an economic crisis is nothing than the fact that the market value of all material wealth is at the bottom line due to the unsustainable debt burden perceived by the creditors whose behaviors are specifically formed by an adverse innovation, such as a technological shock, to the market. Indeed, physical magnitude of material wealth has not changed at all, whereas the employment rate of those along with labor and following them production have substantially declined for a transitory period of time.

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