

INTRODUCTION

Joseph Schumpeter

(1883-1950)

Joseph Schumpeter was a wide-ranging economist who wrote with a broad brush about economic systems. He was born in Czechoslovakia but spent much of his life in the United States. Except for the period 1919-20 when he was Austria's minister of finance, he was a professor of economics, teaching at various universities, including Harvard from 1932 until the end of his life.

A scholar whose interests encompassed many fields, not just economics, he once said that he was the best of his time in two of the following three categories: horseman, economist, lover. In which two of the three was he the best? He always left this decision to his audience.

*His *Capitalism, Socialism, and Democracy*, first published in 1942, is one of the most popular economics books. In this selection he argues that capitalism, by its own success, will undermine its dynamic—entrepreneurship—and that the true “pacemakers of socialism were not the intellectuals or agitators who preached it but the [giant industrialists] Vanderbilts, Carnegies and Rockefellers.”*

Joseph Schumpeter. 1942 (3rd edition: 1950). *Capitalism, Socialism, and Democracy*. New York: Harper Torchbooks, Harper and Row Publishers, pp. 132-34, 141-42, 150-51, 417-18.

Can Capitalism Survive?

We have seen that the function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on. Railroad construction in its earlier stages, electrical power production before the First World War, steam and steel, the motorcar, colonial ventures afford spectacular instances of a large genus which comprises innumerable humbler ones—down to such things as making a success of a particular kind of sausage or toothbrush. This kind of activity is primarily responsible for the recurrent “prosperities” that revolutionize the economic organism and the recurrent “recessions” that are due to the disequilibrating impact of the new products or methods. To undertake such new things is difficult and constitutes a distinct economic function, first, because they lie outside of the routine tasks which everybody understands and, secondly, because the environment resists in many ways that vary, according to social conditions, from simple refusal either to finance or to buy a new thing, to physical attack on the man who tries to produce it. To act with confidence beyond the range of familiar beacons and to overcome that resistance requires aptitudes that are present in only a small fraction of the population and that define the entrepreneurial type as well as the entrepreneurial function. This function does not essentially consist in either inventing anything or otherwise creating the conditions which the enterprise exploits. It consists in getting things done.

This social function is already losing importance and is bound to lose it at an accelerating rate in the future even if the economic process itself of which entrepreneurship was the prime mover went on unabated. For, on the one hand, it is much easier now than it has been in the past to do things that lie outside familiar routine—innovation itself is being reduced to routine. Technological progress is increasingly becoming the business of teams of trained specialists who turn out what is required and make it work in predictable ways. The romance of earlier commercial adventure is rapidly wearing away, because so many more things can be strictly calculated that had of old to be visualized in a flash of genius.

On the other hand, personality and will power must count for less in environments which have become accustomed to economic change—best instanced by an incessant stream of new

consumers' and producers' goods—and which, instead of resisting, accept it as a matter of course. The resistance which comes from interests threatened by an innovation in the productive process is not likely to die out as long as the capitalist order persists. It is, for instance, the great obstacle on the road toward mass production of cheap housing which presupposes radical mechanization and wholesale elimination of inefficient methods of work on the plot. But every other kind of resistance—the resistance, in particular, of consumers and producers to a new kind of thing because it is new—has well-nigh vanished already.

Thus, economic progress tends to become depersonalized and automatized. Bureau and committee work tends to replace individual action. . . . [R]eference to the military analogy will help to bring out the essential point.

Of old, roughly up to and including the Napoleonic Wars [1803-1815], generalship meant leadership and success meant the personal success of the man in command who earned corresponding “profits” in terms of social prestige. The technique of warfare and the structure of armies being what they were, the individual decision and driving power of the leading man—even his actual presence on a showy horse—were essential elements in the strategical and tactical situations. Napoleon's presence was, and had to be, actually felt on his battlefields. This is no longer so. Rationalized and specialized office work will eventually blot out personality, the calculable result, the “vision.” The leading man no longer has the opportunity to fling himself into the fray. He is becoming just another office worker—and one who is not always difficult to replace.

Or take another military analogy. Warfare in the Middle Ages was a very personal affair. The armored knights practiced an art that required lifelong training and every one of them counted individually by virtue of personal skill and prowess. It is easy to understand why this craft should have become the basis of a social class in the fullest and richest sense of that term. But social and technological change undermined and eventually destroyed both the function and the position of that class. Warfare itself did not cease on that account. It simply became more and more mechanized—eventually so much so that success in what now is a mere profession no longer carries that connotation of individual achievement which would raise not only the man but also his group into a durable position of social leadership.

Now a similar social process—in the last analysis the same social process—undermines the role and, along with the role, the social position of the capitalist entrepreneur. His role, though less glamorous than that of medieval warlords, great or small, also is or was just another form of individual leadership acting by virtue of personal force and personal responsibility for success. His position, like that of warrior classes, is threatened as soon as this function in the social process loses its importance, and no less if this is due to the cessation of the social needs it served than if those needs are being served by other, more impersonal, methods.

But this affects the position of the entire bourgeois stratum. Although entrepreneurs are not necessarily or even typically elements of that stratum from the outset, they nevertheless enter it in case of success. Thus, though entrepreneurs do not *per se* form a social class, the bourgeois class absorbs them and their families and connections, thereby recruiting and revitalizing itself currently while at the same time the families that sever their active relation to “business” drop out of it after a generation or two. Between, there is the bulk of what we refer to as industrialists, merchants, financiers and bankers; they are in the intermediate stage between entrepreneurial venture and mere current administration of an inherited domain. The returns on which the class lives are produced by, and the social position of the class rests on, the success of this more or less active sector—which of course may, as it does in this country, form over 90 per cent of the bourgeois stratum—and of the individuals who are in the act of rising into that class. Economically and sociologically, directly and indirectly, the bourgeoisie therefore depends on the entrepreneur and, as a class, lives and will die with him, though a more or less prolonged transitional stage—eventually a stage in which it may feel equally unable to die and to live—is quite likely to occur, as in fact it did occur in the case of the feudal civilization.

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To sum up this part of our argument: if capitalist evolution—“progress”—either ceases or becomes completely automatic, the economic basis of the industrial bourgeoisie will be reduced eventually to wages such as are paid for current administrative work excepting remnants of quasi-rents and monopoloid gains that may be expected to linger on for some time. Since capitalist enterprise, by its very achievements, tends to automatize progress, we conclude that it tends to make itself superfluous—to break to pieces under the pressure of its own success. The perfectly bureaucratized giant industrial unit not only ousts the small or medium-sized firm and “expropriates” its owners, but in the end it also ousts the entrepreneur and expropriates the bourgeoisie as a class which in the process stands to lose not only its income but also what is infinitely more important, its function. The true pacemakers of socialism were not the intellectuals or agitators who preached it but the Vanderbilts, Carnegies and Rockefellers. This result may not in every respect be to the taste of Marxian socialists, still less to the taste of socialists of a more popular (Marx would have said, vulgar) description. But so far as prognosis goes, it does not differ from theirs. . .

Thus the capitalist process pushes into the background all those institutions, the institutions of property and free contracting in particular, that expressed the needs and ways of the truly “private” economic activity. Where it does not abolish them, as it already has abolished free contracting in the labor market, it attains the same end by shifting the relative importance of existing legal forms—the legal forms pertaining to corporate business for instance as against those pertaining to the partnership or individual firm—or by changing their contents or meanings. The capitalist process, by substituting a mere parcel of shares for the walls of, and the machines in, a factory, takes the life out of the idea of property. It loosens the grip that once was so strong—the grip in the sense of the legal right and the actual ability to do as one pleases with one’s own; the grip also in the sense that the holder of the title loses the will to fight, economically, physically, politically, for “his” factory and his control over it, to die if necessary on its steps. And this evaporation of what we may term the material substance of property—its visible and touchable reality—affects not only the attitude of holders but also that of the workmen and of the public in general. Dematerialized, defunctionalized and absentee ownership does not impress and call forth moral allegiance as the vital form of property did. Eventually there will be *nobody* left who really cares to stand for it—nobody within and nobody without the precincts of the big concerns [companies].

The reasons for believing that the capitalist order tends to destroy itself and that centralist socialism is . . . a likely heir apparent I have explained elsewhere. Briefly and superficially, these reasons may be summed up under four heads. First, the very success of the business class in developing the productive powers of this country and the very fact that this success has created a new standard of life for all classes has paradoxically undermined the social and political position of the same business class whose economic function, though not obsolete, tends to become obsolescent and amenable to bureaucratization. Second, capitalist activity, being essentially “rational,” tends to spread rational habits of mind and to destroy those loyalties and those habits of super- and subordination that are nevertheless essential for the efficient working of the institutionalized leadership of the producing plant: no social system can work which is based exclusively upon a network of free contracts between (legally) equal contracting parties and in which everyone is supposed to be guided by nothing except his own (short-run) utilitarian ends. Third, the concentration of the business class on the tasks of the factory and the office was instrumental in creating a political system and an intellectual class, the structure and interests of which developed an attitude of independence from, and eventually of hostility to, the interests of large-scale business. The latter is becoming increasingly incapable of defending itself against raids that are, in the short run, highly profitable to other classes. Fourth, in consequence of all this, the scheme of values of capitalist society, though causally related to its economic success, is losing its hold not only upon the public mind but also upon the “capitalist” stratum itself. Little time, though more than I have, would be needed to show how modern drives for security, equality, and regulation (economic engineering) may be explained on these lines.

CLASSIC READINGS IN ECONOMICS

The best method of satisfying ourselves as to how far this process of disintegration of capitalist society has gone is to observe the extent to which its implications are being taken for granted both by the business class itself and by the large number of economists who feel themselves to be opposed to (one hundred per cent) socialism and are in the habit of denying the existence of any tendency toward it. To speak of the latter only, they accept not only unquestioningly but also approvingly: (1) the various stabilization policies which are to prevent recessions or at least depressions, that is, a large amount of public management of business situations even if not the principle of full employment; (2) the "desirability of greater equality of incomes," rarely defining how far short of absolute equality they are prepared to go, and in connection with this the principle of redistributive taxation; (3) a rich assortment of regulative measures, frequently rationalized by antitrust slogans, as regards prices; (4) public control, though within a wide range of variation, over the labor and the money market; (5) indefinite extension of the sphere of wants that are, now or eventually, to be satisfied by public enterprise, either gratis or on some post-office principle; and (6) of course all types of security legislation. I believe that there is a mountain in Switzerland on which congresses of economists have been held which express disapproval of all or most of these things. But these anathemata have not even provoked attack.