

Capitalism, Socialism, and Democracy

Second Edition

By

JOSEPH A. SCHUMPETER

PROFESSOR OF ECONOMICS IN HARVARD UNIVERSITY



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CAPITALISM, SOCIALISM, AND DEMOCRACY

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PREFACE TO THE SECOND EDITION

THIS edition reproduces the book of 1942 without any change whatever except that a new chapter has been added. The reason why I have even refrained from verbal alterations which were clearly indicated in a number of places is that, in matters of the kind treated in this book, it is impossible to alter phrasing without also altering meaning or at least incurring the suspicion of having done so. And I do attach some importance to the fact that neither the events of the last four years nor the criticisms proffered in reviews have affected my diagnoses and prognoses which, on the contrary, seem to me to be fully borne out by such new facts as have appeared. The sole aim of the new chapter is to develop, in the light of these new facts, certain points made in the old text, particularly in Chapter XIX, Section IV and Chapter XXVII, Section V and to show how the present situation fits into the philosophy of history adumbrated in this book. In this preface I am going to notice some criticisms or rather types of criticisms that have been directed against it—not necessarily in print. But I wish to do so because I hope that such answers as I have to offer may prove of some use to readers and not because I have any fault to find with the reception of the book. On the contrary I want to use this opportunity for expressing my gratitude to its reviewers for their unvarying courtesy and kindness and to its translators into seven foreign languages for their generous efforts.

First of all let me notice two criticisms of a professional nature. An eminent economist of international reputation has expressed dissent from my proposition that, as part of the social process described in this book, there is a long-run tendency for profits to vanish: Sales effort, he said, will always command its price. I do not think that there is any real difference between us, only we use the term “profits” in different senses. Such sales effort as may still be required in an economy that has settled down to stable routine, will undoubtedly have to reap its return as will every other kind of activity incident to the management of a business. But I include this with wages of management in order to single out and emphasize what I believe to be the fundamental source of industrial gain, the profits that the capitalist order attaches to successful introduction of new goods or new methods of production or new forms of organizations. I do not see how it could be denied that industrial history testifies convincingly to the importance of this element of capitalist returns. And I hold that with increasing mechanization of industrial “progress” (teamwork in research departments and so on) this element and with it the most important pillar of the capitalist class’s economic position is bound to crumble in time.

The most frequent criticism of the purely economic argument of this book that I have heard—it sometimes rose to expostulation—was, however, directed against what many readers considered to be a defense of monopolistic practice. Yes, I do believe that *most* of the current talk about monopoly, like *all* the current talk about the dire effects of saving, is nothing but radical ideology and has no foundation in fact. In lighter moods, I occasionally express myself more strongly than this especially on the “policies,” actual and proposed, that are based upon that ideology. But here, and as a matter of professional duty, I merely wish to state that all the reader finds in this book about monopoly reduces, in the last analysis, to the following propositions which I hold no competent economist can deny.

1. The classical theory of monopolistic pricing (the Cournot-Marshall theory) is not entirely valueless, especially when overhauled so as to deal not only with the instantaneous maximization of monopoly gain but also with maximization over time. But it works with assumptions that are so restrictive as to exclude its *direct* application to reality. In particular it cannot be used for what it *is* being used in current teaching, namely, for a comparison between the way in which a purely competitive economy functions and the way in which an economy functions that contains substantial elements of monopoly. The main reason for this is that the theory assumes given demand and cost conditions, the same for the competitive and the monopolistic case, whereas it is of the essence of modern big business that its demand and cost conditions are, for large quantities of output, much more favorable—and inevitably so—than the demand and cost conditions that would exist in the same industries in a régime of perfect competition.

2. Current economic theory is almost wholly a theory of the administration of a given industrial apparatus. But much more important than the manner in which capitalism administers given industrial structures is the manner in which it creates them. (See Chapters VII and VIII.) And into this process of creation the monopoly element enters necessarily. This puts an entirely different complexion upon the monopoly problem and on legislative and administrative methods of dealing with it.

3. Third, economists who thunder against cartels and other methods of industrial self-government often assert nothing that is wrong in itself. But they leave out the necessary qualifications. And to leave out necessary qualifications is not to present the whole truth. There are other things to mention but I refrain in order to turn to a second class of objections.

I thought I had taken every care to make it quite clear that this

is not a political book and that I did not wish to advocate anything. Nevertheless, to my amusement, the intention has been imputed to me—and more than once though not, so far as I know, in print—of “advocating foreign collectivism.” I mention this fact not for its own sake but in order to notice another objection that lurks behind this one. If I was not advocating collectivism, foreign or domestic, or indeed anything else, why then did I write at all? Is it not entirely futile to elaborate inferences from observed facts without arriving at practical recommendations? I was greatly interested whenever I met with this objection—it is such a nice symptom of an attitude that accounts for much in modern life. We always plan too much and always think too little. We resent a call to thinking and hate unfamiliar argument that does not tally with what we already believe or would like to believe. We walk into our future as we walked into the war, blindfolded. Now this is precisely where I wanted to serve the reader. I did want to make him think. And in order to do so it was essential not to divert his attention by discussions about what from any given standpoint “should be done about it” which would have monopolized his interest. Analysis has a distinct task and to this task I wished to keep though I was fully aware of the fact that this resolve would cost me a great deal of the response a few pages of practical conclusions would have evoked.

This, finally, leads to the charge of “defeatism.” I deny entirely that this term is applicable to a piece of analysis. Defeatism denotes a certain psychic state that has meaning only in reference to action. Facts in themselves and inferences from them can never be defeatist or the opposite whatever that might be. The report that a given ship is sinking is not defeatist. Only the spirit in which this report is received can be defeatist: The crew can sit down and drink. But it can also rush to the pumps. If the men merely deny the report though it be carefully substantiated, then they are escapists. Moreover, even if my statements of tendencies amounted more definitely to prediction than they were intended to do, they would still not carry defeatist suggestions. What normal man will refuse to defend his life merely because he is quite convinced that sooner or later he will have to die anyhow? This applies to both the groups from which the charge has come: sponsors of private-enterprise society and sponsors of democratic socialism. Both of them stand to gain if they see more clearly than they usually do the nature of the social situation in which it is their fate to act.

Frank presentation of ominous facts was never more necessary than it is today because we seem to have developed escapism into a system of thought. This is my motive as it is my apology for writing the new chapter. The facts and inferences there presented are certainly not pleasant or comfortable. But *they* are not defeatist. Defeatist is he who,

while giving lip service to Christianity and all the other values of our civilization, yet refuses to rise in their defense—no matter whether he accepts their defeat as a foregone conclusion or deludes himself with futile hopes against hope. For this is one of those situations in which optimism is nothing but a form of defection.

JOSEPH A. SCHUMPETER

Taconic, Connecticut

July 1946

PREFACE

THIS volume is the result of an effort to weld into a readable form the bulk of almost forty years' thought, observation and research on the subject of socialism. The problem of democracy forced its way into the place it now occupies in this volume because it proved impossible to state my views on the relation between the socialist order of society and the democratic method of government without a rather extensive analysis of the latter.

My task turned out more difficult than I thought it would be. Part of the heterogeneous material that had to be marshaled reflected the views and experiences of an individual who at various stages of his life had more opportunity for observation than non-socialists usually have and who reacted to what he saw in an unconventional manner. I had no wish to obliterate the traces of this: much of such interest as this book may command would have gone if I had tried to smooth them away.

Moreover, this material also reflected the analytic efforts of an individual who, while always honestly trying to probe below the surface, never made the problems of socialism the principal subject of his professional research for any length of time and therefore has much more to say on some topics than on others. In order to avoid creating the impression that I aimed at writing a well-balanced treatise I have thought it best to group my material around five central themes. Links and bridges between them have been provided of course and something like systematic unity of presentation has, I hope, been achieved. But in essence they are—though not independent—almost self-contained pieces of analysis.

The first part sums up, in a non-technical manner, what I have to say—and what, as a matter of fact, I have been teaching for some decades—on the subject of the Marxian doctrine. To preface a discussion of the main problems of socialism by an exposition of the Gospel would be the natural thing for a Marxist to do. But what is the purpose of this exposition in the hall of a house built by one who is not a Marxist? It stands there to bear witness to this non-Marxist's belief in the unique importance of that message, an importance that is completely independent of acceptance or rejection. But it makes difficult reading. And no Marxian tools are used in the subsequent work. Though the results of the latter are again and again compared with the tenets of the one great socialist thinker, readers who are not interested in Marxism may hence start with Part II.

In the second part—Can Capitalism Survive?—I have tried to show that a socialist form of society will inevitably emerge from an equally inevitable decomposition of capitalist society. Many readers will wonder why I thought so laborious and complex an analysis necessary in order

to establish what is rapidly becoming the general opinion, even among conservatives. The reason is that, while most of us agree as to the result, we do not agree as to the nature of the process that is killing capitalism and as to the precise meaning to be attached to the word "inevitable." Believing that most of the arguments offered—both on Marxian and on more popular lines—are wrong, I felt it my duty to take, and to inflict upon the reader, considerable trouble in order to lead up effectively to my paradoxical conclusion: capitalism is being killed by its achievements.

Having seen, as I think we shall see, that socialism is a practical proposition that may become *immediately* practical in consequence of the present war, we shall in the third part—Can Socialism Work?—survey a large expanse of problems that bear upon the conditions in which the socialist order may be expected to be an economic success. This part comes nearest to being a balanced treatment of its various topics including the "transitional" problems. Love and hate have so blurred the results of such serious work as has so far been done on this question—it is not much—that even mere restatement of widely accepted views seemed justified here and there.

The fourth part—Socialism and Democracy—is a contribution to a controversy that has been going on in this country for some time. But it should be noted that only a question of principle is dealt with in this part. Facts and comments relevant to the subject are scattered all over the book particularly in Parts III and V.

The fifth part is what it purports to be, a sketch. More than in the other parts, I wished to confine myself to what I had to say from personal observation and from very fragmentary research. Therefore the material that went into this part is no doubt woefully incomplete. But what there is of it, is alive.

No part of the contents of this volume has ever appeared in print. An early draft of the argument of Part II has however provided the basis for a lecture delivered at the U. S. Department of Agriculture Graduate School on January 18, 1936, and has been mimeographed by that School. I wish to thank Mr. A. C. Edwards, chairman of the Arrangements Committee, for permission to include an extended version in this volume.

JOSEPH A. SCHUMPETER.

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PART I

The Marxian Doctrine

PROLOGUE

MOST of the creations of the intellect or fancy pass away for good after a time that varies between an after-dinner hour and a generation. Some, however, do not. They suffer eclipses but they come back again, and they come back not as unrecognizable elements of a cultural inheritance, but in their individual garb and with their personal scars which people may see and touch. These we may well call the great ones—it is no disadvantage of this definition that it links greatness to vitality. Taken in this sense, this is undoubtedly the word to apply to the message of Marx. But there is an additional advantage to defining greatness by revivals: it thereby becomes independent of our love or hate. We need not believe that a great achievement must necessarily be a source of light or faultless in either fundamental design or details. On the contrary, we may believe it to be a power of darkness; we may think it fundamentally wrong or disagree with it on any number of particular points. In the case of the Marxian system, such adverse judgment or even exact disproof, by its very failure to injure fatally, only serves to bring out the power of the structure.

The last twenty years have witnessed a most interesting Marxian revival. That the great teacher of the socialist creed should have come into his own in Soviet Russia is not surprising. And it is only characteristic of such processes of canonization that there is, between the true meaning of Marx's message and bolshevist practice and ideology, at least as great a gulf as there was between the religion of humble Galileans and the practice and ideology of the princes of the church or the warlords of the Middle Ages.

But another revival is less easy to explain—the Marxian revival in the United States. This phenomenon is so interesting because until the twenties there was no Marxian strain of importance in either the American labor movement or in the thought of the American intellectual. What Marxism there was always had been superficial, insignificant and without standing. Moreover, the bolshevist type of revival produced no similar spurt in those countries which had previously been most steeped in Marxology. In Germany notably, which of all countries had the strongest Marxian tradition, a small orthodox sect indeed kept alive during the post-war socialist boom as it had during the previous depression. But the leaders of socialist thought (not only those allied to the Social Democratic party but also those who went much beyond its cautious conservatism in practical questions) betrayed little taste for reverting to the old tenets and, while worshiping the deity, took good

care to keep it at a distance and to reason in economic matters exactly like other economists. Outside of Russia, therefore, the American phenomenon stands alone. We are not concerned with its causes. But it is worth while to survey the contours and the meaning of the message so many Americans have made their own.¹

¹References to Marx's writings will be confined to a minimum, and no data about his life will be given. This seems unnecessary because any reader who wishes for a list of the former and a general outline of the latter finds all he needs for our purposes in any dictionary, but especially in the *Encyclopedia Britannica* or the *Encyclopaedia of the Social Sciences*. A study of Marx begins most conveniently with the first volume of *Das Kapital* (first English translation by S. Moore and E. Aveling, edited by F. Engels, 1886). In spite of a huge amount of more recent work, I still think that F. Mehring's biography is the best, at least from the standpoint of the general reader.

CHAPTER I

MARX THE PROPHET

IT WAS not by a slip that an analogy from the world of religion was permitted to intrude into the title of this chapter. There is more than analogy. In one important sense, Marxism is a religion. To the believer it presents, first, a system of ultimate ends that embody the meaning of life and are absolute standards by which to judge events and actions; and, secondly, a guide to those ends which implies a plan of salvation and the indication of the evil from which mankind, or a chosen section of mankind, is to be saved. We may specify still further: Marxist socialism also belongs to that subgroup which promises paradise on this side of the grave. I believe that a formulation of these characteristics by an hierologist would give opportunities for classification and comment which might possibly lead much deeper into the sociological essence of Marxism than anything a mere economist can say.

The least important point about this is that it explains the success of Marxism.¹ Purely scientific achievement, had it even been much more perfect than it was in the case of Marx, would never have won the immortality in the historical sense which is his. Nor would his arsenal of party slogans have done it. Part of his success, although a very minor part, is indeed attributable to the barrellful of white-hot phrases, of impassioned accusations and wrathful gesticulations, ready for use on any platform, that he put at the disposal of his flock. All that needs to be said about this aspect of the matter is that this ammunition has served and is serving its purpose very well, but that the production of it carried a disadvantage: in order to forge such weapons for the arena of social strife Marx had occasionally to bend, or to deviate from, the opinions that would logically follow from his system. However, if Marx had not been more than a purveyor of phraseology, he would be dead by now. Mankind is not grateful for that sort of service and forgets quickly the names of the people who write the librettos for its political operas.

But he was a prophet, and in order to understand the nature of this achievement we must visualize it in the setting of his own time. It was the zenith of bourgeois realization and the nadir of bourgeois civilization, the time of mechanistic materialism, of a cultural milieu which had

¹ The religious quality of Marxism also explains a characteristic attitude of the orthodox Marxist toward opponents. To him, as to any believer in a Faith, the opponent is not merely in error but in sin. Dissent is disapproved of not only intellectually but also morally. There cannot be any excuse for it once the Message has been revealed.

as yet betrayed no sign that a new art and a new mode of life were in its womb, and which rioted in most repulsive banality. Faith in any real sense was rapidly falling away from all classes of society, and with it the only ray of light (apart from what may have been derived from Rochdale attitudes and saving banks) died from the workman's world, while intellectuals professed themselves highly satisfied with Mill's *Logic* and the Poor Law.

Now, to millions of human hearts the Marxian message of the terrestrial paradise of socialism meant a new ray of light and a new meaning of life. Call Marxist religion a counterfeit if you like, or a caricature of faith—there is plenty to be said for this view—but do not overlook or fail to admire the greatness of the achievement. Never mind that nearly all of those millions were unable to understand and appreciate the message in its true significance. That is the fate of all messages. The important thing is that the message was framed and conveyed in such a way as to be acceptable to the positivistic mind of its time—which was essentially bourgeois no doubt, but there is no paradox in saying that Marxism is essentially a product of the bourgeois mind. This was done, on the one hand, by formulating with unsurpassed force that feeling of being thwarted and ill treated which is the auto-therapeutic attitude of the unsuccessful many, and, on the other hand, by proclaiming that socialistic deliverance from those ills was a certainty amenable to rational proof.

Observe how supreme art here succeeds in weaving together those extra-rational cravings which receding religion had left running about like masterless dogs, and the rationalistic and materialistic tendencies of the time, ineluctable for the moment, which would not tolerate any creed that had no scientific or pseudo-scientific connotation. Preaching the goal would have been ineffectual; analyzing a social process would have interested only a few hundred specialists. But preaching in the garb of analysis and analyzing with a view to heartfelt needs, this is what conquered passionate allegiance and gave to the Marxist that supreme boon which consists in the conviction that what one is and stands for can never be defeated but must conquer victoriously in the end. This, of course, does not exhaust the achievement. Personal force and the flash of prophecy work independently of the contents of the creed. No new life and no new meaning of life can be effectively revealed without. But this does not concern us here.

Something will have to be said about the cogency and correctness of Marx's attempt to prove the inevitability of the socialist goal. One remark, however, suffices as to what has been called above his formulation of the feelings of the unsuccessful many. It was, of course, not a true formulation of actual feelings, conscious or subconscious. Rather we could call it an attempt at replacing actual feelings by a true or false revelation of the logic of social evolution. By doing this and by at-