

ENTREPRENEURIAL ACTIVITIES IN A VEBLENIAN TYPE TRANSITION ECONOMY

by Anastassios D. Karayiannis* and Allan E. Young**

Abstract

In this paper we apply a Veblenian analysis to the development of specific entrepreneurial opportunities in the highly adverse world of present day transition economies. First, we utilize a Veblenian understanding of the nature of the institutional changes currently underway in these economies in order to see what light this can shed upon the transition process. We then seek to identify particular entrepreneurial opportunities in the production sector of transition economies that flow from the above Veblenian analysis. Additional entrepreneurial venture possibilities in the consumption and service sectors of transition economies that arise from a Veblenian perspective are then developed. Some cautionary public policy notes are also offered.

Introduction

In this paper a Veblenian analysis will be utilized in order to better understand economies currently in transition from a communist-socialist (command) planned mode to a more market-based economic system. Veblen held that through the introduction of new economic institutions both the production and consumption sectors would be readjusted: "There are two lines of agency visibly at work shaping the habits of thought of the people in the complex movement of readjustment and rehabilitation. . . . These are the received schemes of use and want, and the new state of the industrial arts" (1915, p. 72). Looking at the modern world, Veblen would have thought that economic transition would give rise to various entrepreneurial profit generating opportunities related to the production, consumption and service sectors of the economy. In this paper we will investigate some institutional and economic variables which, according to Veblen, would result not only in viable entrepreneurial activities and strategies, but also enlarge the extent of potentially profitable ventures. Veblen's statement, "A theory of the modern economic situation must be primarily a theory of business traffic, with its motives, aims, methods, and effects" (1904, p. 4), helps to explain our analysis of transition economies. In other words, the main focus of the

present paper is to develop a Veblenian analytical framework for entrepreneurship in transition economies.

In the first section we analyze the newly emerging institutions of transition that cause drastic changes in motives, behavioral patterns and habits of individuals. The next section details various profit opportunities and relevant economic activities that emerge in the production sector, while the third section analyzes the relevant phenomena in the consumption and service sectors of economies in transition. Conclusions are briefly offered in the final section along with a cautionary note. In general, using a Veblenian analysis, we attempt to detail the socio-economic variables of the transition process which influence not only the direction of various entrepreneurial functions and strategies, but also extend the available profit opportunities and strengthen competition and economic development.

I. Institutional Changes in Transition Economies

Veblen's analysis of European economies in transition from feudalism and mercantilism toward industrialization offers a number of similes to significant changes that are currently taking place in present day transition economies. In essence, the institutional alterations that are now operative in

* University of Piraeus

** Syracuse University

modern day transition economies, particularly institutions supportive of the ownership and use of private property, are much illuminated through a Veblenian style analysis. Veblen advanced that significant institutions, namely the "prevalent habits of thought with respect to particular relations and particular functions of the individual and the community" (1899, p. 190), are constantly changing, especially through the emergence of new states of science, economies, organizational structures, etc.¹ The mere condition of economic transition not only advances the pace of institutional changes, but also increases their significance and makes a Veblenian analysis all the more appropos.

We might begin this development of similies between a Veblenian analysis and current transition economies through an understanding of the institution of private property as a necessary precondition for entrepreneurship. This phenomenon was recognized as early as the time of Xenophon and Aristotle (Karayiannis, 1992, p. 68). However, Veblen was one of the first to show that the introduction of institutionalized private property would cause drastic changes in the economic behavior of individuals and in their schedule of preferences and motivations (habits).² He maintained that "the changing institutions in their turn make for a further selection of individuals endowed with the fittest temperament, and a further adaptation of individual temperament and habits to the changing environment through the formation of new institutions" (1899, p. 188). While on the other hand, "Institutions must change with changing circumstances" (1899, p. 190).³ Therefore, by introducing new institutions (mainly economic institutions) or as Veblen (1899, p. 208) called them "institutions of acquisition or of production," we should expect that in transition economies there would emerge some distinct economic agents, functions and roles which reflect the specific characteristics of individuals.⁴

For Veblen, the establishment of the system of private property and ownership rights produced by the increase in industrial and economic efficiency (1914, pp. 157 and 160), would carry in its wake a number of additional conditions, such as "individual self direction, equal opportunity, free contract, security of earnings and belonging, and self-help, in the simple and honest meaning of the word" (1919, p. 222). He maintained that "the spiritual ground of business enterprise . . . is given by the institution of

ownership. Business principles are corollaries under the main proposition of ownership; they are principles of property—pecuniary principles" (1904, p. 66). According to Veblen, one of the most prevalent effects of the system of ownership is the function of the motive of self-interest and particularly the desire for "the acquisition of property, in great part to result in the acquisition of more than is possessed by those others with whom the invidious comparison in ownership is made" (1914, pp. 172-73). For, "the propensity for emulation—for invidious comparison—is of ancient growth and is a pervading trait of human nature" (1899, p. 109). All these elements characterize a culture of individuality and human autonomy, necessary components for the establishment and promotion of entrepreneurship (Casson, 1987 and Karayiannis, 1993).

It is well known that in the majority of Central-Eastern European ex-socialist countries, the ownership and use of private property is the cornerstone of the transition process (Megginson and Netter, 2001, pp. 357-364; Pellanda, 2001; Estrin, 2002)⁵ as well as the establishment of a market system (North, 1981). Thus, the emergence of entrepreneurship would be an unavoidable corollary of the introduction of ownership in these transition economies.

In addition, when an economic system changes, moving toward more liberalization and/or the establishment of a new economic system, Veblen realized that some drastic institutional changes must take place as well, such as "to induce an animus of democratic equity and non-interference, self-help and local autonomy . . . the collapse of autocracy and the decay of coercive surveillance on the part of self-constituted authorities" (1915, p. 100), as happened in England during the Industrial Revolution.⁶

For Veblen, the various institutional and economic changes would also induce within the population "new habits of thought on institutional matters" (1915, p. 250). During the transition period the economic motives and behaviors of individuals will likely also change. He argued that by changing the entire economic environment and institutions, the "habits of men" (namely their economic motives and behavior) will also change. During the transition from a system of state ownership toward that of private ownership and a market-based economy, Veblen would have expected some drastic changes to have taken place in cultural and behavioral characteristics. He described a relevant situation when

he analyzed the forthcoming changes in German culture after the introduction of new technology from England and the adoption of the industrial system. He argued (1899, p. 39) that changes would be expected from the establishment and advancement of a new industrial and financial system. He was well aware that by drastically changing economic institutions and variables, a new system of habit and thought would emerge. As Veblen put it, "An advance in technical methods, in population, or in industrial organization will require at least some of the members of the community to change their habits of life, if they are to enter with facility and effected into the altered industrial methods" (1899, p. 195). One of the most basic of these changes is to be found in the development of entrepreneurship and in the birth of an entrepreneurial class in transition economies.

We look now at the predominant behavioral and incentive consequences of the establishment of institutions governing property rights. Veblen argued that the wealth accumulation process is stimulated by private property (1899, pp. 5-6 and 22). By accepting that "the desire of wealth scarcely be satiated" (1899, p. 32), he claimed (1904, p. 20) that the profit motive would be very strong in cases of private property as recent empirical findings clearly verified (Megginson and Netter, 2001, p. 381). Veblen justified the wealth accumulation process and the wealth motive by the following benefits:

a) As visual success of specific economic functions:

Veblen (1899, pp. 16-21) strongly related materialistic incentives and achievements to the social esteem and status of individuals by claiming that "visible success becomes an end sought for its own utility as a basis of esteem. Esteem is gained and dispraise is avoided by putting one's efficiency in evidence" (1899, p. 16). He then stated that property and wealth become "the most easily recognized evidence of a reputable degree of success" (1899, p. 29). McLleland's (1961) analysis clearly shows that an occupation having one of the most easily recognizable specters of success is entrepreneurship through its achievements measured by the profit and/or loss rate. Veblen was well aware of such a relationship between material motives and achievements in that he argued that "The propensity for achievement and the repugnance to futility remain the underlying economic motive" (1899, p. 33).

Thus, one of the primary characteristics of capitalist society, namely the relationship between socio-economic incentives and specific functions or economic activity, such as entrepreneurship, is justified by Veblen on psychological and socio-economic grounds.

b) As a means of comfort in consumption and security:

Veblen (1899, pp. 32 and 345) emphasized that individuals' rate of wealth and social esteem is proportionately determined by the rate and quality of their consumption pattern in terms of comfort, security and luxury consumption.

c) Wealth as a means of social distinction and power:

Veblen, echoing Senior (Karayiannis, 2001) recognized that the wealth motive is justified as a means of social distinction (1899, p. 26) and power (1899, p. 32).⁷

As things progressed in transition economies, wealth accumulation not only proceeded through free market mechanisms, as happened, for example, in Hungary (Danes, 1996, p. 105) and Poland (Cwiklinski, 1996, p. 160), but also became one of the main devices for building esteem.

Veblen would have felt that in transition, a new economic class would emerge between the leading nomenclature and the laborers. This is the so-called middle class, bourgeoisie or businessmen. As Veblen put it, in analyzing the passage from the old regime to the new industrial state, "the gainfulness of business traffic increases, and the middle (business) class grows along with it. It is in the conscious interest of this class to further the gainfulness of industry, and as this end is correlated with the productiveness of industry it is also, though less directly, correlated with improvements in technology" (1914, p. 185). Hence, it is to be expected that a productive class will emerge in the other transition economies of Central and Eastern Europe as, for example, took place in Poland (Grosfeld and Nivet, 1997). An expected consequence of the emergence of this new class of entrepreneurs, as Veblen stressed in other cases, would be the alienation of classes (1915, p. 134) and a conflict of interest between the laborers and the entrepreneurs (1915, pp. 124-25).

As the result of the introduction of a new industrial system to the majority of countries, Veblen predicted an economic situation that has in fact come to pass at the present time, the globalization of pro-

ductivity and firms. He argued (1915, pp. 242-43) at the financial-industrial system functions more fully under a free trade environment. He even sketched the details of the system of a worldwide competitive market economy functioning under the following assumptions:

"(a) It is a system of pecuniary rivalry.... (b) It is a price system, i.e. the competition runs in terms of money. . . . (c) Technologically, it is dominated by mechanical industries____(d) Consumption is also standardized, proximately in mechanical terms. . . . (e) The typical industries are industries carried on a large scale____(f) Material equipment is held in private ownership. . . . (g) Technological knowledge and proficiency is in the main held and transmitted pervasively by the community at large, but it is also held in part by specially trained classes and individual workman. . . . (h) The owners of this large material equipment have discretionary control over the technological proficiency of the community at large. . . . (i) In effect, therefore, owners also own the working capacity of the community and the functioning of the state of the industrial arts" (1914, pp. 218-20).

There is ample evidence to demonstrate that the majority of the above changes which Veblen found for other periods of economic history (from feudalism and mercantilism to industrialization) have in fact come to pass with respect to present day transition economies.

II. Entrepreneurship in the Production Sector

Economists from the time of Smith stressed that under a free market system entrepreneurs will invest for the sake of profit, a mechanism accepted by Veblen (1904, p. 85). Thus in transition economies, all private investments and business arrangements should be expected to take place for the prospect of pure profit.

Veblen enumerated the following principles or conditions of a free market system, which obviously are fitted to transition economies:

(a) "Industry is carried on by means of investment, which is made with a view of pecuniary gain (the earnings)" (1904, p. 186).

- (b) "The industry to which the businessmen in this way resort as the ways and means of gain is of the nature of a mechanical process, or it is some employment (as commerce or banking) that is closely bound up with the mechanical industries" (1904, p. 187).
- (c) "The pecuniary relations, between the several concerns or branches of industry that make up the comprehensive industrial system at large involve credit relations of greater or less duration" (1904, p. 189).
- (d) "The conduct of industry by competing business concerns involves an extensive use of loan credit" (1904, p. 198).

Veblen's argument that "prosperity now means, primarily, business prosperity" (1904, p. 178), also holds true for transition economies. Under the former system the central target of business activity— theoretically speaking—was the attainment of a volume of production according to the main plan (e.g. see Bergson, 1983). Now, the profit motive should be the leading economic variable and one of the best means of attaining profits in transition economies is through the advancement of entrepreneurship. However, an empirical investigation (see Hassid, 1997, pp. 9-13) in two ex-socialist countries, Romania and Bulgaria, shows that the primary motive of entrepreneurs in establishing their businesses was a desire for independence and autonomy. Similarly, a very high number of individuals in some transition economies such as Poland, Slovenia, and Bulgaria preferred to be self-employed (Blanchflower, et. al. 2001). This demonstrates that entrepreneurs are motivated to fulfill what they lack most. Formerly, in transition economies, individuals primarily missed independence and freedom of action and secondarily a high living standard. However, this does not necessarily mean that in the coming decades a new generation of entrepreneurs will emerge in these countries who will be more actively motivated by goals other than the classical pursuit of profit and/or wealth.

A crucial factor of economic change stressed by Veblen is the introduction of new more productive technology as he recognized that the "community at large gains in efficiency by virtue of innovation" (1915, p. 129). He claimed that the "modern state of the industrial arts" will be extended on an international scale as this is most productive (1915, pp. 242-43), and, therefore, the world globalization into a similar economic system and under the same

state of technology would be extended "across the national frontiers" (1915, p. 243) The introduction of new technology and the "borrowed elements" of technology and culture, as he (1915, p. 24) analyzed pre-industrial societies, will cause tremendous changes in the economic and social structure of transition economies.

A crucial problem with transition economies stems from their old and non-competitive technological infrastructures. As is well known (Karayiannis, 1993, p. 45) the majority of enterprises in ex-socialist economies were functioning under an outmoded technological regime mostly based on 1950s and 1960s technology. However, this problem is not without its positive aspects as illustrated by countries joining the industrial revolution in the latter stages, such as Germany and Japan (Ozawa and Philips, 1994). Veblen dealt with both the negative and the positive aspects of the late introduction of new technological advances such as is now forced upon transition economies.

The negative effect is the "systemic obsolescence" produced through the substitution of old infrastructure and fixed capital with new (1915, p. 129). He also argues (Ibid) that such a technological change would cause an "obsolescence" of labors knowledge and skill that would increase unemployment, something that has plagued virtually all transition economies.

On the other hand, Veblen also recognized the following positive effects produced by the late mass introduction of new technology:

- (a) The non-existence of the cost of trial and error in searching for technological advances and of gradual fixed capital depreciation (1915, pp. 128-31 and 189-90). Thus those countries introducing technology at a later stage are able to incorporate the most productive and/or economical processes, as occurred with computer hardware production (Sereghyona, 1993, pp. 140-41).
- (b) Countries introducing technology late in the game also gained from the experience of innovating countries in that they obtained "the immaterial equipment of technological proficiency" (1915, p. 133).
- (c) The entrepreneurs are "free to take over the processes of the new industry at their best and highest level of efficiency, rather than content themselves with compromises between the best equipment known and what used to be the best

a few years or a few decades ago" (1915, p. 194).

Veblen additionally argued that the rate of introduction and expansion of new imported technology is at the hands of entrepreneurs who will try to exploit any profit opportunity opened by such a process (1915, p. 192). Therefore, those leading (technological imitators) entrepreneurs in an imported new technology economy, would gain higher profits than their competitors working under old technology as Peter Drucker has shown (1985, ch.17). And the strategy of learning by doing can be useful as well (Sereghyova, 1993, p. 149).

In the advancement of the industrial system, as Veblen analytically shows (see Griffin and Karayiannis, 2002, pp. 81-84), the role of the old "captain of industry" or of the capitalist-entrepreneur was of paramount importance, as "upon him and his fortunes centers the abiding interest of civilized mankind" (1904, p. 3).⁸ And, "industry is carried on for the sake of business, and not conversely; and the progress and activity of industry are conditioned by the outlook of the market, which means the presumptive chance of business profits" (1904, pp. 26-27). Those entrepreneurs also "further the higher organization of industry" (1904, p. 39) and introduce "economies of production" (1904, p. 35), an increase in productivity (1904, pp. 3-4, ft. 2) and "a saving of the costs of business management and of the competitive costs of marketing products and services" (1904, p. 46).

As capitalism advances, the place of the "captains of industry" is taken by the "captains of finance" or the "captains of solvency" (1923, p. 114).⁹ For Veblen, the modern financial entrepreneurs "are experts in prices and profits and financial maneuvers; and yet the final discretion in all questions of industrial policy continues to rest in their hands. They are by training and interest 'captains of finance'; and yet, with no competent grasp of the industrial arts, they continue to exercise a plenary discretion as 'captains of industry'" (1921, p. 40). They are also active in regard to "the run of the market, with margins of cost and profit, and especially with the ever increased executions and opportunities of credit and investment" (1923, p. 257). Moreover, the "captains of finance" perform activities directed towards an increase in the value of the intangible assets of the enterprise (see Griffin and Karayiannis, 1996, pp. 84-88).¹⁰ Such intangible assets are: the firm's goodwill, "the possession of a

trade secret, a trade mark, a patent right, a franchise, any statutory monopoly, or a monopoly secured by effectively cornering supply or the market for any given line of goods or services" (1919, pp. 71-72). Thus the "captain of finance" by substituting some of the market routine and "technological matters" of his subordinates (1919, p. 90) establishes a modern organization of enterprise, where he undertakes the following activities:

- (a) "reorganizes and consolidates a given range of industrial business concerns";
- (b) "gives them a collective form and name as an up to date corporation";
- (c) "starts that intricate process of cumulative augmentation of business capital through the use of credit which otherwise may come gradually in the course of business competition";
- (d) "brings a redistribution of the ownership of the property engaged in industry, such as otherwise occurs at a period of liquidation" (1904, p. 128), that is, "when the operation is completed the ownership of the recapitalized industrial equipment, with whatever other property is involved, appears distributed between the former owners, the promoter, and the credit house which financed the operation" (1904, p. 130);
- and (e) "reorganizes the industrial concerns on a large scale" (1904, p. 121).

An additional main function stressed by Veblen (1903, pp. 94 and 120 and 1914, pp. 189-90) for the modern entrepreneur is "bargaining" with other agents such as creditors, employees, etc. He is involved in the bargaining with financial entities trying to gather funds at the lowest cost (1923, p. 390). Such an activity is of paramount importance in transition economies where the credit system is still underdeveloped and there is a serious shortage of investment funds (Sereghyova, 1993, p. 14). In such an environment Polishchuk argued that rent-seeking is a complement to directly productive entrepreneurial activities and "with adequately self-selected entrepreneurs, entails limited social cost" (1996, p. 99)." Thus, a special characteristic of the emerging entrepreneurs, as Veblen recognized (1904, p. 320), is their ability and practical management of affairs.

Veblen (1919, pp. 42-45) clearly described the process by which the "captains of industry" disappeared as businesses grew and the corporate scheme of business operation took hold. In such a

stage of business development the primary role of the financial entrepreneur will be to promote the consolidation of business, enhance its financial goodwill¹² and establish a corporate company (1904, p. 122; see also O'Donnell, 1973, pp. 210-11 and Rutherford, 1984, p. 335). Instructively, the preponderance of the earnings of the financial entrepreneur are not "of the nature of profits ... but rather a bonus which commonly falls immediately into the shape of a share in the capitalization of the newly organized concern" (1904, pp. 124-25). The similarity to stock options, stock purchase rights and warrants and their use by the venture capitalist in modern day finance capitalism is all too apparent. Moreover, the need for transition economies to be ever watchful of such activities, least they undermine the entrepreneurial innovative spirit and the benefits society can derive therefrom is most apparent as well.

III. Entrepreneurship in the Consumption and Service Sector

In the transition from one institutional environment to another or during a period of economic growth, some drastic changes take place in the values, attitudes and economic preferences of consumers. These changes frequently also bring about tremendous opportunities for entrepreneurial profit generating ventures.

An important consequence of institutional and economic change can be seen in consumers' behavior. Veblen noted that "distinction in consumption" (1899, p. 69) or "conspicuous consumption" (1899, p. 75) is a means of gaining reputability which characterizes the majority of wealthy individuals. In the new economic state the "unproductive consumption of goods is honorable, primarily as a mark of prowess and a perquisite of human dignity; secondarily it becomes substantially honorable in itself, especially the consumption of the more desirable things" (1899, p. 69).¹³ Veblen attributed his theory of conspicuous consumption mainly to an institutional, rather than a technological change. He argued that conspicuous consumption goods "exceed fifty per cent of the current product" (1915, p. 35; and *Ibid.* p. 137), which is quite a high rate. Entrepreneurial opportunities develop in that "there have grown up an appreciable number of special occupations devoted to the technical needs of rep-

utable spending. The technology of wasteful consumption is large and elaborate and its achievements are among the monuments of human initiative and endeavor" (1915, pp. 35-36). Thus, entrepreneurial profit opportunities emerge through producing the kind of luxurious things that justify such a preference. This has already occurred in a number of transition economies, such as the Czech Republic (health-care goods, porcelain goods, etc).¹⁴

Veblen emphasized (1899, pp. 110-11) that conspicuous consumption behavior is an effect of the industrial system where the rate of productivity has increased tremendously as well as the volume of production and wealth. Significantly, in transition economies, as is also the case for some of the economies of the European Union (see Hayes, et. al., 1992), such behavioral traits are rather the effect of emulation and imitation¹⁵ of the wealthiest citizens and countries than of increased productivity and wealth. The introduction of such "wasteful consumption" to transition economies both extends and enlarges the profit opportunities of entrepreneurs. He illustrates (1915, pp. 35-36) this tendency of economically less advanced countries to borrow both new technology and cultural characteristics from more advanced countries by looking at Germany and England in the late 19th century.

Thus, as described by Veblen (1899, pp. 110-12), by increasing production and the rate of wealth in some classes, their conspicuous consumption preference is increased as well as the variety of luxury goods fulfilling such preferences. As the result, profitable opportunities in product innovation and entrepreneurial activities are extended. As Veblen puts it, "The wealth in hand increased in utility under the stimulus of new opportunities for its gainful utilization, and the men in whose hands lay the discretion in industrial matters saw opportunities ahead which their own faith in these opportunities enabled them to realize through adventurous enterprise inspired by the new outlook itself (1915, p. 96; and Ibid. pp. 35-36).

Veblen felt that in the modern market system, the role of entrepreneurs is very important for success in the promotion of the various goods and services offered and in the augmentation of their "vendibility." In such a case, "salesmanship" will bypass "workmanship" requirements in the strategies of the entrepreneur (1914, p. 214). An additional function of modern entrepreneurship, which is prevalent

in transition economies, is an increase in the potential earning capacity of enterprises. Much of this potentially enhanced earning capacity results from salesmanship activities and a changed demand schedule on the part of consumers, who now have a new class of wealthy businessmen role models to emulate. In terms of the salesmanship function of business, or the "Propaganda of Faith" as Veblen called it (1923, p. 319), he noted the potential usefulness of advertising and the value in simultaneously increasing both the price and profit margin of conspicuous consumption goods (1923, pp. 302-03, 309 and 314).¹⁶ This can have profound implications for profitable entrepreneurial ventures in transition economies.

The above profit opportunities in conspicuous consumption goods spring from two behavioral consumption preferences: (a) "the superior gratification derived from the use and contemplation of costly and supposedly beautiful products" (1899, p. 128); and (b) the goods must be accompanied by expensiveness as "the canon of expensiveness also affects our tastes in such way as to inextricably blend the marks of expensiveness, in our appreciation, with the beautiful features of the object" (1899, p. 130).¹⁷

In other words, Veblen describes a type of consumption behavior that could well provide guidance to entrepreneurs in transition economies. He holds that with a "pecuniary habit of thought" and unequal wealth distribution, a stratification of society would take place (1915, p. 137), where the consumers of the upper and middle classes develop "the habit of disapproving cheap things as being intrinsically dishonorable or unworthy because they are cheap" (1899, p. 155; and Ibid. p. 345). As evidence that such behavior and habit does indeed prevail in transition economies, one need only realize that the most expensive markets for consumer goods are now in Moscow.

In effect, the utility derived from such goods is proportional to its rate as a good of "distinction" and its high price. Thus, transition economy entrepreneurs armed with knowledge of such consumption preferences should produce these products and thereby extend their profit opportunities.

Veblen additionally claimed that the role of fashion would be of paramount importance (1899, p. 168) in determining the rate of demand and the level of price. Thus, transition economy entrepreneurs by exploiting the "motive of adornment" of

consumers (1899, p. 173) should innovate in scheduling and producing goods which are generally considered beautiful, in the sense of fashion. Moreover, the greater price of such goods may well add to their attractiveness. "The innovation must not only be more beautiful, or perhaps oftener less offensive, than that which it displaces, but it must also come up to the accepted standard of expensiveness" (1899, p. 174).¹⁸ Real practical profit opportunities may well exist in fields such as hand made products (1899, p. 159) and dress fashion (1899, p. 168). Thus, Veblen argued that by increasing the rate of income (as is currently occurring in the better performing transition economies, such as Poland, the Czech Republic and Hungary), the demand for conspicuous consumption goods would increase and "the more rapidly will fashion shift and change" (1899, p. 178). Thus various entrepreneurial profit opportunities are extended which are well in line with a Veblenian understanding of innovative strategies in product and service markets.

When Veblen recognized that hand made goods would often be preferable to those that are machine made, he noticed something which entrepreneurs in transition economies might well profit from. This is already occurring in Poland with handmade shoes and leather production in Hungary (Sereghyona, 1993, p. 113). In these countries there is an abundance of highly skilled well-educated labor power which is accustomed to relatively low wages and which could be effectively utilized in the production of hand made high quality, high fashion, consumer goods.

Veblen noted that the entrepreneur through his salesmanship activities will try to gain some monopolistic advantages such as "the control of natural resources" or by operating through activities "resting on custom and prestige" (1904, pp. 54-55), and by promoting "the brute serviceability" of his goods (1904, p. 63). The task of the entrepreneur would be successful when "his competitive strategy is confined to two main lines of endeavor, to reduce the production cost of a product whose output is restricted and to increase sales without lowering prices" (1923, p. 287). All these business strategies attributed by Veblen to the modern entrepreneur are either currently taking place or are in the process of being introduced in the various transition economies.

Veblen recognizes that in the modern industrial system entrepreneurial practice and strategies will

be introduced in the services sectors (1904, p. 384). This is something that is currently beginning to take place in most transition economies, although prior to the onset of the transition era their services sectors were highly suppressed (Sereghyova, 1993, p. 7; Svejnar, 2002; and Boeri and Terrell, 2002). By such an extension of entrepreneurship to the trade, transport and tourist sectors of transition economies (Sereghyona, 1993, pp. 130-7), profit-making opportunities are being increased.

However, in order for any of the above profit making opportunities to be effectively exploited by potential entrepreneurs in transition economies, two main prerequisites are needed. Market experience is necessary, which according to Veblen (1915, p. 187), would be gained by introducing managerial and entrepreneurial techniques through the encouragement of foreign investment and the establishment of foreign firms on their soil (see Karayiannis, 1993, p. 47). Veblen also maintained (1915, p. 186) that a well-developed financial system must be in place to canalize "funds available for investment" to various entrepreneurial opportunities. Thus it is of paramount importance to successful entrepreneurship in transition economies that an effective financial infrastructure with a well-functioning credit system be developed which, though intermediary operation, can efficiently canalize the necessary funds to potential entrepreneurs (see Karayiannis, 1993, p. 48; Koveos and Young, 1996 and Berglof and Bolton, 2002).

VI. Conclusions

In this paper we have tried to show that a Veblenian analysis has much to offer to present day entrepreneurs from transition economies. Veblen maintained that institutional and economic changes (such as are currently taking place in transition economies) cause dramatic alterations not only in the behavior and habits of individuals, but also in their skills and activities.

The introduction of private property laws and ownership rights helps bring to flower the wealth and profit motive of individuals. Such materialistic motives are often best fulfilled through entrepreneurial activities. Thus, a new distinct socioeconomic class seems to be emerging in transition economies, entrepreneurs who are highly motivated to increase their profits and wealth. All of this is

occurring in a context of tremendous change in technology that strongly impacts the operations of the transition economy entrepreneur, both enabling greater profits and opportunities and representing increased competitive threats. At issue as well are the operations of the modern or financial entrepreneur in a transition economy setting with its typically immature financial infrastructure offering much scope for insider trading and other financial machinations which are highly detrimental to the efficient operation of the financial system.

In the production, consumption and service sectors of transition economies, important changes are currently taking place, which offer considerable profit opportunities for entrepreneurial activities. As the purchasing power and the rate of conspicuous consumption increases in transition economies, the gains from entrepreneurial innovation will increase as well. Some such opportunities are related to the production and/or distribution of innovative luxurious goods and services. Hand-made goods, dress fashion, vacation packages, advertising and the like all represent new opportunities which were non-existent prior to the transition era. However, Veblen's warnings as to the activities of the "financial entrepreneur" and "captains of solvency" are just as apropos for the transition economy, with its typically immature and highly vulnerable financial infrastructure that is readily amenable to manipulation, as it was in his day of the "Robber Baron Era."

Thus Veblen's teachings have much to offer to entrepreneurs in transition economies in pointing to many viable profit making opportunities. However, these teachings also lead to an awareness of a number of public policy concerns that need to be addressed if the promise of the gains from entrepreneurial activity in transition economies are to truly benefit the transition process rather than simply serve the interests of the successful few.

Notes

1. Veblen explained that "the situation of today shapes the institutions of tomorrow through a selective, coercive process, by acting upon men's habitual view of things, and so altering or fortifying a point of view or a mental attitude handed down from the past" (1899, pp. 190-91).

2. Griffin (1982, p. 37) comments that for Veblen "a standard of living is also of the nature of habit." For an extensive Veblenian analysis of the influence of institutional changes on the habits of individuals, see Rutherford (1984).
3. Veblen defines institutions as "prevalent habits of thought with respect to particular relations and particular functions of the individual and the community" (1899, p. 190).
4. Veblen specifically differentiated the way of life of entrepreneurs from that of laborers. He claimed that "There is an appreciable and widening difference between the habits of the two classes (i.e. laborers and businessmen); . . . It induces a difference in the habits of thought and the habitual grounds and methods of reasoning resorted to by each class" (1904, p. 317; brackets added). For a historical analysis of the development of conspicuous consumption behavior, see Mason (1998).
5. As Nellis (1999, p. 29) correctly concludes "privatization remains the generally preferred course of action, but its short-term economic effectiveness and social acceptability depend on the existence of the institutional underpinnings of capitalism. Where these are present, privatization should and can go forward."
6. Veblen also noticed that some drastic political changes would occur such as those which "make statutory specifications and authoritative regulations fit the exigencies of the new industry and commerce, to standardize civil and political relations in such terms as should fit the new exigencies" (1915, p. 101).
7. The argument that the wealth motive is justified by the social power gained was later advanced by Frank Knight (1947, p. 376).
8. Veblen described the role of the "captain of industry" as being "a pioneer in industrial enterprise, a designer, builder and manager of industrial equipment and a foreman of the work at hand. At the same time, he was a businessman and took care of the financial end of the enterprise, buying and selling, hiring and firing, investing and promoting" (1923, p. 256).
9. For Veblen, the "captains of finance" have rather different characteristics than the "captains of industry." They are more risk averse and less adventurous and look for safe and sane business opportunities (1923, p. 109).

10. According to Veblen, "Intangible assets are the capitalized value of income not otherwise accounted for. Such income arises out of business relations rather than out of industry; it is derived from advantages of salesmanship, rather than from productive work" (1919, pp. 69-70).
11. Davidson and Ekelund (1994) show that a change in institutions produces productive entrepreneurial activities even through rent seeking ventures.
12. Veblen defined the financial goodwill of enterprises, as being in "the form of a large ability to help or hinder other financiers and financing houses in any similar maneuvers in which they may be engaged, or an ability to put them in the way of lucrative financing transactions" (1904, p. 171).
13. Elsewhere, Veblen argued that "The utility of consumption as evidence of wealth is to be classed as a derivative growth. It is an adaptation to a new end, by a selective process, of a distinction previously existing and well established in men's habits of thought" (1899, p. 69).
14. For some relevant business case studies see Sereghyona (1993, pp. 110-13 and 209-11).
15. Veblen describes this consumption imitation drive as follows: "In communities where class distinctions and class exemptions run chiefly on pecuniary grounds, wasteful conventions spread with great facility through the body of the population by force of the emulative imitation of upper class usage by the lower pecuniary classes" (1915, p. 147).
16. This consumption effect, with a positively inclined demand curve, is defined by Leibenstein (1950) as the "Veblen effect."
17. As Veblen argued, "The consumption of expensive goods is meritorious, and the goods which contain an appreciable element of cost in excess of what goes to give them serviceability for their ostensible mechanical purpose are honorific" (1899, pp. 154-55).
18. Veblen recognized that "the commercial value of the goods used for clothing in any modern community is made up to a much larger extent of the fashionableness, the reputability of the goods than of the mechanical service which they render in clothing the person of the wear-

er. The need of dress is eminently a 'higher' or spiritual need" (1899, p. 168).

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