

A Critique of International Development Based on the Institutional  
Analysis of Thorstein Veblen

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Abstract:

Veblen's warnings of the tendency for pecuniary interests to gain at the expense of the instinct for workmanship, and for the dynastic state to gain at the expense of the "common man," have borne-out over the past 50 years of international development. This paper applies Veblen's institutional and evolutionary concepts to international development institutions and proposes that these institutions should be abolished because they have become, "an obstruction to industry and a means for impoverishment."

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# A Critique of International Development Based on the Institutional Analysis of Thorstein Veblen

“To the modern scientist the phenomena of growth and change are the most  
obtrusive and most consequential facts observable in economic life”  
- Thorstein Veblen (1857-1929)<sup>1</sup>

## I

This paper is critical of the modern institutions of international economic development; those institutions created by the victor nation-states after the perceived success of the Marshall Plan reconstruction of Europe after World War II. The paper first describes the founding and some of the operations of these institutions, then attempts to show that the current institutional constructs are counter to the evolution of organic industrial institutions in the modernizing world. Thorstein Veblen’s writings on evolutionary theory, and warnings of a movement towards pecuniary interests at the expense of the human instinct towards workmanship, of the tendency for the dynastic state and vested interests to gain at the expense of the “common man” in

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<sup>1</sup> Mitchell (1947 [1936]), p. 153.

economic policy, and the notion that institutions can outlive their usefulness, have all borne-out over the past 50 years of international economic development. The paper applies Veblen's institutional and evolutionary concepts to international development institutions and argues that these institutions should be abolished because they have become, as Veblen predicted, "an obstruction to industry and a means for impoverishment."<sup>2</sup>

## II

The development "business"<sup>3</sup> began with the creation of the set of institutions devoted specifically to the development of "poor"<sup>4</sup> countries. The Bretton Woods Agreements in 1944 created the World Bank and the International Monetary Fund. After the Marshall Plan (1947–1953), the United States created the Agency for International Development (USAID) in 1961. France's aid program began under the Ministry of Cooperation in

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<sup>2</sup> Dobriansky (1957), p. 359.

<sup>3</sup> Veblen uses the term "business" to describe institutions with pecuniary-only interests, as opposed to "industry" which creates material wealth.

<sup>4</sup> Instead of the taxonomy of "rich" and "poor," this paper uses "donor" for countries giving foreign assistance (aid) and "recipient" for those receiving aid.

1961. Japan's foreign assistance began in 1954 and the first Japanese aid agency was founded in 1962. German foreign assistance became part of the national budget in 1955 and has been implemented by the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) since 1975. The U.K. established the Department of Technical Co-operation in 1961 and the current Department for International Development (DFID) in 1997.

Supranational coordination of bilateral aid began in 1960 with the creation of the Development Assistance Committee (DAC) within the Organization for Economic Cooperation and Development (OECD). The DAC has established guidelines for peer-review, classifying foreign aid by donor nations and accounting for development statistics.

It should be emphasized, which is an underlying thesis of this paper, that development institutions were formed through government fiat; they were not formed through indigenous cultural interaction. Thus the institutions of development are not, per Veblen's notion of institutions, "indispensable by habituation and general acceptance"<sup>5</sup>, and per Dobriansky's interpretation of Veblenism, like "so many durable patterns of social action that are

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<sup>5</sup> Dobriansky (1957), p. 219.

interwoven by various patterns of social existence.” Development institutions are *external* to social existence, forced upon society from above, like the institutions of imperialism from which they proceed. They are subject to the norms of behavior of governmental institutions<sup>6</sup>, not cultural or industrial institutions<sup>7</sup>. However, by being a part of the social fabric of recipient countries for 50 years, they have become that fabric – part of the psychological make-up of the peoples of recipient countries - to the detriment of their host society’s organic evolution and material advancement.

### III

In 2005 (for 2003 activity) the DAC reported 22 donor nations giving a total of \$54 billion to 103 recipient nations.<sup>8</sup> The *Top Ten Donors* are the United States (\$16 billion divided by \$54 billion or 30% of the total), France (12% of \$54 billion), Japan (11%), Germany (10%), the United Kingdom (9%),

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<sup>6</sup> For more on “public choice theory” see for example McNutt (2002).

<sup>7</sup> For more on the “market process” see for example Mises (1985 [1927]).

<sup>8</sup> Data in this paper taken from The World Bank (2005).

the Netherlands (6%), followed by Sweden, Norway, Belgium and Canada.

The *Top Ten Recipients* for 2003 are the Democratic Republic of Congo, Iraq, Vietnam, Indonesia, Tanzania, Afghanistan, Ethiopia, Bangladesh, China and Serbia and Montenegro.

The World Bank issues approximately 20,000 contracts with a total value of about \$20 billion each year.<sup>9</sup> USAID issues approximately 4500 contracts and grants for about \$4 billion per year, has a Private Voluntary Organization registry of more than 500 organizations and partnerships with more than 200 U.S. colleges and universities from 40 (of the 50) U.S. states.<sup>10</sup> Thus, the “business” of development is far-reaching; from the World Bank, the International Monetary Fund, the regional development banks, the government agencies of both donor and recipient nations, to the contractors, grantees and research institutions and individuals who implement and evaluate the aid programs and development lending.

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<sup>9</sup> From: <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/>.

<sup>10</sup> From: USAID.gov.

## IV

Mainstream development economics has drawn many conflicting conclusions over the years. Recently, it has been argued that orthodox market liberalization under the aegis of international development institutions has increased inequality in the recipient countries (Cornia 1999) and that the Washington Consensus is hypocritical because the donor countries developed through infant industry programs and other protectionist policies which are counter to that called for under orthodox development strategies (Chang 2005). On the other hand, it has been proposed that economic development programs have increased growth in recipient countries by funding public goods that host governments might not be able to (Reddy 2006), and that development assistance needs to be increased, with policy conditionality removed, in order to have more steady and assured sources of funding for recipient governments and therefore better development impact (Weeks 2006).

The remainder of this paper argues that questions surrounding the amount of aid and the purposes for which aid is used are not the questions to be asked.

The question is, why the institutions of aid?

It is no accident that we list the *Top Ten Donors* and the *Top Ten Recipients* in the same way that a football league lists its winning teams. Thorstein Veblen (1904) wrote of the tendency for nation-states to devolve into sportsmanship-like conduct, with patriotism being a substitute for skill and workmanship.

The patriotic spirit is a spirit of emulation, evidently, at the same time that it is emulation shot through with a sense of solidarity. It belongs under the general caption of sportsmanship, rather than workmanship. Now, any enterprise in sportsmanship is bent on an invidious success, which must involve as its major purpose the defeat and humiliation of some competitor, whatever else may be composed its aim...; and the emulative spirit that comes under the head of patriotism commonly, if not invariably, seeks this differential advantage by injury of the rival rather than by an increase of home-bred well-being.<sup>11</sup>

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<sup>11</sup> Veblen ([1904] 1958), p. 33. In addition, Dowd (2000) writes that “the instinct of sportsmanship, then, or the exploitative instinct, is a predatory inclination, setting man



Our donor and recipient institutions have become like these sports teams, dressed in the uniforms of the “business” of international economic development, especially the World Bank, the IMF and the bilateral development programs. The institutions, and the people within these institutions, have become ‘captured’ by the constructs created at Bretton Woods and which developed and solidified during the Cold War.<sup>12</sup> These institutions have outlived their time and place, in fact, have now become a hindrance to the economic well-being of the peoples the aid programs are intended to help. The development industry offers only “the defeat and humiliation” of the world’s poor by dressing them in the uniforms of the nation-state “game” of development.

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against man in a relationship of parasitism. This must be compared with the constructive instincts which are cooperative in their general application. The state, the military and the church are all buttressed by the predatory instincts, with patriotism and religious belief acting to preserve the existing order...which, consciously or not combined, to extract a toll – in the fashion of medieval robber barons – from the common man,” p. 21.

<sup>12</sup> It could be argued that the development institutions were created to buy the influence of developing countries for political alliance with the West instead of the USSR.

However, the Cold War has been over now for more than 15 years.

## VI

Development is the politics of nation-states. Donors and recipients by definition are related through a contractual basis in agreements between nations. Where is Veblen's "common man" in this construct of development? Does development seek to improve the welfare of people or to create and perpetuate status-quo political ties amongst nations? According to Wesley Clair Mitchell when writing about Veblen's methodology, "As individuals we find our places either in the 'kept classes' or among 'the underlying population' – and either ranking makes us wince."<sup>13</sup> The international development "business" and the host country general population serve here as proxies for Veblen and Mitchell's notion of the relationship between the government elite and the common man. The development elite, whether knowingly or unknowingly, consciously or unconsciously, perpetuates Veblen's ranking, dividing peoples.

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<sup>13</sup> "Mitchell on Veblen," in Speigel, ed. (1952), p. 386.

## VII

In *The Instinct of Workmanship* Veblen (1914) wrote of the “bias towards effective work and revulsion against futile effort.”<sup>14</sup> The international development “business”, it is proposed, has placed an artificial hindrance on these instincts through the continued failure of many development programs<sup>15</sup> and the in-country perpetuation of these institutions of failure which crowd-out more successful and indigenously-hewn institutions. Gustav von Schmoller of the German Historical School of Economics wrote, “human institutions are not the product of rational deliberations but that they grow unnoticeably out of the national characteristics of a people.”<sup>16</sup> This, obviously, cannot be said of the origination of the World Bank, the IMF and donor country bilateral aid agencies.

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<sup>14</sup> Dobriansky (1957), p. 259.

<sup>15</sup> The failure of development programs can be seen through the very few numbers of countries graduating from recipient status, this is especially true for those countries in Africa.

<sup>16</sup> “Schmoller on Roscher,” in Speigel, ed. (1952), p. 367.

Wesley Claire Mitchell, Veblen's student, wrote of another first generation American institutionalist, John Commons, who,

Accorded a supreme attentiveness to the institutions contrived by workmen without the aid of mentors from those of high social stations [and what is the development industry but a form of international diplomacy?] and education – institutions such as trade unions, cooperative buying clubs, cooperative workshops and the like. He [Commons] rejoiced in tracing the steps of unlettered statesman whereby these movements laid stable foundations under these organizations by method of trial and error. And as a student of such movements he knew how incompatible such creativeness from below was with external domination by employers, messianic intellectuals, or government. To Commons the workingmen were not building blocks out of which a jealous deity called “History” was to shape the architecture of the new society, but beings with legitimate ambitions for higher standards of living and more dignity in their lives”.<sup>17</sup>

The instinct for dignity and material progress cannot be fulfilled through

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<sup>17</sup> “Mitchell on Veblen,” in Speigel, ed. (1952), p.406.

pecuniary transfers from development institutions driven by the political and economic policies of nation-states. Thorstein Veblen (1934) wrote that in fact there may not be a role at all for the nation-state in a society oriented toward workmanship, or, towards the improvement of material-being through industrialization.

As an industrial unit, the nation-state is out of date...Life and material well-being are bound up with the effectual working of the industrial system; and the industrial system is of an international character - or it should perhaps be said that it is of a cosmopolitan character, under an order of things in which the nation has no place or value.<sup>18</sup>

The international development institutions have taken the place of freely evolving local institutions where man's natural instincts for self-betterment in their communities can take hold and flourish and where commercial institutions and commerce-enhancing institutions can arise internally and organically as appropriate.

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<sup>18</sup> Veblen (1934), pp. 388-89.

## VIII

We have seen from Schmoller and Commons that the economic institutions formed and which belong in history are those of their own making, driven to the fore through man's own ambitions, not from above by his 'betters'.

Recipient states, especially in Africa, have not had the opportunity to "modernize", to create modern institutions, on their own historic trajectories due to the overlay of development institutions on their histories.

We have seen from Veblen that mankind has instincts for self-betterment and workmanship, for productivity and the avoidance of futility. It is only when natural instincts are free to be exercised that old institutions are allowed to pass into new ones, building upon what has come before.

Inorganic and inflexible government institutions may be restrictive, may be "fetters" preventing progress. Institutions which are grounded in legislation or in international treaty – which are not subject to reform through free-association and evolution - may not have historically-evolving life-spans. It may be that only their destruction, not their reform, is possible.

Thorstein Veblen (1904),

It is the fortune even of good institutions to become imbecile with the change of conditioning circumstances, and it then becomes a question of their disestablishment, not of their rehabilitation. If there is anywhere a safe negative conclusion, it is that an institution grown mischievous by obsolescence need not be replaced by a substitute...A man who loses a wart off the end of his nose does not apply to the Ersatz bureau for a convenient substitute.<sup>19</sup>

## IX

This paper has attempted to show that international development has become a “business”, one of a pecuniary, not a workmanship, nature. Using Thorstein Veblen’s institutional and evolutionary analysis as applied to international economic development, especially the concepts of organic evolution, the instincts for betterment, and nation-state sportsman-like tendencies arising as a substitute for material improvement, this paper has argued that the current institutions of international development have

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<sup>19</sup> Veblen ([1904] 1958), pp.215-216.

outlived their time and place. Mitchell (1936) wrote, “Looking over the modern world, Veblen marked a difference between industrial and pecuniary employments, that is, between the work of making goods and the work of making money”.<sup>20</sup> This, in a nutshell, is the difference between economic development and the international development “business”. Mitchell (1936) also writes, Veblen’s “fundamental criticism is that economists have asked the wrong questions.”<sup>21</sup> This paper is one attempt to ask the right ones.

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<sup>20</sup> Mitchell (1947 [1936]), p. xxxvii.

<sup>21</sup> Mitchell (1947 [1936]), p xxiii.



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