

THE THEORY OF BUSINESS ENTERPRISE

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PREFACE

IN respect of its point of departure, the following inquiry into the nature, causes, utility, and further drift of business enterprise differs from other discussions of the same general range of facts. Any unfamiliar conclusions are due to this choice of a point of view, rather than to any peculiarity in the facts, articles of theory, or method of argument employed. The point of view is that given by the business man's work,—the aims, motives, and means that condition current business traffic. This choice of a point of view is itself given by the current economic situation, in that the situation plainly is primarily a business situation.

A much more extended and detailed examination of the ramifications and consequences of business enterprise and business principles would be feasible, and should give interesting results. It might conceivably lead to something of a revision (modernization) of more than one point in the current body of economic doctrines. But it should

apparently prove more particularly interesting if it were followed up at large in the bearing of this modern force upon cultural growth, apart from what is of immediate economic interest. This cultural bearing of business enterprise, however, belongs rather in the field of the sociologist than in that of the professed economist; so that the present inquiry, in its later chapters, sins rather by exceeding the legitimate bounds of economic discussion on this head than by falling short of them. In extenuation of this fault it is to be said that the features of general culture touched upon in these chapters bear too intimately on the economic situation proper to admit their being left entirely on one side.

Of the chapters included in the volume, the fifth, on Loan Credit, is taken, without substantial change, from Volume IV of the *Decennial Publications* of the University of Chicago, where it appears as a monograph.

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CHAPTER I

INTRODUCTORY

THE material framework of modern civilization is the industrial system, and the directing force which animates this framework is business enterprise. To a greater extent than any other known phase of culture, modern Christendom takes its complexion from its economic organization. This modern economic organization is the "Capitalistic System" or "Modern Industrial System," so called. Its characteristic features, and at the same time the forces by virtue of which it dominates modern culture, are the machine process and investment for a profit.

The scope and method of modern industry are given by the machine. This may not seem to hold true for all industries, perhaps not for the greater part of industry as rated by the bulk of the output or by the aggregate volume of labor expended. But it holds true to such an extent and in such a pervasive manner that a modern industrial community cannot go on except by the help of the accepted mechanical appliances.

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and processes. The machine industries — those portions of the industrial system in which the machine process is paramount — are in a dominant position; they set the pace for the rest of the industrial system. In this sense the present is the age of the machine process. This dominance of the machine process in industry marks off the present industrial situation from all else of its kind.

In a like sense the present is the age of business enterprise. Not that all industrial activity is carried on by the rule of investment for profits, but an effective majority of the industrial forces are organized on that basis. There are many items of great volume and consequence that do not fall within the immediate scope of these business principles. The housewife's work, *e.g.*, as well as some appreciable portion of the work on farms and in some handicrafts, can scarcely be classed as business enterprise. But those elements in the industrial world that take the initiative and exert a far-reaching coercive guidance in matters of industry go to their work with a view to profits on investment, and are guided by the principles and exigencies of business. The business man, especially the business man of wide and authoritative discretion, has become a controlling force in industry, because, through the mechanism of investments and markets, he controls the plants and processes, and these set the pace and determine

the direction of movement for the rest. His control in those portions of the field that are not immediately under his hand is, no doubt, somewhat loose and uncertain; but in the long run his discretion is in great measure decisive even for these outlying portions of the field, for he is the only large self-directing economic factor. His control of the motions of other men is not strict, for they are not under coercion from him except through the coercion exercised by the exigencies of the situation in which their lives are cast; but as near as it may be said of any human power in modern times, the large business man controls the exigencies of life under which the community lives. Hence, upon him and his fortunes centres the abiding interest of civilized mankind.

For a theoretical inquiry into the course of civilized life as it runs in the immediate present, therefore, and as it is running into the proximate future, no single factor in the cultural situation has an importance equal to that of the business man and his work.¹

¹ "Dem unbeteiligten Beobachter drängt sich die Erkenntniss auf, dass in dem Phänomen des Handels [here equivalent to "business"] ein entscheidender allgemeiner Gedanke enthalten und eine der mächtigsten Thatsachen der Geschichte gegeben ist, mit der jede Zeit gezwungen wird, sich wohl oder übel abzufinden. . . . Der Handel ist in folgerichtiger und unaufhaltsamer Entwicklung das führende Gewerbe geworden. Es ist für die anderen Gewerbe ein völlig aussichtsloser Versuch, ihn zu hemmen und durch Zwangsmittel in seine 'dienende Stellung' zurückzudrängen."—K. Th. Reinhold, *Arbeit und Werkzeug*, pp. ix, x.

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This of course applies with peculiar force to an inquiry into the economic life of a modern community. In so far as the theorist aims to explain the specifically modern economic phenomena, his line of approach must be from the business man's standpoint, since it is from that standpoint that the course of these phenomena is directed. A theory of the modern economic situation must be primarily a theory of business traffic, with its motives, aims, methods, and effects.

CHAPTER II

THE MACHINE PROCESS

IN its bearing on modern life and modern business, the "machine process" means something more comprehensive and less external than a mere aggregate of mechanical appliances for the mediation of human labor. It means that, but it means something more than that. The civil engineer, the mechanical engineer, the navigator, the mining expert, the industrial chemist and mineralogist, the electrician,—the work of all these falls within the lines of the modern machine process, as well as the work of the inventor who devises the appliances of the process and that of the mechanic who puts the inventions into effect and oversees their working. The scope of the process is larger than the machine.¹ In those branches of industry in which machine methods have been introduced, many agencies which are not to be classed as mechanical appliances, simply, have been drawn into the process, and have become integral factors in it. Chemical properties of minerals, *e.g.*, are counted on in the carrying out of metallurgical processes with much the same

¹ Cf. Cooke Taylor, *Modern Factory System*, pp. 74-77.

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certainty and calculable effect as are the motions of those mechanical appliances by whose use the minerals are handled. The sequence of the process involves both the one and the other, both the apparatus and the materials, in such intimate interaction that the process cannot be spoken of simply as an action of the apparatus upon the materials. It is not simply that the apparatus reshapes the materials; the materials reshape themselves by the help of the apparatus. Similarly in such other processes as the refining of petroleum, oil, or sugar; in the work of the industrial chemical laboratories; in the use of wind, water, or electricity, etc.

Wherever manual dexterity, the rule of thumb, and the fortuitous conjunctures of the seasons have been supplanted by a reasoned procedure on the basis of a systematic knowledge of the forces employed, there the mechanical industry is to be found, even in the absence of intricate mechanical contrivances. It is a question of the character of the process rather than a question of the complexity of the contrivances employed. Chemical, agricultural, and animal industries, as carried on by the characteristically modern methods and in due touch with the market, are to be included in the modern complex of mechanical industry.¹

¹ Even in work that lies so near the fortuities of animate nature as dairying, stock-breeding, and the improvement of crop plants,

No one of the mechanical processes carried on by the use of a given outfit of appliances is independent of other processes going on elsewhere. Each draws upon and presupposes the proper working of many other processes of a similarly mechanical character. None of the processes in the mechanical industries is self-sufficing. Each follows some and precedes other processes in an endless sequence, into which each fits and to the requirements of which each must adapt its own working. The whole concert of industrial operations is to be taken as a machine process, made up of interlocking detail processes, rather than as a multiplicity of mechanical appliances each doing its particular work in severalty. This comprehensive industrial process draws into its scope and turns to account all branches of knowledge that have to do with the

a determinate, reasoned routine replaces the rule of thumb. By mechanical control of his materials the dairyman, *e.g.*, selectively determines the rate and kind of the biological processes that change his raw material into finished product. The stock-breeder's aim is to reduce the details of the laws of heredity, as they apply within his field, to such definite terms as will afford him a technologically accurate routine of breeding, and then to apply this technological breeding process to the production of such varieties of stock as will, with the nearest approach to mechanical exactness and expedition, turn the raw materials of field and meadow into certain specified kinds and grades of finished product. The like is true of the plant-breeders. Agricultural experiment stations and bureaus, in all civilized countries, are laboratories working toward an effective technological control of biological factors, with a view to eliminating fortuitous, disserviceable, and useless elements from the processes of agricultural production, and so reducing these processes to a calculable, expeditious, and wasteless routine.

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material sciences, and the whole makes a more or less delicately balanced complex of sub-processes.¹

Looked at in this way the industrial process shows two well-marked general characteristics: (a) the running maintenance of interstitial adjustments between the several sub-processes or branches of industry, wherever in their working they touch one another in the sequence of industrial elaboration; and (b) an unremitting requirement of quantitative precision, accuracy in point of time and sequence, in the proper inclusion and exclusion of forces affecting the outcome, in the magnitude of the various physical characteristics (weight, size, density, hardness, tensile strength, elasticity, temperature, chemical reaction, actinic sensitiveness, etc.) of the materials handled as well as of the appliances employed. This requirement of mechanical accuracy and nice adaptation to specific uses has led to a gradual pervading enforcement of uniformity, to a reduction to staple grades and staple character in the materials handled, and to a thorough standardizing of tools and units of measurement. Standard physical measurements are of the essence of the machine's régime.²

The modern industrial communities show an unprecedented uniformity and precise equivalence in legally adopted weights and measures. Some-

¹ Cf. Sombart, *Moderne Kapitalismus*, vol. II. ch. III.

² Cf. *Twelfth Census* (U.S.): "Manufactures," pt. I. p. xxxvi.

thing of this kind would be brought about by the needs of commerce, even without the urgency given to the movement for uniformity by the requirements of the machine industry. But within the industrial field the movement for standardization has outrun the urging of commercial needs, and has penetrated every corner of the mechanical industries. The specifically commercial need of uniformity in weights and measures of merchantable goods and in monetary units has not carried standardization in these items to the extent to which the mechanical need of the industrial process has carried out a sweeping standardization in the means by which the machine process works, as well as in the products which it turns out.

As a matter of course, tools and the various structural materials used are made of standard sizes, shapes, and gauges. When the dimensions, in fractions of an inch or in millimetres, and the weight, in fractions of a pound or in grammes, are given, the expert foreman or workman, confidently and without reflection, infers the rest of what need be known of the uses to which any given item that passes under his hand may be turned. The adjustment and adaptation of part to part and of process to process has passed out of the category of craftsmanlike skill into the category of mechanical standardization. Hence, perhaps, the greatest, most wide-reaching gain in productive celerity and

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efficiency through modern methods, and hence the largest saving of labor in modern industry.

Tools, mechanical appliances and movements, and structural materials are scheduled by certain conventional scales and gauges; and modern industry has little use for, and can make little use of, what does not conform to the standard. What is not competently standardized calls for too much of craftsmanlike skill, reflection, and individual elaboration, and is therefore not available for economical use in the processes. Irregularity, departure from standard measurements in any of the measurable facts, is of itself a fault in any item that is to find a use in the industrial process, for it brings delay, it detracts from its ready usability in the nicely adjusted process into which it is to go; and a delay at any point means a more or less far-reaching and intolerable retardation of the comprehensive industrial process at large. Irregularity in products intended for industrial use carries a penalty to the nonconforming producer which urges him to fall into line and submit to the required standardization.

The materials and moving forces of industry are undergoing a like reduction to staple kinds, styles, grades, and gauge.¹ Even such forces as would

¹ *E.g.* lumber, coal, steel, paper, wool and cotton, grain, leather, cattle for the packing houses. All these and many others are to an increasing extent spoken for, delivered, and disposed of under well-defined staple grades as to quality and dimensions, weight and efficiency.

seem at first sight not to lend themselves to standardization, either in their production or their use, are subjected to uniform scales of measurement; as, *e.g.*, water-power, steam, electricity, and human labor. The latter is perhaps the least amenable to standardization, but, for all that, it is bargained for, delivered, and turned to account on schedules of time, speed, and intensity which are continually sought to be reduced to a more precise measurement and a more sweeping uniformity.

The like is true of the finished products. Modern consumers in great part supply their wants with commodities that conform to certain staple specifications of size, weight, and grade. The consumer (that is to say the vulgar consumer) furnishes his house, his table, and his person with supplies of standard weight and measure, and he can to an appreciable degree specify his needs and his consumption in the notation of the standard gauge. As regards the mass of civilized mankind, the idiosyncrasies of the individual consumers are required to conform to the uniform gradations imposed upon consumable goods by the comprehensive mechanical processes of industry. "Local color," it is said, is falling into abeyance in modern life, and where it is still found it tends to assert itself in units of the standard gauge.

From this mechanical standardization of consumable goods it follows, on the one hand, that the

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demand for goods settles upon certain defined lines of production which handle certain materials of definite grade, in certain, somewhat invariable forms and proportions; which leads to well-defined methods and measurements in the processes of production, shortening the average period of "ripening" that intervenes between the first raw stage of the product and its finished shape, and reducing the aggregate stock of goods necessary to be carried for the supply of current wants, whether in the raw or in the finished form.¹ Standardization means economy at nearly all points of the process of supplying goods, and at the same time it means certainty and expedition at nearly all points in the business operations involved in meeting current wants. Besides this, the standardization of goods means that the interdependence of industrial processes is reduced to more definite terms than before the mechanical standardization came to its present degree of elaborateness and rigor. The margin of admissible variation, in time, place, form, and amount, is narrowed. Materials, to answer the needs of standardized industry, must be drawn from certain standard sources at a definite rate of supply. Hence any given detail industry depends closely on receiving its supplies from certain,

¹ Well shown in the case of wheat and flour; but the like is true as regards the stocks of other commodities carried by producers, jobbers, retailers, and consumers.