

CAN CAPITALISM SURVIVE?¹

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I. In the opinion of the speaker the answer to the above question is in the negative. But what counts in any such attempt at social diagnosis and prognosis is not the "Yes" or "No" by which we may sum up our facts and arguments but those facts and arguments themselves. They contain all that is scientific in the final result. Everything else is not science but prophecy. Strictly speaking, neither economics nor any other science ever foretells what will happen. To do this in a process which is the function of very many variables which are only partly amenable to exact measurement, would require super-empirical insights of the kinds which is the very definition of prophecy. Economics or any other science can only state what would happen if a given process were allowed to go on in the same way as it did during the period from which we take the material for our analysis. This not only limits the scope of our subject but also bears upon it in a more direct way which may be pointed out at once: In the course of an argument presently to be entered upon, we shall draw conclusions about the future behavior of total output of commodities and services from the behavior of that quantity which we are able to observe in the past. There are several objections to this or any other extrapolation. At the outset we wish to mention but one of them: Owing to the failure- of the conditions of the urn schema to be fulfilled, there is no sense in speaking of any "probable" future amount of total output, but our inability to justify any proposition on probability considerations does not mean that it therefore must necessarily lack any justification at all. If we fit a smooth function to any time series and extrapolate, the result need not have any forecasting value. As a matter of fact, in very many cases it is at once obvious that the expectation based on such a trend quickly leads to perfectly absurd results, but this means no more than that formal methods are not fool proof. If analysis teaches us that the trend expresses a real force or process which we have reason to believe will

¹ Eine deutsche Übersetzung des Vortrages findet der Interessierte in Herbert Matis/Dieter Stiefel (Hrsg.): Ist der Kapitalismus noch zu retten? Wien: Wirtschaftsverlag Überreuther, 1993, S. 19-38

persist under certain conditions, there is no absurdity in extrapolating provided we keep in mind the above distinction between what will and what would happen.

Our question is indeterminate because of the many meanings one may attribute to the much abused word "capitalism" which indeed it would be best to banish from scientific terminology. Disagreement on our question is often due to this fact alone. One of the difficulties is the word must unavoidably designate different things according to whether we argue in terms of economic or sociological fact. We will define it as follows, stating expressly that this would be unsatisfactory for many purposes: Capitalism is that organization of society in which production is managed by private initiative with view to private profit. Needless to say, on the one hand, that this implies nothing about the social results of such an organization and, on the other hand, that alternatives to it are many and not satisfactorily covered by the single word "socialism" .

II. We must beware of the error implied in the widespread belief that it is economic performance which decides the ultimate fate of any form of social life. Not only are people, perfectly unable to form an unbiased judgment about alternative possibilities (they would be unable to do so even if alternatives ever stood actually working before their eyes under exactly the same conditions) but mere economic performance would not in any case be decisive by itself. We observe, it is true, that advocates of either capitalism or socialism invariably hold that the system they espouse offers or would offer to the masses a higher standard of life than its competitor. This misconceives the real issue. More important than standards of living are the types of people and the civilization which a given system turns out; more important also for every one of us is the question whether a given system agrees with our moral values and our cultural volition. But what people think and want is a secondary matter anyhow. The important thing is the logic of social situations, which among other things, makes people think and feel as they do.

If nevertheless we ask the question of performance, that is to say, the question what economic results may reasonably be expected from the mere working of the capitalist machine in the decades before us, it is only because for the economist that is the relevant question and not because we believe that the issue will be decided on this ground. In order to answer it we make the following assumptions. First, we assume that there is a precise meaning to the concept of total output of commodities and services. This is really the boldest assumption of all. It implies begging a fundamental problem of modern theory, but the reader is so accustomed to using that concept as if it were entirely unproblematic that he is not likely to have any qualms about it. Secondly, we assume that the function descriptive of the distribution of money incomes according to amount remains invariant. If this were an assumption about the actual course things may be expected to take it would almost certainly be contrary to fact. What we mean is that if the working of the capitalist machine were not interfered with that distribution would remain as it is. The warrant for that is in the fact that for the last hundred years that distribution has remained, as far as our statistics allow us to form, an opinion, substantially invariant over time, although it fluctuated within the cycle. It is not necessary to assume the form suggested by "Pareto's Law", although the speaker thinks that critics have been somewhat unjust to that piece

of analysis. But whatever the form of the function is, invariance is necessary for our argument, both because only if distribution in that sense is invariant can we conclude that variations in average income are by themselves sufficient to describe how all classes of society are going to be affected by a given increase in total output and because capitalist economy could not continue to work on at this same rate of progress if that distribution were so substantially changed as to interfere with the accumulation from the larger incomes, which is an essential piece of the capitalist mechanism and largely accounts for such efficiency as it has. Thirdly, we assume the absence of such events as world wars and revolutions.

Now, average income per head was about \$700 a year in 1928. It is a conservative estimate that total physical output increased on the average at 3% compound interest per year practically as far back as our data carry us. Most readers will "be familiar with the more important of the indices which have been constructed to show this, and most of which would, indeed, support a more optimistic estimate, such as the indices of Warren and Pearson, Snyder, Day-Thomas, the Federal Reserve Board, the Department of Agriculture and others. Extrapolating and retaining the purchasing power of the monetary unit at the level of 1928, we get about four times (4.38) as much for 1978. This must be corrected for increase in population, which is an exceedingly controversial matter. Accepting Mr. Sloane's estimate of about 160,000,000 for that year, we come to the conclusion that an average income of about \$2100 per head of population, purchasing power of 1928, would be reached about that time. Such performance may be considered satisfactory or unsatisfactory - that is a matter of taste and will largely depend on one's extra-scientific predilections. It certainly allows of the formulation, if we assume relative shares to be unchanged, that anything which according to our present ideas we should call poverty, would be done away with, even in the lowest strata of society, defectives alone excepted.

III. It goes without saying that injuries may be inflicted and even expected to be inflicted on the organism which will prevent it from producing the result glanced at. This is all the more serious a qualification because many things perfectly unavoidable under present ideas and standards, come within the meaning of those injuries. Very sharply progressive taxation alone would be sufficient. And so would be attempts to soften the hardships of adaptation to new situations as they arise in the course of industrial innovation. However, such injuries have never been absent and our 3 percent leaves plenty of latitude for the absorption of the effects. For this country that figure includes even the wastage of the world war. The rate would be different, of course, for European countries. It should be observed that when we speak of "injuries" we do not necessarily imply an adverse judgment. What is an injury within our strictly technical meaning may be an improvement from many other standpoints.

But the fundamental question is whether we are justified at all, injuries or no injuries, in looking upon persistence of that rate as at all likely. A majority of students of the phenomena of economic development (we had better avoid the word "progress") is inclined to doubt it, and you know that many authors, among whom we may mention S. Kuznets and A. F. Burns, have even tried to establish statistically the presence of systematic retardation. We need not repeat the familiar arguments which may be leveled against their methods but can confine ourselves to

adding one more: material at all adequate to the task of forming an idea about the behavior of total output over time does not go back beyond 1870. If, in order to avoid the troubled time of the World War, we stop in 1913, that material covers two branches of what the speaker is in the habit of calling the Kondratieff wave. Quantitative study of economic cycles was, as you know, initiated by Clement Juglar. He assumed, as many students still assume, that there was just one such wavelike movement. But there are, on the one hand, theoretical reasons to expect that there should be many waves of different period rolling along together and superimposing themselves on each other, and there is the statistical fact that a "many cycle hypothesis" fits our time series much better than a "single cycle hypothesis". Mr. Kitchin and Professor Crum have established, as the speaker thinks beyond doubt, the existence of what is usually called the forty month cycle, and Kondratieff discovered and described a very much longer wave which the speaker thinks has an average period of about fifty-seven years. For reasons which it is impossible to enter into here, the rate of increase of total output is greater in the downgrade than in the upgrade of the long swing – which is just the opposite of traditional opinion and should by the way lead us to revise the traditional judgment about the relative merits of "prosperity" and "depression". Now 1870-1897 lies on the downgrade of a Kondratieff cycle and 1897-1913 just covers the prosperity phase of another Kondratieff cycle. On the theory alluded to we should therefore expect that in the first span increase of total output was at a greater rate than in the second span. If this be so it would follow that our material would have to display what looks like retardation but should not be taken as an indication of a long time trend.

However, it is urged sometimes that the prewar rate of increase was due to the opening up of new countries both as sources of supply of raw materials and as markets for industrial products and must therefore be considered as historically unique. There, seems to be a mistake in this, which may be linked to a particular interpretation of the old law of diminishing returns. What the theorem thus designated really says is merely that if you add successive increments of one factor of production while keeping constant both the quantities of the other factors and the method of production, you will get, from a certain point onwards, decreasing increments of product. If we designate by P physical product and by $V_1, V_2 \dots V_n$ factors of production, then the partial derivative $\delta P / \delta V_i$ is in the useful interval a decreasing function of V_i . But what the theorem was made to say was that however you change methods of production and however you combine, or add to, factors, nature will in the end display a decreasing response to your efforts. There is no warrant whatever for this. Of course, new countries counted for very much in the developments of the nineteenth century and beyond, but the process of opening up new markets by means of developing new countries is only one member of a very large family which we call innovation. The introduction of new methods of agricultural technique for instance may shift the production just as, and more effectively than, taking new countries under the plow and achievement in that line is perfectly unpredictable. Once we have surveyed a given agricultural area, then given certain methods of production, it is easy to arrange, with reference to that method of production, all the plots of land existing in that area into a descending order of fertility or locational advantage, and to say that we shall take into cultivation first the "best" plots and then successively the worse ones, but we cannot say the same thing about the world

of technical innovation which is not known to us and essentially refractory to survey. Hence there would be no sense in holding that we have been developing the most productive innovation so far and that only less productive ones are left for the future. This may be so, but the contrary is just as likely. In fact there is a reason to assume that the rate of technical progress will quicken rather than slacken. A hundred years ago, and still more so in the more remote past, innovation was a matter of individual will and vision, carried into effect in the teeth of strong opposition. Now it is becoming increasingly mechanized so that organized research might be expected to turn out new methods which then will automatically be put into practice, much more systematically in future than has been possible in the past. Hence nothing is to be feared from either the law of diminishing returns or any of the arguments usually associated with it, as contemporaneous experience amply shows, lack of raw materials is not exactly what we suffer from.

IV. This is not to say of course that there are not other elements in the social situation of our time which may be very effective in producing retardation. They are of a socio-psychological kind. To begin with, every social or biological group, applies itself to the task which is socially most important from the standpoint of the survival-interest of the group as a whole. This proposition is essential for what is to follow and should be carefully pondered and verified. Equally essential is the corollary that the social function which at any given time is the most "important" one in that sense, and success in filling it, supply the fundamental explanation for the emergence and the passing of what we call a Ruling Class. For instance, in a primitive agricultural tribe which has no means of defending itself by physical force and which is given to magical beliefs, say, of the animistic kind, magicians will be looked upon as the persons most important to the tribe and hence will rise into positions of social prominence and form, if the social environment is stable enough to allow of differentiation of a hereditary sort, the upper or ruling class of the community. Again, in conditions in which warfare and readiness for warfare are necessities of daily life and in which the technique of warfare is such as to require lifelong training (Such as the medieval technique of managing sword and lance on the iron clad horse), a class of warriors will grow up, establish itself as the socially ruling stratum and impress on the social body its own scheme of values and the form of life dictated by its interest and visions. Similarly, at a later stage and for reasons we cannot enter upon here, the function of economic leadership became in most countries we should be inclined to call "civilized", the socially most important one. To be sure, it was not economic leadership in general but an economic leadership moulded by preceding conditions and by the necessities of the historical environment – that kind of economic leadership which took the form of individual enterprise. And from these social necessities, and by filling that entrepreneurial function, the bourgeois class climbed into the saddle, impressing in turn its own values, interests and standards on the social psyche. We shall return in a moment to carry on this argument. Just now it is sufficient to point out that the very success of bourgeois capitalism tends to reduce its own importance for the future. As a result of its achievement that fear is rapidly dropping away from humanity which trembles in the prayer "Give us this day our daily bread". As soon as this is the case, economic affairs will cease to hold that central position in the feeling and thinking of mankind that they used to hold and

energies will not so exclusively be concentrated on economic tasks. This might well account for a considerable amount of retardation in the future.

Moreover, the success of capitalism, such as it is, is closely linked up with the method of selection for leading positions which was characteristic of a substantially competitive system. It is worthwhile emphasizing that of all methods of selecting leaders which the speaker either historically knows or can think of, that is the only one that effectively tests the qualities which make for success once the leading position is conquered. The qualities that make a good candidate for political office are entirely different from the qualities that make a good administrator of the same office. But the qualities that make a man rise in competitive business are precisely the qualities which will make him a success when he has risen. It should also be observed that this important characteristic is rapidly vanishing from the world of giant concerns. But as the success of capitalism is fundamentally linked up with a peculiarly effective type of responsibility which consists in having to pay for one's mistakes: A politician who can make a successful speech or a public servant who can write a successful report, need not worry about an unsuccessful measure. But no ability of speaking or writing will be of any help to an entrepreneur if the balance sheet looks wrong. This again has ceased to be so in a rapidly expanding sphere of modern business. Finally, past success of the capitalist system rested largely, whatever some of the speaker's fellow economists may say, on that peculiar kind of financing enterprise which presupposes considerable inequality of income. It is not necessary to quote any statistics in order to convince you that the percentage of saving increases with the size of incomes. It would be necessary, however, to show that and why that method is so vital. But this we cannot do here. The disapproval of inequality and consequent attack on it is, however, an essential feature of modern political psychology and must be expected to assert itself more and more. Retardation from all those causes is, of course, more than likely and that is why we were so anxious to make above that qualification about "injuries" to the organism.

V. What has just been said by way of commenting upon and qualifying the expectation which might be formed about capitalist performance in the future from its performance in the past, immediately leads us back to the question at the head of this paper.

On the one hand, if capitalism is doomed it is certainly not doomed because of any rational proof that its economic performance is unsatisfactory in the sense that a country such as this could be reasonably expected to do better with respect to increase of total output by any of those alternatives which are at all within range of practical possibility. No doubt much more of fact or argument would be necessary to establish this proposition. We cannot do more than add a few remarks. To begin with, it must be borne in mind that much less weight than appears at first sight attaches to the argument which is resorted to by most of those people who otherwise and as a matter of trend would profess themselves quite satisfied with the rate of increase we actually observe, viz. the argument from fluctuations and the losses and sufferings incident to recurrent crises. If, following usage, we primarily stress the element of unemployment it must not be forgotten, first, that as a matter of arithmetic, the capitalist organism is at present, and can be expected to be still more so in the future, perfectly able to take care of the unemployed

members of society. To put their services to some use and to prevent them from going to waste is of course one of the most obvious tasks of rational Planning. But whether or not this problem be successfully solved, the fact remains that the working of the capitalist machine supplies all the means necessary to avoid anything that any people have a right to call suffering who speak quite coolly of such events as the "liquidation of the Kulaks." Secondly, it is matter of historical fact that those sequences of events which we identify as great crises or catastrophes can in no single instance be explained by the working of capitalist business alone. There are always, precisely in the worst cases, "external factors" present, wars, mistaken policies and so on. This field is, it is true, so much infested by monomaniacs especially of the monetary type that that should be obvious common sense is by no means easy to establish. But to any unprejudiced person it should be clear that the working of a system (never mind what system; think, for instance, of a system of balls connected by elastic strings) is one thing and interference with the system by external factors is another thing. This is no argument for laissez faire. On the contrary it is an argument for regulation that rests on an understanding of the material of the capitalist machine. But it is still very relevant to a judgment about the results attributable to that machine.

Furthermore the argument that private industry and trade work with an undue amount of wastage of resources, while possibly quite true, cannot be made out by simply listing all cases in which a given result could have been achieved by smaller expenditure in terms of real resources. The usual method implies a comparison between the actual working of one system with the ideal of another, and entirely neglects the sources of waste which we might expect to discover were that other system put into practice. Apart from this many of the examples usually adduced are unconvincing because they often mean no more than that experimenting with new things frequently leads to failure. Such failures may be unavoidable in any system and what looks like unqualified failure may have its function all the same. Even what looks like simple social waste sometimes has a function. There is, for instance, certainly a great number people engaged in running inefficient small retail shops, but the presence of those retail shops takes care of many people who would otherwise be temporarily destitute in the course of adaptation of rapid technological change. Now this may be an uneconomic way of taking care of them but the point is that we must not look upon the phenomenon as if it were a mere blemish and nothing else. Careful analysis on such lines reduces very much the strength of the prima facie case.

Again the argument from over-capacity, over-investment and over-production loses much of the weight it seems to carry the moment we realize that the more successfully progressive an economic system is, the greater will be, at any point of time that amount of capacity which has been set up with a view to future demands and that amount of capacity which is already semi-obsolete. It is impossible to tell what would be left after deduction of those two items to which moreover it would be necessary to add all the capacity produced in order to cope with cyclical peak demand. Similar considerations apply to the case of overproduction as distinguished from over-capacity apart from the fact that, taken in the ordinary sense, general over-production has no meaning at all.

These examples must suffice, but however we may think about them and other equally familiar ones, so much is certainly true that the case against the performance of the capitalist system is much less strong and much less clear than public opinion seems at present to assume. Whatever the result of striking a balance might be, had we the time to undertake the task, it is practically certain that it would not be spectacular and that it would not consist of negative items alone. In particular there is no excuse for holding either that if capitalism be left to itself things would, particularly for the masses, go from bad to worse or that the capitalist system displays any inherent tendencies towards economic breakdown. Both propositions have, as you know, been held by Karl Marx. But both have been given up by the leaders of Neo-Marxism. This is not astonishing with respect to the first, for it would indeed be difficult to hold that the capitalist machine turns out a standard of life for the masses that decreases over time. So after efforts had been made to interpret Marx, in the face of obvious evidence to the contrary, to have meant not absolute real wages, both totals and rates, but the relative share of the working class (in which sense he would also be wrong of course), that proposition was silently dropped. It is much more remarkable however that the Neo Marxists, from Hilferding onwards, also dropped the other, for owing to the recurrent hysterics about crises it would not have been tactically impossible for them to uphold it. But they were much too good economists to do that and hence handed the thing over to the literature of popular Marxism in which it flourishes still. It would follow, although this was, as far as the speaker knows, too much for them to admit explicitly, that it is no longer possible to base the case for socialism on the claim that in abolishing poverty it would do what the rival system was intrinsically incapable of achieving.

But, as pointed out before, this is not all nor even the decisive point. We might be socialists even if we recognize superiority of capitalism as an economic machine. There are higher things involved in one's social ideals than beefsteaks and movies, and even if it were not so, the future course of things would depend on the economic working and results of the capitalist system in a different and less direct way than that which lies between economic performance and rational choice of people. We may conveniently divide our argument into a psychological and a sociological branch, although there is of course no sharp dividing line between them. Every economic system moulds the souls of men by determining their working day and, through it, the attitudes, ideals and habits they develop. Capitalism rationalizes human thinking and human behavior. Examples to show that could be adduced in plenty from double entry bookkeeping to Neo-Malthusianism. This will produce concentration on the individual's interests and particularly interests amenable to rational formulation. All in human life that cannot stand the test of a very superficial kind of rationality is likely to be discussed away. For our proposition it is primarily important to note two implications of this: On the one hand rationalization of economic activity means scientific method, first on the technical, then on the economic or business side and this again means the mechanization of progress previously adverted to. The modern entrepreneur compares to his predecessor of a hundred years ago very much as a modern general compares to that picturesque sort of individual that used to fill the same function a hundred years ago. Managing a modern army is now a mechanized job in which a great number of specialized workers cooperate to turn out the result ready made and thereby to reduce the commander-in-

chief almost to insignificance. The application is obvious. On the other hand, we see now much more clearly than previous generations have realized, who were content with very simple arguments and justifications, that most of the emotional values of life cannot be formulated in rational terms. Among them are some which are of the utmost importance to the capitalist class and to the motivation of its members. Although we could equally well exemplify by the changed relation between entrepreneurs and the physical set up of any given factory, we will merely touch upon the most important source of individual motivation in capitalist society, the family. Not only has capitalist evolution created a rationalized scheme of private life within which the family house and all that it stands for is no longer a necessary, or even convenient, form of life, but it has done away, or is about to do away, with all the motivation for economic action that center around it. This process has indeed gone to very different lengths in different countries and within the same country in different regions and social groups. Peasants and farmers are, so far, practically untouched by it everywhere, but it is superfluous to stay in order to show how completely it has changed the moral world of the upper Bourgeoisie. This being so, their grip loosens both on their former ideals and on the position which are valuable mainly because of those ideals. That is why there seems to be no "fight" in them, when the system which is theirs is being challenged, and why they do not seem to believe in it themselves. The speaker knows that this statement is contrary to widespread opinion. Most people would think that the Bourgeoisie is defending itself and its interests all right. But apart from the fact that this opinion often rests on nothing more than the naive belief of the intellectual in all sorts of mysterious powers behind the political scene, what, is actually done by that class is as nothing compared with what it could do if the will to survive as a class were not dying out within it.

Sociologically it is clear that the prestige of the industrial and commercial Bourgeoisie with other classes never has been as great as the corresponding prestige of the warlike upper stratum in the middle ages. There are many reasons why achievement of the type that was open to those warriors, should have been particularly apt to impress the masses that served them. No businessman, however successful in his office can ever hope to look to the rest of his countrymen as the knight did on his horse and in his armor. The latter's social function also carried the particular advantage that it lent itself as no other social function ever did to the direct and physical defence of the interests of its incumbents. To be able to draw one's sword in order to deal with an opposition necessarily deficient in the only technique available, is much more effective than to have to lobby with politicians or try to acquire control of newspapers and the like. It is indeed only with serious qualification that the Bourgeoisie could over time have been called the ruling class at all. In Europe it practically always submitted to the remaining feudal elements which in exchange protected it and drew a new lease of life from the fact. The great exception afforded by this country is accounted for by the absorbing fascination of developing an environment of great possibilities and should not be relied on for prognosis as to the future. It is by no means astonishing that his origin, his past history and his kind of work and mode of life should make the Bourgeois an ineffective leader or ruler. It would be astonishing if it were different. Hence social critique turned against him very much more promptly than it did against the feudal powers. The ideas of political democracy which he had made his own in the time of

his servitude proved incompatible with the essentially monarchical ideas underlying the organization of business, all the more so because his democracy was typically of the eighteenth century type, and tinged with equalitarian elements which he soon learned to disapprove but which he never could successfully get rid of. The very increase in the standard of life, self-confidence and leisure in the masses which may be attributed to the working of the bourgeois economic system, produced an opposition which checkmated its upper stratum politically as soon as its feudal protector fell.

There is no need to elaborate this argument; it is clear enough in what sense it supplies a negative answer to our question. The interesting point about it is that, as far as ultimate results go, our answer is the same as that which socialists would give. Besides, there is the further affinity that we also link a prognosis unfavorable to the capitalist system to its economic results. But it is not its economic shortcomings that threatens it. On the contrary it is its economic achievements, and their effects on the human psyche and on the social and political structure of society, that is likely to kill it eventually.

It is another question how this prognosis may be expected to materialize. Some people like to indulge in speculation about the likelihood of revolutions. All we can say about that is this: What we term a revolution is akin to what in economic life we designate as a crisis or panic. Now an economic crisis is not the essential thing about economic evolution or, for that matter, the economic cycle. Fundamentally that wavelike movement that pervades economic life could go along and remain what it is, without those breakdowns for which we reserve the term crisis. The sum of phenomena we usually designate by it owes its existence to accidental circumstances. It may or may not occur and sometimes occurs on less provocation than there is in cases in which it is avoided. But in certain phases of the cycle those accidents are very likely to occur. Similarly what we call a revolution is nothing but a collapse of organization and morale. Whether it occurs or not is, from a long time view, of secondary importance and depends on random combinations of circumstances. This implies that our views about the likelihood of such events should differ for different countries, races and historical junctures. It is more important to note that, even apart from this, the outcome glanced at above though following logically from observable fact is by no means a certainty. Before humanity chokes in the dungeon of socialism it may well burn up in the flames of nationalist wars. The normal expectation for the Anglo-American world, however, is on the lines of a steady bureaucratization of economic life as well as of much besides.

Wiedergabe des Vortrages vom 18.1.1936 nach:

LECTURES IN CURRENT ECONOMIC PROBLEMS – A SERIES OF LECTURES WHICH WERE GIVEN IN THE U. S. DEPARTMENT OF AGRICULTURE GRADUATE SCHOOL IN CO-OPERATION WITH THE GRADUATE SCHOOL OF AMERICAN UNIVERSITY DURING 1935-36, U. S. DEPARTMENT OF AGRICULTURE / GRADUATE SCHOOL NOVEMBER, 1936, pp 74-85

