Today’s agenda

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Capitalism, Socialism & Democracy

Joseph A. Schumpeter

with a new introduction by Richard Swedberg
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  - Joseph Schumpeter’s *Capitalism, Socialism, and Democracy*
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  - Joseph Schumpeter’s *Capitalism, Socialism, and Democracy*
- As before, first a little summary of his main ideas
Schumpeter’s Grundideen

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- A socialist \textit{economic} organisation is compatible with any \textit{political} organisation
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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,…

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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.

- This is not to imply that if it produced great wealth for (at least) another half century it should continue to do so.
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Can capitalism survive?
No, I don’t think it can.

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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.

- This seems to imply that capitalism is not to blame if it fails to produce great wealth for (at least) another half-century.
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Can capitalism survive? No, I don't think it can. 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.
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.

- This is a process that has to if it is to produce great wealth. It is one of the important roles of 'big business'.
- Nevertheless, capitalism is extraordinarily unpopular, especially among intellectuals.
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Schumpeter’s economics

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- 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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- In this process, necessarily, (mostly, temporal) **monopolies are created** – an inventor is initially always a monopolist.
The future of capitalism

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- 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!)
Capitalism undermines itself

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- **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
The role of the intellectuals

Thus, the rationalist attitude that affects our views on religion, metaphysics, aristocracy etc. does not stop there but eventually turns on itself by attacking private property and bourgeois values
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- Moreover, capitalism nourishes (e.g., by increasing needs for education) an idle class of intellectuals who criticise it and call for its abolition.
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- And there are ‘losers of the system’ who are perhaps justifiably detached.
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- **Capitalism can’t protect itself from these because of its rationality** (it won’t eliminate them physically, for instance).
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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.
Socialism works (economically speaking)!

- While many economists were convinced that socialism could not work – because supply and demand cannot determine prices or motivations to produce are lacking – Schumpeter thought that they were wrong; here is his ‘blueprint’:
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  - They are required to call for and use such quantities of capital goods as they can use without having to sell any part of their products for fewer vouchers than they transferred to the central board
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  * **Relative evaluations would have to be done by the central board**
Socialism & democracy

* Setting: Up until 1916, socialists could claim to be democrats, even the only ‘true democrats’
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- **That socialism doesn’t have to be democratic is undeniable; but can it be?**
Setting: Up until 1916, socialists could claim to be democrats, even the only ‘true democrats’. Capitalism is at bottom exploitation of labourers and imposition of the will of the capitalists. Mere political democracy is necessarily a sham. The elimination of that power will end exploitation and bring about the rule of the people.

But was that credible at the time Schumpeter was writing (late 1930s/early 1940s)? That socialism doesn’t have to be democratic is undeniable; but can it be?
What is democracy?

- Schumpeter wasn’t a fan of the ‘classical theory of democracy’ according to which ‘the democratic method is that institutional arrangement for arriving at political decisions which realizes the common good by making the people itself decide issues through the election of individuals who are to assemble in order to carry out its will’
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  - Cf. Behavioural economics (etc.)
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  - Cf. Behavioural economics (etc.)
  - Cf. Work in social choice
What is democracy?

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- Better: **Competition for political leadership**
- Thus, he defines:
  - The democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote
What is democracy?

- Better: Competition for political leadership

- Thus, he defines:
  - The democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote

- 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...
Democracy and socialism

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* He argues that **there is a time and place for each**; that neither is universally the best form of economic and political organisation

* Under what conditions does democracy thrive?
Prerequisites for democracy

- The ‘human material of politics’ should be of high quality
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- Democratic government must command a well-trained bureaucracy with a strong sense of duty and *esprit de corps*
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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

- Modern democracy is a product of the capitalist process
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- Capitalism has an answer to at least one of the prerequisites: **limits of government** (add to that the pacifist and free-trade tendencies of capitalism!)
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- Similarly: democratic self-restraint (easier when one leaves alone individuals in their economic activities)
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- But: our society has lost the taste for bourgeois democracy
- Socialism has been associated with autocratic regimes, but the association is accidental
- No-one would want to extend the democratic method – the sphere of politics – to all economic affairs
Democracy in a socialist order

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- 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).