
Veblen and the early financialisation

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Abstract

This paper examines the work of Veblen associating their insights with the process of financialisation. First, we underline the relevance of their analyses on studying the current period of financialisation, i.e., the neoliberal era. Second, we use their analytical framework to demonstrate that the period between 1900 and 1933 corresponded to a phase of early financialisation, since similar conditions prevailed then and now. We give particular emphasis on how financial interests and motives shaped policy decisions and altered firms' behaviour. In the Veblenian analysis, financialisation can be identified in the context of the evolution of capital, which he perceives as a process of institutional change. In particular, he focused on the macroeconomic outcomes stemming from the evolution of the institutional structure of the firm sector. The rise of finance, evident in the late 19th and early 20th century, was the outcome of the institutional change of the firm which evolved from being industrial enterprise to becoming business enterprise. In this transformation, the linkages between the real and the financial side of the economy hold a prominent role. In this chapter, we focus on a number of financialisation's features which Veblen considered as endogenous processes in the evolution of the capitalist economy. These features include the dominance of the financial sector over production, the shareholder value orientation, the level of income inequality, and the inclination to financial collapse. Veblen's analysis echoes the way that finance penetrated into the domain of the firm structure through a process of institutional change. For Veblen, several aspects of financialisation, such as the dominion of financial decisions over real production, the shareholder value orientation, income and wealth inequality, and financial instability, are not mere constituents of the overall process of financialisation but constitute a closely interdependent and interconnected system, present in the early phase of financialisation.

Keywords: Financialisation, Veblen, Crisis

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