SCHUMPETER AND HIS CRITICS ON THE FUTURE OF CAPITALISM

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Abstract

Joseph Schumpeter, is widely known for his argument that, by virtue of its success, capitalism tends to destroy itself and to be replaced by socialism. Less known are the criticisms and refutations of many of the arguments he advanced to support his vision. By most accounts his analysis is, to quote Robert Heilbroner, a “bravura performance.” But, at its innermost core, says Heilbroner, it is “flawed, incomplete, and inadequate.” This paper draws attention to the intellectual context of Schumpeter’s thought and summarizes challenges to his arguments by economists of the Austrian School led by Ludwig von Mises.

If Schumpeter’s most shocking and puzzling proposition is that capitalism’s success would bring about its downfall, his most controversial proposition is the “superior economic efficiency” of socialism over “fettered” or regulated welfare capitalism, and the probable compatibility of socialism with democracy. He attempts to show that socialism is not only theoretically possible, but practical in principle and relatively efficient.

While the Austrians agree with Schumpeter’s account of the dangers facing capitalism, they reject his prognosis of capitalism’s inevitable decline on the premise that the entrepreneurial element in the capitalist process precludes a correct forecast of capitalism’s future course. While they share Schumpeter’s emphasis on the central role of the entrepreneur in economic development, they challenge his conception of entrepreneurial competition—“a perennial gale of creative destruction”—as being manifested only in long-run developmental changes, and his view of innovative “disruption of equilibrium” as the distinguishing characteristic of the entrepreneurial function. Finally, they argue that
rational calculation is impossible under socialism and that central planning is inefficient and inferior to competition. Social scientists outside the Austrian tradition show that by limiting his comparison of capitalism and socialism to an institutional analysis of the industrial order, and by holding a narrow institutional view of democracy, Schumpeter is unable to assess the contrasting ideological conceptions of property, ownership, and freedom of contracting under each system.

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Can capitalism survive? No, I do not think it can. The thesis I shall endeavor to establish is that the actual and prospective performance of the capitalist system is such ... that its very success undermines the social institutions which protect it, and inevitably creates conditions in which it will not be able to live and which strongly points to socialism as the heir apparent.

This prognosis of capitalism's future was written in 1942 by the Austrian-born Harvard economist Joseph A. Schumpeter in *Capitalism, Socialism and Democracy*.¹

Although Schumpeter had contemplated the future of capitalism as early as 1918, it was not until the 1930s, in light of New Deal economics, that he formalized his ideas. Writing in 1935 he saw that even though the components of capitalist society possessed an "observable tendency" toward decay, they were holding their own. Such factors as competition, business enterprise, family ownership of controlling blocks of stock, bourgeois standards and traditions, family stability, and the political dominance of the middle class were still thriving.¹ And at the time Schumpeter believed that "all this surface may be more important than the tendency toward another civilization that slowly works deep down below." Yet, even though he thought "the thirties may well turn out to have been the last gasp of capitalism," he could not see any "purely economic reasons why capitalism should not have another run."¹

Ten years later, and four years after the publication of CSD, he was
considerably less doubtful about capitalism's transition into socialism. In his essay, "Capitalism," for the 1946 edition of Encyclopedia Britannica, he wrote of how far the transformation of capitalism had already advanced: "Government control of the capital and labour markets, of price policies, and by means of taxation, of income distribution is already established," he observed. "[Control] needs only to be complemented systematically by government initiative in indicating the general lines of production (housing programs, foreign investment) in order to transform, even without extensive nationalization of industries, regulated, or fettered, capitalism into a guided capitalism that might, with almost equal justice, be called socialism." (in Clemence, 1951:204)

In the face of such extensive controls and interventions, the issue of the survival of the capitalist order was hardly open to question. For its survival, at that stage of decline, depended upon "a reversal not only of existing tendencies, but also of an established state of things." But such a reversal depended upon political forces that were able and willing to effect it, and Schumpeter saw no evidence of such forces under the postwar regimes.

Schumpeter was not alone in his pessimism. When CSD was published many left-wing intellectuals who had presumed the obsolescence of bourgeois society and bourgeois thought in the 1930s were reconsidering and repudiating socialism on the one hand while lamenting economic decay and ethical-political degeneration on the other. (Brick, 1986:22) In To the Finland Station (1940), Edmund Wilson saw the war years as "a time when the systems of thought of the West were already in an advanced state of decadence." In The Managerial Revolution (1941), James Burnham deplored the bourgeoisie's loss of confidence in its ideologies of individualism,
private initiative, natural rights, and progress. And in The Children of Light and the Children of Darkness (1941), Reinhold Niebuhr despaired over the disintegration of bourgeois civilization. (in Brick, 22)

In response to those who charged him with defeatism, Schumpeter wrote in the second edition (1946) of CSD: "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." (xi) Many were prepared to let the ship of capitalism sink. Others were rushing to the pumps. Still others had been at the pumps for as long as Schumpeter had been studying the nature and development of capitalism. Among those were 39 economists, philosophers and historians from 10 countries who met as a group for the first time in 1947 at the Hotel du Parc on Mont Pelerin sur Vevey near Lake Geneva in Switzerland. Schumpeter is reported to have said at the time that all the surviving liberals of the world were meeting on top of a mountain in Switzerland. (McDowell, 1972)

Those surviving liberals had been invited by F.A. Hayek, whose path-breaking work, The Road to Serfdom, had been published in 1944. The group, which called itself The Mont Pelerin Society, met to discuss the endangered values of liberal civilization and the fate of liberalism in modern thought and practice, "in the hope of strengthening the principles and practices of a free society," and "combatting the misuse of history for the furtherance of creeds hostile to liberty." (McDowell, 1972; 1975)

In his address, "The March into Socialism," before the American Economics Association on December 10, 1949 (the last lecture he gave before his sudden death on January 8, 1950), Schumpeter had occasion to mention yet again the Mont Pelerin Society. He discussed several policies of regulation, taxation, and public control which indicated how far the
disintegration of capitalism had come—policies which were accepted "not only unquestioningly but also approvingly"; that is, by everyone but members of the Mont Pelerin Society. Of that group, he commented: "I believe there is a mountain in Switzerland on which congresses of economists have held which express disapproval of all or most of these things."(418)

As I shall show, in many ways Schumpeter's prognosis and its supporting arguments are in conversation with several of those "surviving liberals." Indeed, he was well acquainted with several of them or their scholarship. His review of Hayek's book was published in June 1946. He also knew the work of Lionel Robbins, of the London School of Economics, who drafted the Mont Pelerin Society's statement of aims.

The Mont Pelerin Society member Schumpeter knew best was Ludwig von Mises (1881-1973), who was his most persistent critic. He had known Mises at the University of Vienna when they were both members of a seminar conducted in 1905 and 1906 by Eugen von Bohm-Bawerk (1851-1914) who, with Carl Menger founded the Austrian school of economics. According to Gottfried Haberler (1951,26) Schumpeter benefited greatly from the heated debates between Bohm-Bawerk and the young Marxist participants (led by theorist and dialectician, Otto Bauer), who later became the theoretical and political leaders in Austrian and German Social Democratic parties. Writes Haberler: "Schumpeter's profound knowledge of Marxian theory and his intimate familiarity with the continental socialist movement as well as with the psychology of socialist leaders, which lent color and freshness to a long series of articles culminating in his book, Capitalism, Socialism and Democracy, originated in those seminar meetings."

But Schumpeter was no Austrian. Although he had the highest esteem
for Bohm-Bawerk, his points of reference were the ideas of Leon Walras and Karl Marx. In the Preface to the Japanese edition (1937) of *The Theory of Economic Development* (1934), he wrote that as an economist he owed more to the Walrasian conception of the economic system as a stationary process and the Walrasian theoretical technique than to any other influence. He viewed his aim to construct a theory of economic change in time as being "exactly the same as the idea and aim which underlie the economic teaching as Karl Marx." He thought Marx's economic interpretation of history was "one of the greatest individual achievements of sociology to this day." (in Clemence, 1951:158-163) Mises (1978, 36-37) has written of Schumpeter's perspective: "Because Austrian economics is a theory of human action, Schumpeter does not belong to the Austrian School. ... Economics, to him, is a theory of 'economic quantities,' and not of human action. Schumpeter's *Theory of Economic Development* is a typical product of the equilibrium theory."

Mises never revised his judgment of Schumpeter as another "mathematical economist" out of touch with economic reality. Although Schumpeter was not an Austrian, he shared with that perspective an appreciation for the social and cultural context in which economic activity takes place. Although the Austrians reject Schumpeter's methodology and the flaws in his conception of innovation in the capitalist process, they credit his focus on interrelated individual exchanges and the contribution he made to the economics of entrepreneurial activity. But the differences in their perspectives ultimately overwhelm their points of mutuality, resulting in divergent interpretations of economic facts and the future of capitalism.

Schumpeter's vision of the growth and decline of the capitalist system
can be scrutinized solely in terms of its internal logic. But since so much of his analysis consists of counter arguments to positions taken by Marxists, Keynesians, and Austrians, a much richer appreciation of his thought can be attained by considering it in light of those ideas. Following a brief sketch of his vision, I shall limit this discussion to just two facets of his analysis that are challenged by the Austrians: his conceptualization of the role of the entrepreneur and his argument for the efficiency of the socialist system.

The Vision

Before turning to Schumpeter's argument, some attention should be given to the meanings he gives to the economic systems under examination. For Schumpeter "commercial society," or "bourgeois society," or "private enterprise economy" is distinguishable from capitalist society. The former consists of "two elements, private property in means of production and regulation of the productive process by private contract (or management or initiative."(167) Capitalism, on the other hand, is "a special case of the former," and "is defined by the additional phenomenon of credit creation—by the practice responsible for so many outstanding features of modern economic life, of financing enterprises by bank credit."(167)

He presents his most comprehensive definition of capitalism in Business Cycles (1939:233). There he defines it as "that form of private property economy in which innovations are carried out by means of borrowed money, which in general, though not by logical necessity, implies credit creation."

Schumpeter also distinguishes between "vital and intact capitalism" and the later stage of "fettered capitalism." It is the intact capitalism
of the 19th century that he admires, and finds superior in efficiency to socialism. By contrast, he views fettered capitalism of the 20th century as a system plagued by "wars of conquest waged upon the bourgeois domain (the private sector) with ever-increasing success by men of the public sphere." (197) The weapons used are progressively higher taxes, increasing regulation, and a rapidly growing public sector.

By socialism, he means "an institutional pattern in which the control over means of production and over production itself is vested with a central authority."

Historically these systems "are never fully carried to their logical consequences. People were at no time allowed to do with their own quite as they pleased, and society at all times limited the range within which they might freely contract. In the epoch of intact capitalism law, custom, public opinion, and public administration enforced a certain amount of public planning." (1943,114) Similarly as demonstrated under Lenin’s New Economic Program, under socialism there is "left room for a certain amount of laissez-faire."

The core of Schumpeter’s vision centers on three basic questions, the answers to which are substantiated by his interpretation of the facts of economic and cultural change, and by arguments that confirm and refute the thinking of other theorists:

1. Can capitalism survive? "No," he answers, in agreement with Marx, but as a consequence of its successes—not its deficiencies, as Marx believed, and not as a result of "vanishing investment opportunities" as Keynesians believe. In Marx’s view the achievements of capitalism were made possible by the exploitation and oppression of the "proletariat" by
the "bourgeoisie." Schumpeter attributed these achievements not only to the property-owning classes, but also to the "supernormal intelligence and energy" of the entrepreneur. Far from exploiting the workers, capitalism's crowning achievement was that by virtue of its cheap mass production, it "effectively" and "progressively" raised the standard of living of the masses.(68)

2. Is socialism the inevitable successor to capitalism? "Yes," he answers, but the transformation will be marked by gradual change, as Marx recommended in the Communist Manifesto, not by revolutionary change as he predicted in Das Capital.

3. Can socialism work? "Yes," he answers, in agreement with theories of "welfare economics" put forth by market-socialists of the early 1940s, and in disagreement with the "rational calculation" argument put forth by Ludwig von Mises in 1919.

Marx was the first to raise the problem of capitalism's future. His formulation of the question was: Are there observable tendencies, inherent in the capitalist process as we know it, which, if allowed to work themselves out fully, will destroy the capitalist and produce the socialist system?

Not only was Marx's question correctly formulated, says Schumpeter; his affirmative answer to the question was also correct. But he arrives at his correct answer by faulty methods. "All of his arguments, but in particular the one that asserts that labour will be goaded into revolution by steadily increasing misery, can be proved to be untenable."(in Clemence,1951:202). Schumpeter gives the following reasons for his belief that capitalism tends to destroy itself and to be replaced by socialism:
1. "as the capitalist epoch wears on, the individual leadership of the entrepreneur tends to lose in importance and to be increasingly replaced by the mechanized teamwork of specialized employees with large corporations;

2. "the institutions and traditions that sheltered the structure of capitalism tend to wear away;

3. "the capitalist process by its very success tends to raise the economic and political position of groups that are hostile to it;

4. "the capitalist stratum itself, mainly owing to the decay of the bonds of family life that in turn may be traced to the 'rationalizing' influence of the capitalist process, tends to lose some of the grip and part of the scheme of motivation which it formerly had."(203)

In summary, he argues: "The capitalist process not only destroys its own institutional framework but it also creates the conditions for another. The outcome of the process is not simply a void that could be filled by whatever might happen to turn up; things and souls are transformed in such a way as to become increasingly amenable to the socialist form of life. With every peg from under the capitalist structure vanishes an impossibility of the socialist plan. In both these respects Marx's vision was right. We can also agree with him in linking the particular social transformation that goes on under our eyes with an economic process as its prime mover. ... In the end there is not so much difference between saying that the decay of capitalism is due to its success and saying that it is due to its failure."(162)

Unlike Marx, Schumpeter made a point of qualifying his prognosis. In his lecture, "The March into Socialism," he reiterated that his project was limited to diagnosing "observable tendencies" and stating "what results would be, if these tendencies work themselves out according to their
logic." (416) To do more than this is to engage in "extra-scientific prophecy." His diagnosis did not, in itself, "amount to prognosis or prediction," he argued, "because factors external to the chosen range of observation may intervene to prevent that consummation; because ... observable tendencies, even if allowed to work themselves out, may be compatible with more than one outcome; and because existing tendencies, battling with resistances, may fail to work themselves out completely and may eventually 'stick' at some halfway house." (416)

Underlying Schumpeter's theory of the economics of capitalism is his view that "capitalism cannot, any more than any other form of organization, be judged by economic results alone. Account must also be taken of the social and cultural achievements for which the capitalist process provided both the means and the psychological prerequisites. Moreover, ... any final appraisal really involves appraising an attitude toward life, a scheme of life's values, in short a civilization. It is this fact which precludes agreement even among those who agree about the economic facts and their interpretation." (1946 in Clemence, 1951:192)

What David Riesman has characterized as Schumpeter's "wide-angled" approach is very much the result of his sociological imagination. But, as von Beckerath (1951) points out, in the majority of his treatises, his sociological thought, which is largely confined to political sociology, "is incidental and subordinate to his thinking as an economic theorist. ... Apart from his essays on the sociology of imperialisms and the social classes in an ethnically homogeneous milieu, Schumpeter the (political) sociologist is free from the self-imposed subordination to Schumpeter the theoretical economist only in his Capitalism, Socialism and Democracy." Although he claims (at least twice) in that work to speak only as "mere
economist," it is in his appraisal of the social forces behind cultural and economic change that Schumpeter stands out as a sociologist of capitalist culture. By interweaving economic theory with philosophy, history, sociology and political science, he shows how "sociological decline" accompanied "economic rise." His "moving picture" of capitalist economic development shows "industrial capitalism in action, growth and decline, the role of its controlling class and of the leading element in that class: the capitalist entrepreneur, as he grows and changes from the ingenious craftsman and venturesome merchant to the head of an industrial family and finally the executive of the big corporation, and promoter of industrial ventures."(von Beckerath)

Schumpeter was, to use another of Riesman's descriptions of him, "a theorist in the grand style." As popular teacher and independent scholar who founded no school and collected no disciples, "his was an act that was extraordinarily difficult to follow," says Robert Lekachman(1978:vii). His subject was human history and his analysis is a blend of economic reasoning, historical analogy, aesthetic appreciation, and perceptions as frequently political and sociological as narrowly technical." His thought is not easily domesticated and converted into a simple set of theoretical summaries. "Schumpeter resists bowdlerization," writes Lekachman. "The vision is too subtle and the analysis too complex for primer translation."(viii)

As Zessenhaus(1981:170) and others have observed, one of the irritating characteristics of CSD, which may also be its chief virtue, is that it resists "the attempt to identify it with any familiar orthodoxy." When the work first appeared, recalls Zessenhaus, "it seemed to be on both sides of too many issues; it refused, irritatingly, neat rubrication into
the pigeon-holes that often serve as initiates' devices of intellectual self-orientation."

This is due in part to the interdisciplinary character of Schumpeter's work and in part to his paradoxical intellectuality. As Zessssenhaus( ibid) points out, Schumpeter was "a conservative who admired the Marxist vision." He deplored the decline of capitalist civilization, while "convinced of the workability of a socialist centrally-planned economy. He poignantly described the autocratic terror of the Soviet system, while declaring socialism and democracy perfectly compatible ... He did not conceal his admiration of the contemporary analytic and econometric discoveries while at the same time condemning them all to relative irrelevance before what he considered to be the real task of socio-economic analysis—explaining, out of their dynamic, the evolution of such systems as capitalist economic development." It has also been noted that side by side with his fascination with the entrepreneur was his undisguised Veblenesque contempt for the "bourgeois."

The Rationalist Death Sentence

It is from his subtle and complex sociological awareness that Schumpeter's understanding of capitalism's decline springs. From a rather refined version of Marxian economic determinism he finds that: "Capitalism develops rationality" by its reliance on rational calculation, its encouragement of empirically based, scientifically-oriented production, its art (e.g., "Expressionist liquidation of the object"), its "individualist democracy," its secular humanism combined with reformist "enthusiasm for efficiency and service," its encouragement of belief in the universality of morality, and its tendency to be pacifist. (124-129) In time the
rationalist attitude becomes incompatible with the belief system that supports a capitalist civilization. "[T]he bourgeois finds to his amazement that the rationalist attitude does not stop at the credentials of kings and popes but goes on to attack private property and the whole scheme of bourgeois values. The bourgeois fortress thus becomes politically defenseless."(146)

Why should the capitalist order, which has to its credit the uplift of all classes of society, be defenseless against its aggressors?

Schumpeter reminds us that in freeing the critical attitude of mind from the restraint of the sacred tradition, capitalist rationality also freed the extra-rational values and impulses that were the motive force of that tradition; it did not vanquish them. Rational refutation and utilitarian reason are all that the capitalist order can employ in its defense, but these are powerless to put an end to the attacks against it. This is in part due to the fact that an acceptance of the case for capitalism would require a level of economic literacy that is beyond the people at large. Besides, "any pro-capitalist argument must rest on long-run considerations" of its performance; but for most people "it is the short-run that counts." Capitalism's future performance is of small comfort to the unemployed of today; and politicians are not likely to put aside their personal ambition in the interest of the future performance of capitalism. Thirdly, capitalism becomes the scapegoat for every variety of personal disappointment and social trouble because "emotional attachment to the social order—i.e., the very thing capitalism is constitutionally unable to produce—is necessary in order to overcome the hostile impulse by which we react to them." Finally, the very increasing standards of living and leisure that capitalism provides breeds the insecurity and resentment
of relative deprivation that foster hostility against capitalism.(145)

"[C]apitalism stands its trial before judges who have the sentence of
death in their pockets," says Schumpeter. "They are going to pass it,
whatever the defense they may hear; the only success victorious defense can
possibly produce is a change in the indictment."(144)

And who will lead the attack and carry out the sentence? Not the
masses but the intellectuals—those whose role is itself the
institutionalization of reason and rationality—"scribblers" whose modern
emergence was made possible by the by-products of capitalism, yet who are
inherently antagonistic to capitalism. Schumpeter's "excursion" into the
sociology of intellectuals is inadequate, but space does not permit more
than this observation and a brief account of the relationship of the
intellectual to the entrepreneur.

If, as Max Weber says, ideas and values are the prime movers of the
social process—the transmission belts of the social engine, as Schumpeter
analogizes—then the intellectual is, to use Ayn Rand's metaphor, one of
"the twin motors of progress," of cultural and economic growth and
development. The other is the entrepreneur.

As Weber and other economic historians have recognized, entrepreneurs
and economic innovators are not unique to the rise of capitalism. Like the
intellectual, the entrepreneur can be found during earlier stages of
history. But they are both functionally necessary for capitalism's
success—or its failure. As agents of change, both are faced with options
that may retard or foster the cultural and economic performance of
capitalism, and thereby determine the direction of the evolution of
capitalist society. The entrepreneur's options are determined by his
position in the flow of economic transactions, by his ability to see or
create change. (Hughes, 1986) The intellectual's options are determined by his position in the creation, transmission, distribution and application of cultural ideas and values.

Economic and cultural development depends on the scientist's discovery of the principles that govern the natural and physical world, the inventor's application of those principles in the exploitation of nature technology, the entrepreneur's exploitation of technological advances and transaction opportunities, and the intellectual's exploitation of knowledge and opinion—all of which, in modern society, is powered by the rationalist mentality. The inventor is a pioneer of change in the material resources of production. The innovator is a pioneer of change in the environmental and technological conditions of production. Entrepreneurs are capitalizers on changes in the conditions of production; intellectuals are interpreters of change and thereby the principal architects of the ideas and ideologies that legitimate it and dissent from it.

But change is not necessarily progress. The very agents of capitalist achievement are capable of fostering capitalism's decline. Schumpeter finds that it is the lack of a business leadership capable of defending the values of capitalism that enables intellectuals and other hostile beneficiaries to succeed in undermining the moral authority of capitalism. Instead of restraining them the business establishment finds it necessary to protect the right of its adversaries to undermine the system. For as Schumpeter argues, "the freedom it disapproves cannot be crushed without also crushing the freedom it approves. ...In capitalist society ... any attack on the intellectuals must run up against the private fortress of bourgeoisie business which, or some of which, will shelter the quarry. ... In defending the intellectuals as a group—not of course every
individual—the bourgeoisie defends itself and its scheme of life. Only a government of a non-bourgeois nature and non-bourgeois creed—under modern circumstances only a socialist or a fascist one—is strong enough to discipline them."(150-151)

The Prime Mover’s Function

As the entrepreneur defends the intellectual's freedom of expression, his own role and function are undermined by the routinization of innovation, "depersonalized and automatized" commercial enterprise, mass production and mass distribution, and the separation of success from individual achievement by rationalized and specialized office work. He is gradually transformed into the managerial bureaucrat. The weakening of the entrepreneur’s function in turn threatens the position of the entire bourgeois class, and undermines capitalism's institutional framework, namely, property, ownership, and freedom of contracting.

For Schumpeter the entrepreneur is not only "the most colorful figure in the capitalist process"; he is "the pivot on which everything turns."(1986:554, 555) Since the entrepreneur is the prime mover of the capitalist process, the definition of his role and function is central to any conception of market activity and economic development. Thus Schumpeter discusses entrepreneurial activity in all of his major works. Different conceptions of this key agent of change leads to different conclusions about the nature of the capitalist process and the future of capitalism. For instance, Marx saw capitalism’s decomposition as a consequence of the struggle between the exploited working class and the exploiting bourgeoisie. Schumpeter views the evolution of capitalism into socialism as occurring out of the competition between innovative
entrepreneurs and routinizing corporate bureaucrats. "The perfectly bureaucractized 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."(134) In Schumpeter's vision the working class is relegated to a positon of powerlessness, and plays no role at all either in the decomposition of capitalism or administration of socialism. (Heilbroner,1981:99)

Schumpeter shares with economists of the Austrian School his emphasis on the central role of the entrepreneur in economic progress. Like Schumpeter, the Austrians view the entrepreneur as "the driving force in shaping the actual structure and patterns of production in the market economy."(Rothbard, 1985:283) However, although they are not mutually exclusive, the Schumpeterian entrepreneur and the Austrian entrepreneur are very differently conceived. The Austrian conception, originally put forth by Mises (1963:235), defines the entrepreneur as "acting man exclusively seen from the aspect of the uncertainty inherent in every action. In using this term one must never forget that every action is embedded in the flux of time and therefore involves a speculation." For Mises the entrepreneurial element in human decision-making is not exclusive to homo economimus but is attributable to homo agens. Since the entrepreneurial element is present in all human action, the entrepreneur is not just a social type but a social role that is attributable to all participants in the market process—capitalist, employer, and laborer alike.

Schumpeter's depiction of the entrepreneur's function emerges from his attempt to derive a theory of the business cycle and economic growth from a
an imaginary starting point at which market conditions or processes are unchanging and repetitive; there is no change in supply and demand, in physical conditions of production, in transactions, or profits and losses. (Rothbard, 1985:285) His basic position is that the economy’s tendency to sustain this equilibrium or unchanging momentum—that is, its resistance to change—is overcome by the entrepreneurial innovator’s continuous activity of "creative destruction"—the institution of new methods and development of new products. This disturbance of peaceful, unchanging business routine—the "disruption of equilibrium"—infuses new life into economic development and keeps the capitalist engine in motion. (83)

In contrast to Schumpeter’s conception, the Austrians understand the demand for entrepreneurs to be generated by the imbalance of opposing forces in the market—by discrepancies between supply and demand, profits and losses, information regarding market opportunities, etc. The role emerges from the introduction of uncertainty in the market place by virtue of man’s limited knowledge. There would be no entrepreneurial role in an unchanging, repetitivie economic system because such a situation would require omniscient and infallible actors, which is clearly an impossibility. The entrepreneur is the person who bears the risks of uncertainty and is willing to speculate in the face of the lack of omniscience. The capitalist-entrepreneur is the most important type because he is willing to commit and risk his capital in deciding when, what and how much to produce. Rather than disrupting an imaginary existing equilibrium as the Schumpeterian entrepreneur does, the Misesian entrepreneur adjusts real market discrepancies toward meeting satisfying desires of consumers. (Rothbard, 1970, 494) He is rewarded with profits to the degree that he can successfully forecast the future, and suffers losses
to the extent that his forecasting goes awry. (Rothbard: 1985, 283)

The essence of Misesian entrepreneurship is not innovation or "creative destruction," but speculation motivated by profit-and-loss signals of the market. Rothbard (1970: 493) states that although "the discovery and institution of more productive methods of obtaining a product or of the development of valuable new products [is important], innovation is only one of the activities performed by the entrepreneur. . . . [M]ost entrepreneurs are not innovators, but are in the process of investing capital within a large framework of available technological opportunities. Supply of product is limited by supply of capital goods rather than by available technological know-how."

Israel Kirzner, an Austrian who has devoted much of his scholarship to the economics of entrepreneurship, places less emphasis on the speculative aspect of entrepreneurial activity than Mises. Kirzner’s entrepreneur is distinguishable by the quality of "alertness" to discover new goals, newly available resources, possible profit opportunities. (1973: 35) His emphasis on entrepreneurial alertness accentuates the fact that despite the "unavoidably speculative character" of the entrepreneur’s decision, it "represents his judgment that an opportunity does exist." (ibid, 86) In contrast to Schumpeter, Kirzner views entrepreneurship as "not so much the introduction of new products or of new techniques of production as the ability to see where new products have become unsuspectedly valuable to consumers and where new methods of production have, unknown to others, become feasible." (81)

The Austrian conception of entrepreneurship also differs from Schumpeter’s in its view of competition. For Schumpeter competition is "a perennial gale of creative destruction," manifested in the long-run
evolution of the capitalist system.(82) But the innovators who engage in this creative destruction are "supernormal" entrepreneurial leaders. In the Austrian view, writes Kirzner, "entrepreneurship is manifested in short-run movements fully as much as in long-run developmental changes, and is exercised by imitators (who move to exploit the opportunities exposed by the activities of the innovators) fully as much as by the innovators themselves. For us entrepreneurship ceases only when imitative activity has succeeded in squeezing out all opportunities."(1973:81)

Clearly the Austrian conception of speculative/alert entrepreneurship that is innovative on the one hand and imitative on the other is a more robust view. This is because it is grounded in a more realistic vision of the economic process than Schumpeter's "disruption of equilibrium" thesis. Schumpeter's agent of change is real enough. But the static, or unchanging, situation his innovation is intended to disrupt is only a theoretical construction that has no basis in reality. As we shall see, it is this distinction between the two approaches that accounts for their different views of capitalism's future.

The entrepreneur is central to Schumpeter's vision of the decomposition of capitalism because with the disappearance of the entrepreneurial function, "the whole stratum that accepts the bourgeois scheme of life" is threatened with extinction. Schumpeter elaborates: "From the logic of his position [the modern businessman] acquires ... the psychology of the salaried employee working in a bureaucratic organization... His system of values and his conception of duty undergo a profound change. Mere stockholders of course have ceased to count at all ... Thus the modern corporation, although a product of the capitalist process, socializes the bourgeois mind; it relentlessly narrows the scope
of capitalist motivation; not only that, it will eventually kill its roots."(156)

The "spread of rationalization to the sphere of private life" disintegrates the bourgeois family.(157) With the decline of the family motive "the businessman’s time-horizon shrinks, roughly, to his life expectation." Thus, even when he has no reason to fear that earning, saving and investing will increase his tax bill, "he drifts into an anti-saving frame of mind" and "accepts the anti-saving theories" propagated by his enemies whose education he has provided. He loses the will to repel the attacks against him, and would rather seek a compromise than fight for his ideals.(161)

Finally, predicts Schumpeter,"The discernible though not yet revealed tendency toward decomposition will proceed at an indeterminate pace in the "short-run" of a century."(163)

Where Are We Now?

To what extent has the capitalist order moved toward socialism? Most honest observers of events during the last 40 years agree with Gottfried Haberler's (1981) assessment that "the 'march into socialism,' though it may have been slowed temporarily, has not been stopped, let alone reversed. The growth of the public sector continues in most countries, the tax burden goes up and governmental interventions in the economy have hardly been reduced anywhere." (91–92) The evidence of the transition toward socialism is especially evident in realm of entrepreneurial activity. The motivation for entrepreneurial risk-taking is the prospect of profit. But the institutional environment which encourages it has not existed since World
War II. Since that time the entrepreneurial role has been increasingly diminished by the reliance upon a massive governmental bureaucracy to make economic decisions.

Hughes (1986) gives a good description of where we are now. "We still have Schumpeterian entrepreneurship," he writes, "but it seems entirely unlikely to come from its former sources. Moreover, there is no public demand for it. We acquired two traditions which we treasure from the great age of the American entrepreneur: we got a taste for the virtues of economic development via the free market, and also we came to value use of government to regulate or alter the outcome of free-market transactions when significant coalitions found those outcomes objectionable. the competitive political system exploits both sentiments. As a result, everyone who mattered politically got what they wanted; and, paradoxically, what we have is mostly unsatisfactory to all parties. The government control sector is merely a pile of historical debris representing no overall plan or theory—agencies piled up in the past 90 years, some of them cancelling out the effects of others. It is a nonsystem of regulated economic malfunctioning. It is a mighty barrier to future entrepreneurship even if investment resources should be available."

This is where we are, but the requirement of entrepreneurial innovation and speculation for economic development remains what it always was. If it is not to come from its former sources, says Hughes, perhaps the world will turn elsewhere. Indeed, a recent report on innovation in the major industrial nations indicates that what Americans are no longer demanding of themselves is being supplied by the Japanese. 9

Even in the face of the America’s declining productivity and increasing government intervention in the economy, there is little
agreement about their implications. Many Americans view the "march into socialism" as taking place on the road to liberation. Others are convinced that we are marching into socialism on "the road to servitude." One thing is certain: the old individualist capitalism is dead. But it did not commit suicide. It was rejected and murdered.

We continue to benefit from the remnants of entrepreneurial capitalism that support welfare capitalism: that is, property, ownership, and freedom of contracting. But the capitalist mentality of liberal individualism has been perverted by the mentality of conservative collectivism—and the socialist way of thinking is conservative.

Capitalism survives in a "fettered" state but the worldview or Weltanschauung that supports it has eroded, as much or more among so-called defenders as among its detractors. For author Paul Johnson (1979), the weakness of the intellectual and moral position of the free enterprise idea is evidenced by the predominance of books in university bookstores that argue the economic, social and moral virtues of communism and collectivism which outnumber by 5 or 6 to one the books defending free enterprise, or merely taking an objective view of the argument. For me the evidence is in a Mobil Oil advertisement that appeared in The New York Times over a decade ago when American businessmen had decided that their function was to be "socially responsible," rather than produce goods and earn profits. The title of the advertisement read as follows:

Free private responsible enterprise?

"Perhaps we need to discard old labels of 'free enterprise' and 'private enterprise' altogether," suggested the statement that followed. "Besides none of us is fully free to pursue his own ends if they conflict
with the needs of society as a whole. It's been a long time since people in business had that option. And 'private' enterprise? When business operates in a fish bowl, when decisions are made with all of society in mind, there's not much privacy left. 'Responsible enterprise,' may most closely describe what business should aim for today. Being responsible means being responsive. ... We try to be responsible, responsive and above all, enterprising. Doing this leaves us no time to fret about being 'free' or 'private.'"

This, then, is how the capitalist undermines the capitalist order: in his effort to survive he denounces the very system that makes his existence possible. And in this, he is as "socialized" as the worker and consumers of his products.

The Hour of Socialism

Schumpeter first presented his prognosis of capitalism's future in an essay he wrote in 1918, entitled "The Crisis of the Tax State." In that work he posed the question of whether a capitalist economy would be able to function after the end of the war without imposing excessive burdens on the individual. He answered in the affirmative but wrote that his "yes" was valid "only for the concrete historical situation of the moment." His advocacy of free enterprise was not because he thought it was "the last word of wisdom," and not because he was uncritical of the bourgeoisie. Rather, he believed that "what needs to be done now, is exactly what it can do best."(in Haberler,1951) In that essay he put forth his conviction that "the hour of socialism will come."10

For Mises the confidence with which intellectuals and politicians
anticipated "the hour of socialism" was folly. He hoped his theories could prevent the impending doom, and presented his critique of socialism to the Nationalökonomische Gesellschaft (Economic Society) in 1919 in the essay, "Economic Calculation in the Socialist Commonwealth." In 1920 it was published in Archives for Social Sciences and Politics, and later incorporated in Socialism (1922). He demonstrated that an economic system with no private ownership of the means of production could find no criterion for determining the values of the production factors and therefore would be unable to calculate entrepreneurial profit and loss.

Mises' Socialism was a landmark analysis which showed the logical and practical impossibility of socialism, which made it the most damaging refutation of socialism since Bohm-Bawerk published his Karl Marx and the Close of His System in 1898. Henry Hazlitt reports that on the basis of Socialism, the Marxist economist Oskar Lange, who later became member of the Polish Politburo, proposed that future socialists erect a statue to Mises. Said Lange: "It was his powerful challenge that forced the socialists to recognize the importance of an adequate system of economic accounting to guide the allocation of resources in a socialist economy." (in Hazlitt in Mises, 1980: 980) Unfortunately, by the time Socialism was translated and the failures of Communist economic planning in Russia and post–World War II Eastern Europe were acknowledged, Western economists had accepted as valid Lange's "refutation" of Mises, without bothering to read Mises’ own demonstration. (Rothbard in Mises, 1980)

F.A. Hayek, who was then a student of Mises at the University of Vienna and a subordinate of his at the Vienna Chamber of Commerce, writes that Socialism's impact on his generation was profound: "To none of us young men who read the book when it appeared was the world ever the same
again. ... The logic of the argument was inexorable. ... Professor Mises' teaching seemed directed against all we had been brought up to believe. ... For the young idealist of the time [Mises' arguments] meant the dashing of all his hopes; and since it was clear that the world was bent on the cause whose destructive nature the work pointed out, it left us little but black despair...." (in Mises,1976:189-190)

Mises' ideas changed the world view of young economists like Hayek, but they had no impact on Schumpeter. In his posthumous History of Economic Analysis(1986) he writes: "there is a purely theoretical anti-socialist argument (sponsored by Professors von Mises, von Hayek and Robbins) which is definitely wrong."(989)

"Can socialism work?" asks Schumpeter in CSD. "Of course it can," he answers. He goes on to claim that there is no incompatibility between socialism and democracy: "[I]n appropriate states of the social environment the socialist engine can be run on democratic principles."(284)

If Schumpeter's most shocking and puzzling proposition is that capitalism's success would bring about its downfall, his most controversial proposition is the "superior economic efficiency" of socialism over "fettered" or regulated welfare capitalism, and the probable compatibility of socialism with democracy. He addresses the issue by first attempting to show that "there is nothing wrong with the pure logic of socialism."(1974) From there he tries to demonstrate that socialism is not only theoretically possible, but practical in principle and relatively efficient. He attempts to make his case by rejecting Mises' argument of the impossibility of rational calculation under socialism. He denies Mises's argument by asserting that "economic rationality" can be attained without actual markets in productive resources by virtue of the "elementary proposition"
that "consumers, in evaluating ('demanding') consumer goods, ipso facto
also evaluate the means of production which enter into the production of
those goods."(175)

After establishing the "logical credentials of socialism," Schumpeter
turns to the "practical impossibility" argument put forth by F.A. Hayek
(1948) and Lionel Robbins (1934; 1937), whom he mistakenly believed had
"retreated" from Mises' "logical impossibility" argument. He argues that
rational calculation under socialism would be not only as possible as under
capitalism, but that it would be "easier" to accomplish. One reason is
that many of the uncertainties that confront commercial capitalist
managements would "vanish completely" under socialism—particularly
"uncertainties about the reaction of one's actual and potential competitors
and about how general business situations are going to shape."(186)

As for the superior efficiency of socialism, Schumpeter believes: "we
need only glance at the implications of our proof of the possibility and
practicability of the socialist schema in order to realize that there is a
strong case for believing in its superior economic efficiency."(188) Aware
of the argument for competitive capitalism's superiority over socialism, he
argues that if socialism's superiority over "big-business" or
"monopolistic" capitalism is proved there is even stronger proof for its
superiority over competitive capitalism.(188-189)

Schumpeter dismisses Mises' thesis of the theoretical and practical
impossibility of socialist calculation. As far as he was concerned, early
economists such as Pareto, Enrico Barone, and Friedrich von Wieser had
successfully demonstrated "the fact that the fundamental logic of economic
behavior is the same in both commercial and socialist society,"(183) and
that later economists such as "market-socialists" Oskar Lange, H.D.
Dickinson, Fred M. Taylor, and Abba P. Lerner had thoroughly refuted Mises' challenge to socialism. Like most of his contemporaries and those who have followed, Schumpeter relied on the neoclassical equilibrium arguments of the market-socialists and agreed with their interpretation of the calculation debate. But, as Lavoie (1981) shows, Schumpeter's analysis only extended the life of what continues to be a fundamental misunderstanding by professional economics of the Austrian challenge.¹²

Mises was interpreted as though he was an exponent of the static equilibrium model of analysis, when in fact his challenge was framed in terms of the Austrian perspective's concern with dynamic conditions of the real world. But Mises(1963;1978) and Hayek(1948:88–91) have met Schumpeter's dismissal by insisting that his vision of the attainment of calculation under socialism depends on an erroneous view of the market process as unchanging. If economic theory acknowledges the fact that the market exists in a world of continuous change it can only conclude that rational calculation is impossible under socialism and that central planning is inefficient and inferior to competition.

Mises(1978:112) writes that the many efforts to disprove his challenge "did not delve into the value-theoretical center of the problem." In their eagerness to rescue socialism, "they failed to see the very first challenge: How can economic action that always consists of preferring and setting aside, that is, of making unequal valuations, be transformed into equal valuations, and the use of equations?" He(1963:357) dismisses Schumpeter's vision of the attainment of "economic rationality" under socialism as a "devastating consequence of the mathematical treatment of economics. ...It is hardly possible to construe the market process in a more erroneous way." As he has said repeatedly: "Economics is not about
goods and services, it is about the actions of living men. Its goal is not to dwell upon imaginary constructions such as equilibrium. These constructions are only tools of reasoning. The sole task of economics is analysis of the actions of men, is the analysis of processes."(357)

He does not deny the theoretical similarity of capitalism and socialism under static conditions, as his critics assert. On the contrary, he agrees with Schumpeter and others that there is no problem for central planning under static conditions. But he holds that the mathematics of the static equilibrium approach is, as Lavoie (1981:45) states it, "inapplicable to the real world of continuous change even if, given a powerful enough computer, they were solvable." Argues Lavoie: "Properly interpreted, this challenge has yet to be adequately answered by advocates of central planning."(45)

That Mises' argument for economic theory concerned with realistic conditions of change, and his defense of his challenge to socialism have gone unheeded is itself evidence of the truth of Schumpeter's observation that the intellectual defense of capitalism lacks the power of persuasion that the defense of the socialist system has.13

Was Schumpeter Right?

One implication of the Austrian critique of the Schumpeterian vision is that it is a floating abstraction—a theoretical construction that, quite apart from its flaws, is useful as a tool for thinking about theories of economic change, but virtually useless insofar as it can say anything definitive about the dynamics of economic reality. To be sure, whether one
agrees with them or not, Schumpeter's arguments are tied to economic reality, but they are severed from the vision they are meant to support. This is evident in his institutional account of entrepreneurial activity, and even more so in his comparison of the institutional arrangements of capitalism and socialism.

Haberler(1981:92) argues that Schumpeter's vision of capitalism's self-destruction is unwarranted by his own distinction between "intact" and "fettered" capitalism. If we accept Schumpeter's argument that "no social system is ever pure," writes Haberler, "the question should be not, Can capitalism survive? but How far will the admixture of public planning go? and How far can it go in a democratic environment?, keeping in mind Schumpeter's warning that socialism 'is likely to present fascist features'. If the capitalist economies show signs of 'decomposition' (a rapid growth of the public sector and public planning), so too do the socialist economies (in both their economic and their political aspects)."

In their present (altered) forms, the capitalist and socialist systems are "miles apart," and, in Haberler's view, "there can be no question which one is preferable", but the instances of congruence between socialism and welfare capitalism may be indicative of a tendency for convergence of the two systems.

Indeed, Schumpeter's analysis seems to suggest more the convergence of capitalism and socialism than it does the triumph of one over the other. When he compares capitalism and socialism he drops the ideological/political context which distinguishes "pure" capitalism from "pure" socialism—remnants of which still exist in each system—and locates his analysis in the institutional context in which capitalism and socialism are seen as alternative economic systems that can support an industrial
society.

It is in light of the convergence thesis that Aron (1968) arrives at his criticism of Schumpeter's prognosis of capitalism's future. Aron asks: "Given the same productive force—a force which is scientific and technological and inevitably more or less the same in all developed societies—to what extent will relations of production and social organization be different? (183) When the problem is so framed, he suggests, theories of the "self-destruction of socialism" and the "self-destruction of capitalism" are "as ambiguous as the terms socialism and capitalism."(184) As socialist and capitalist regimes adapt their industrial (production) orders to the universality of science and technology," the convergent evolution of each toward a mixed regime can be observed. It is not impossible to imagine a purely industrial order that is characterized by elements of both an ideal Soviet society in which producers and planners have the say, and an ideal Western type in which sellers and consumers are dominant."(186-188) However, insofar as the two regimes remain committed in ideology and in practice to contrasting conceptions of the status of property and ownership of the means of production, and the commercial spirit, their respective transformations cannot be equated with self-destruction.

Bottomore's (in Schumpeter, 1962) criticism of Schumpeter's prognosis also focuses on its lack of appreciation for the contrasting cultural ideals of capitalist and socialist societies. He makes the very important observation that Schumpeter's vision of the decline of capitalism "does not entail the emergence of a socialist society, and [his] view of socialism as the 'likely heir apparent' is based upon an argument to the effect that the economic process tends to socialize itself."(xi) This is evident, says
Bottomore, from Schumpeter's definition of socialism as "an institutional pattern in which control over means of production and over production itself is vested with a central authority—or ... in which, as a matter of principle, the economic affairs of society belong to the public and not to the private sphere." Bottomore points out that Schumpeter "puts aside any discussion of the cultural aims of socialism, referring in a somewhat cavalier fashion to what he calls the 'cultural indeterminateness of socialism.'... Schumpeter is concerned only with the reorganization of society, and when he asks whether socialism can work, what he means is whether it can be economically efficient and productive."(xi)

Schumpeter's narrow institutional view of socialism is paralleled by his similarly narrow view of democracy. Writes Bottomore: "[He] formulates an economic definition of democracy, conceived as an institutional arrangement like the market, in which various groups and individuals—equivalent to enterprises and entrepreneurs—compete for the votes of electors, the political 'consumers'"(xi)\(^{14}\) Schumpeter rejects the "classical doctrine" of democracy which entails political ideals concerning political participation and the nature of the relationship of the state and the people, and views democracy as only a mechanism by which political leaders are selected. His concern is only with whether its functioning as a mechanism is "workable" or "unworkable" which, as Bottomore argues, leaves no way of examining the question of whether a society is more or less democratic.(xii)

Robert Heilbroner(1981:106) also rejects Schumpeter's vision of the socialist system as a new and different order that is superior to bourgeois capitalism. "He remains par excellence the world philosopher of mature capitalism," says Heilbroner, "but he does not see that the most distant
reach of his thought is not a terminus but a horizon." At its innermost core, says Heilbroner, Schumpeter's analysis is "flawed, incomplete and inadequate." But Heilbroner does not mean to imply by this assessment that Schumpeter was bested by other writers of his time. Compared with the vast majority, at least on the surface, says Heilbroner, Schumpeter's analysis "is a bravura performance, closer to the subsequent trends of history than the heady expectations of the contemporary Left, the naive hopes and fears of the liberal middle, and the black forbodings of the believers in the Road to Serfdom." (95)

Despite its flaws, the Schumpeterian vision continues to influence many commentators and analysts of modern industrial society. That this is so displeases certain champions of capitalism. On their view, an example of which is stated by Robert Perrin (1981), to assume capitalism's irreversible atrophy "contributes only to the self-fulfilling prophecy of defeat," and does nothing to "contribute to the kind of counter-offensive that can be beneficial to the survival and even rejuvenation of competitive capitalism." (214-215) On this view, Schumpeter is himself part of the problem he describes. For, it is argued, in the competition among idea systems for adherents, theorists like Schumpeter who conclude that capitalism will inevitably fail concede to the opponents of capitalism the intellectual high ground on which to persuade people that capitalism should fail—should not be permitted to succeed.

There are other free market advocates who appreciate Schumpeter's statements of the dangers facing the capitalist order, but who, like Perrin, reject his vision of capitalism's self-destruction. No doubt most laymen and many pro-capitalist theorists reject the vision because it offends their faith in the promise of capitalism. Still others, like
Ludwig von Mises, whose own Anti-Capitalistic Mentality (1956) presents some of the same elements of the hostility to capitalism that Schumpeter observes, reject the logic of the vision. Even when Mises himself despaired about the decline of Western civilization, he nevertheless condemned as absurd the idea that the evolution of capitalism inevitably leads to socialism. "Neither socialism nor interventionism can acquire meaning and purpose from the alleged but unsupported assertion that history inevitably leads to them, he argued. If the 'return to capitalism' is really out of the question, as is maintained by socialists and communists, then the fate of our civilization is sealed. But I demonstrated [in Mises, 1922; 1927; 1929] that the doctrine of the inevitability of socialism and interventionism is untenable. Capitalism does not destroy itself. Men wish to abolish it because they expect greater benefits from socialism or interventionism." (1978:116, emphasis added)

While Mises is concerned to rescue the idea of capitalism's future from deterministic visions of destruction, Israel Kirzner (1985) aims to rescue it from the "resource allocation" paradigm in economics and from the equilibrium perspective. Kirzner says that when entrepreneurial activity is given an essential role in the analysis of capitalist development, as Schumpeter certainly does (albeit from an equilibrium perspective), it will be seen that the entrepreneurial element in the capitalist process makes it impossible to correctly forecast capitalism's future course. Kirzner writes: "To the extent that the market integrates existing scattered information concerning wants, technology, and available resources, it may be argued that the market's future course is determined by that existing stock of information. But to the extent that the market can, through long-run entrepreneurial discovery, transcend the limits of any existing
constraints of knowledge, its future course becomes wholly indeterminate. We may argue, with great confidence, that under capitalism entrepreneurial discovery will disclose new arrays of social opportunities—but precisely because these are wholly new opportunities created by entrepreneurial discovery, they cannot be seen in any sense as the inevitable outcome of the entrepreneurial process. Our confidence in the creativity of entrepreneurship does not in any way suggest a determinate pattern in such creativity."(163)

Kirzner’s view of capitalism’s future suggests that a more realistic vision of social and economic change is one which views neither progress nor decline as inevitable. "Very little in the social world is inevitable," Perrin (1981:214) reminds us. "And quite often, even the 'inevitable'—once it is known—yields to human will and its choice-making facility." Any attempt to chart a specified future must be seen as an act of either arrogant evasion or ignorance. The discomfort of uncertainty can not be escaped by attributing fixity to the unknown. Evan Thomas, of Newsweek, recently echoed Perrin’s view. "America’s eclipse is not inevitable," he declares. "In a country where people can choose their leaders and their livelihoods the future is not predestined. It is a matter of choice."(1988)

Accepting the limitations of our abillity to know the future does not require that we passively resign ourselves to the unfolding of developments that are the results of the ideas, values, and actions of others. It does require that we take the responsibility for the destiny that is within our power to shape. We may make a mess of things, but it will not do to pretend that we could not help it.

In his dismissal of the thesis of capitalism’s decline, Perrin(1981)
declares: "Decadence is not a logical consequence of capitalism but a
definition of the evolutionary direction of capitalism by those who are
ignorant of its complexities or who wish to see its destruction."
Schumpeter does not wish to see the destruction of capitalism. But, as his
Austrian critics have pointed out, his understanding of the complexities of
the capitalist process is handicapped by the static equilibrium model he
adopts (albeit inconsistently).

No one questions the reality of the "observed tendencies" toward
decline that Schumpeter identifies. What is problematic about his argument
is that the interpretation he gives to those tendencies fixes them in an
inevitable movement toward a specific result. Had he named that movement
"progress," and the result "the return to intact capitalism," the reaction
by most serious thinkers would be the same.

The convergence of the equilibrium model with the idea of progress
would be just as unsatisfactory as the convergence of the model with the
idea of decadence. A prognosis of progress or decline could only spring
from the logic of the equilibrium model; and on that basis neither vision
can be much more than an idealization that has little bearing on the
reality of a dynamic and complex process that is fraught with uncertainty,
scattered pieces of information, and teeming with technological and
entrepreneurial activity in the form of innovation, discovery, speculation,
competition, production, and distribution—all taking place within a
cultural and social context of continuous debate over what it means to be
free and how best to keep the peace.

Both our inability to know the future and the open-endedness of
knowledge seem to suggest that we guard against inflating trends into
historical laws.
NOTES

1. Unless otherwise indicated all quotations of Schumpeter are from the 1950 edition of this work and referenced only by page numbers in parentheses. Hereafter, the title will be indicated by the initials CSD.

2. Schumpeter’s address is reprinted in the 1950 edition of CSD.

3. Schumpeter says that when he began studying the Walrasian approach he "discovered not only that it is rigorously static in character ... but also that it is applicable only to a stationary process." He distinguished these two theoretical perspectives as follows: "A static theory is simply a statement of the conditions of equilibrium and of the way in which equilibrium tends to re-establish itself after every small disturbance. ...[The theory of a stationary process], however,[pertains to] a process which actually does not change of its own initiative, but merely reproduces constant rates of real income as it flows along in time. If it changes at all, it does so under the influence of events which are external to itself, such as natural catastrophes, wars and so on." In this view, economic life is essentially passive; it limits the economist to recording the adaptation to historical change without being able to say much about the factors that account for change. Schumpeter says he rejected this view of economics because he thought that instead of being propelled by external factors, economic change would be generated by the system itself.(1937)

Not all commentators on Schumpeter’s works agree that he abandoned the equilibrium perspective. As Clemence and Doody(1950:9) point out, the Schumpeterian model of the capitalist process is not the same as the Schumpeterian vision of that process. Although the vision springs from the model, the two often diverge. For instance, the "pure" model of capitalism assumes an economic system in general equilibrium.

4. Schumpeter was a methodological eclectic who saw no contradiction between the "mathematical method" he championed in his first published article in 1906 and the "historical method" he advocated during his later years, or the "theoretical method." Indeed, despite his economic determinism, he found methodological individualism more fruitful than methodological collectivism. The former, which he distinguished from political individualism, he understood to mean that "in the description of certain economic processes one had better begin with the actions of individuals."(quoted in Machlup[1951] from Nature and Principal Content of Theoretical Economics[1908,90]). He rejects the latter, which he calls "the use of social categories" because it "has no appreciable advantages, and thus is superfluous" in economic analysis. The relationship of his economic determinism and his methodological individualism may be appreciated from the following statement in Nature and Principal Content: "[T]hat the social influences determine the conduct of the individual, and that the individual is a microscopically small factor, is all admitted but entirely irrelevant for our purposes. What matters for us is not how these things really are but how we must schematize or stylize them in order to serve best our purposes. ..."(93-94)

5. For an analysis of Schumpeter’s objections to Keynesian doctrine as
having destroyed "the last pillar of the bourgeois argument," private saving, and for making it intellectually respectable for non-socialists to foster anti-capitalist policies, see Smithies (1951). According to Smithies, Keynes was indifferent to Schumpeter and Schumpeter was uniformly hostile to Keynes.

6. Schumpeter argues that the large corporation by its nature does not reward entrepreneurship. For a demonstration of how insider trading provides one form of appropriate entrepreneurial compensation, see Henry S. Manne, Insider Trading and the Stock Market (1966).

7. In the 1985 preface to his inspiring and illuminating history of American entrepreneurship (first published in 1965), Jonathan Hughes, while lamenting the failure of theoretical economists to incorporate entrepreneurship—"the most forceful, dramatic, and obvious phenomenon in all of economic life"—into their study of how economic events happen, notes that Kirzner's Competition and Entrepreneurship (1973) "has probably been the most estimable single contribution in the field of microeconomic theory."(x)

8. See Kirzner (1973; 1985) for an analysis of the inadequacy of Schumpeter's creative destruction thesis as an argument against the perfect competition theory.


10. See also: Erich Schneider, Joseph A. Schumpeter: Life and Work of a Great Social Scientist, translated and introduced by W.E. Kuhn (Lincoln, NE: Bureau of Business Research, University of Nebraska, 1975).

11. In his biography of Bohm-Bawerk, published in 1914, Schumpeter said of his critique of Marx that it "will never cease, as far as the theoretical content of Marxian system goes, to be the Marx critique." Quoted in Haberler (1951).

12. For an invaluable intellectual history of the calculation debate, supported by extensive documentation, see Lavoie (1981).

13. For an interpretation of the rejection and neglect of Mises by academic economics, see Murray N. Rothbard, "Ludwig von Mises and the Paradigm for Our Age," Modern Age (Fall 1971), 370-79.

14. The attribution of institutional equivalence to the political and economic realms is a major feature of the contractarian schema of public choice economics are expounded by James Buchanan. See his What Should Economists Do? (Indianapolis, IN: Liberty Press/Liberty Classics, 1979).
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