

# PHILOSOPHY OF ECONOMICS & POLITICS

## LECTURE 6: SCHUMPETER

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LECTURER **JULIAN REISS**

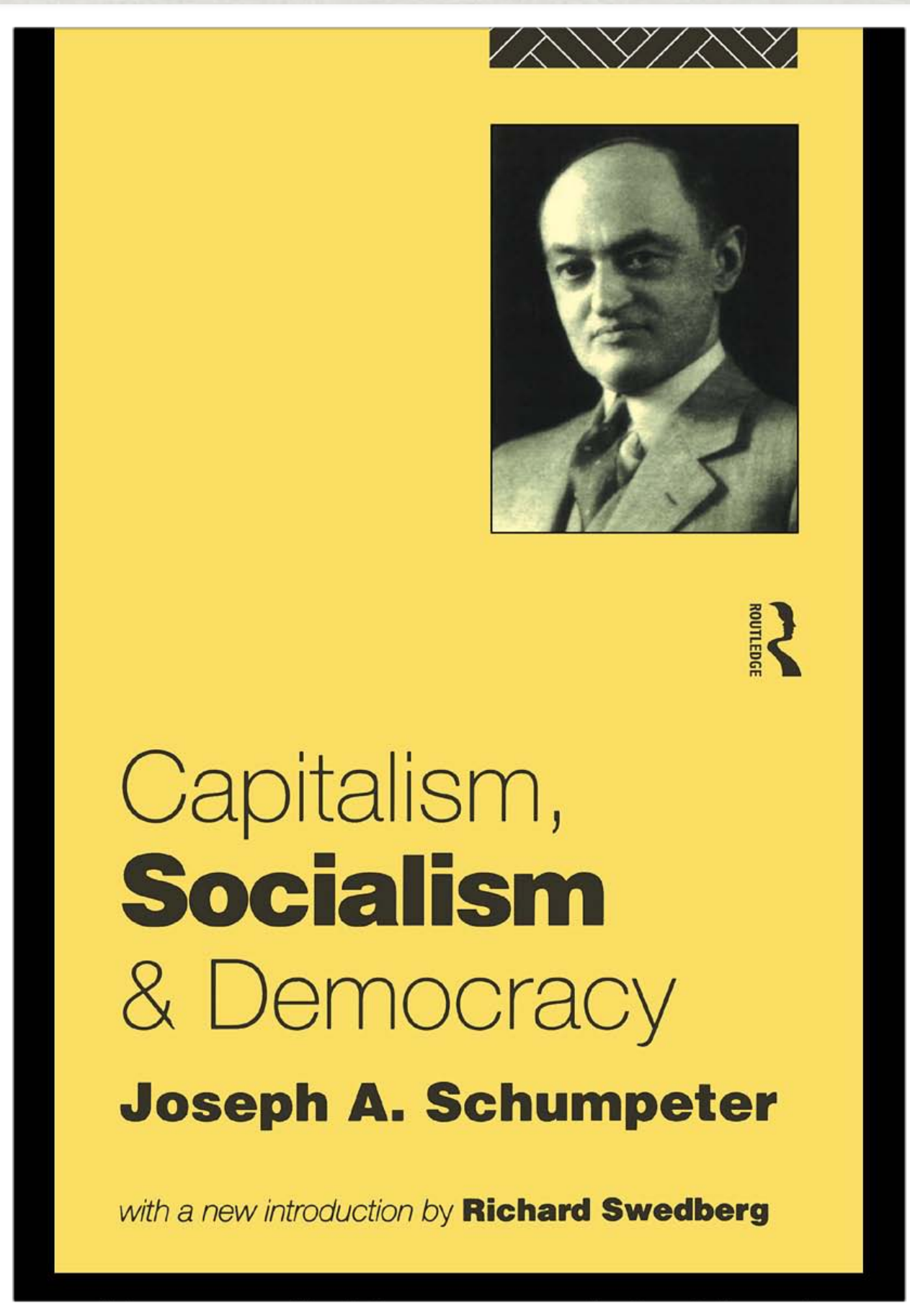


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- \* As before, first a little summary of his main ideas



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# Schumpeter's *Grundideen*

*The public mind has by now so thoroughly grown out of humour with it as to make condemnation of capitalism and all its works a foregone conclusion — almost a requirement of the etiquette of discussion. Whatever his political preference, every writer or speaker hastens to conform to this code and to emphasise his critical attitude,...*

- \* The capitalist system has produced great wealth for (at least) another generation
- \* But it is doomed to fail: not *despite* its success
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# Schumpeter's *Grundideen*

*... his freedom from “complacency,” his belief in the inadequacies of capitalist achievement, his aversion to capitalist and his sympathy with anti-capitalist interests. Any other attitude is voted not only foolish but anti-social and is looked upon as an indication of immoral servitude.*

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# Schumpeter's *Grundideen*

*Can capitalism survive?  
No, I don't think it can.*

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- \* But it is doomed to fail: not *despite* its success
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# Schumpeter's *Grundideen*

*Can socialism work? Of course it can. No doubt is possible once we assume, first, that the requisite stage of industrial development has been reached and, second, that transitional problems can be successfully resolved.*

- \* The capitalist system is destined to produce great wealth for (at least) another generation
- \* But it is doomed to fail: not *despite* its success
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# Schumpeter's *Grundideen*

*Between socialism as we defined it and democracy as we defined it there is no necessary relation: the one can exist without the other. At the same time there is no incompatibility: in appropriate states of the social environment the socialist engine can be run on democratic principles.*

- \* The socialist engine to it produce great wealth for (at least) another
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- \* Critic of 'mainstream economics': **price competition not central to capitalism**
- \* Economy is not a stationary machine but rather an **evolutionary process**



# Creative destruction

- ✱ **Core idea:** entrepreneurs come along, they have **great ideas** for new goods, production processes, forms of transportation and communication, distribution channels etc. etc., **get these ideas funded and marketed**, they compete with existing products and processes, and, when superior, **destroy these old products and processes**

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- \* Analysis must therefore focus on the **evolution of this process** (and not on the conditions under which a static equilibrium obtains) and on the whole (rather than ‘partial equilibrium’ a la Marshall)
- \* In this process, necessarily, (mostly, temporal) **monopolies are created** – an inventor is initially always a monopolist

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- \* **Schumpeter doesn't think so.** He refutes all reasons economists have given
- \* Instead, the main cause Schumpeter sees behind his predicted demise of capitalism is **the effects it has on the way people think and what they value** (cf. Tocqueville!)



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# Capitalism undermines itself

- \* Through three mechanisms

- \* **Mechanisation**

- \* Automation



*But without protection by some non-bourgeois group, the bourgeoisie is politically helpless and unable not only to lead its nation but even to take care of its particular class interest. Which amounts to saying that it needs a master.*

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- \* **Elimination of its own 'lower classes'** — manager-owners, and with it attitudes towards property and free contracting



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- \* Thus, faced by the increasing hostility of the environment and by the legislative, administrative and judicial practice born of that hostility, **entrepreneurs and capitalists** – in fact the whole stratum that accepts the bourgeois scheme of life – **will eventually cease to function**

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  - \* **Relative evaluations would have to be done by the central board**



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- \* **That socialism doesn't have to be democratic is undeniable**; but *can it be?*



# Socialism & democracy



# What is democracy?

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  - \* Cf. Work in social choice



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- \* Note: **there is some relationship with political rights in this definition:** if everyone can compete for leadership, then this implies some degree of freedom of speech, of the press...



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- \* Under what conditions does democracy thrive?

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- \* The effective range of decisions should not be extended too far
- \* Democratic government must command a well-trained bureaucracy with a strong sense of duty and *esprit de corps*
- \* There must be 'democratic self-control' (e.g., rejection of bribery, no mockery of the government in parliament, public acceptance of government decisions as a rule, tolerance of other opinions etc.)

# Democracy in a socialist order

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- \* **No-one would want to extend the democratic method – the sphere of politics – to all economic affairs**

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# Democracy in a socialist order

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- \* Thus **all questions of valuation** (importance of different goods, different industries, different types of work) **would all be relegated to a technical apparatus**
- \* Schumpeter thinks that **this might mean, at least potentially, a *smaller degree of politicisation*** than he observed in his contemporary capitalist countries (many of which had nationalised or heavily regulated monopolistic industries, for instance)