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The Imperious Austrian: Schumpeter as Bourgeois Marxist

The last temptation is the greatest treason:
to do the right deed for the wrong reason.

New Left Review I/205, May-June 1994

This essay aims at presenting Joseph Schumpeter as a 'bourgeois Marxist'. The term is paradoxical, intentionally so: it aims at drawing attention to a small group of powerful thinkers of our century, who adopted many aspects of Marx's analytical approach but firmly rejected one thing: his commitment to the working class. They reinterpreted Marx from a bourgeois point of view trying, by this roundabout but very effective means, to confront and confound his great revolutionary challenge. Three contemporary authors strike me as paradigmatic of the species: Schumpeter, Galbraith and Rostow. To these I would add John Maynard Keynes.

Viewed as a 'bourgeois Marxist', however, Joseph Alois Schumpeter is in most respects entirely antithetical to Keynes. With the author of the *General Theory* it is no problem at all to show that he was a bourgeois and proud of it —we have his own word to go by. It is on the other hand rather difficult to argue that he was a Marxist in any sense, even the rather unconventional

sense employed here. With Schumpeter the case is exactly the opposite: his Marxism cannot possibly be gainsaid; it bursts through the seams of virtually everything he wrote. Nor did he ever attempt to deny the influence of Marx on his work, belittle his debt to or in any way conceal his vast admiration for the author of *Capital*. The extent of his direct acquaintance with Marx's political, rather than economic, writings is not easy to document fully. In *Capitalism, Socialism and Democracy*[1] he refers to *The Class Struggles in France*. It is quite possible that he had read a lot more; he certainly had absorbed some of the spirit of Marxist political analysis indirectly, through contacts with Rudolph Hilferding, Otto Bauer, Karl Renner—his contemporary Austro-Marxists. The fact remains that his evaluation of the political impotencies of the bourgeoisie strikingly echoes Marx's own observations on bourgeois timidity and abnegation.

To the extent that he was a 'bourgeois Marxist' Schumpeter was a peculiar kind of bourgeois, displaying simultaneously a withering contempt and a real admiration for that class, and in proportions reminiscent of Marx himself. The Austrian bore deeply inscribed in his consciousness the marks of the great defeat of the Central European bourgeoisie—Austrian, German, Hungarian—at the hands of the aristocracy, in the historical class confrontations of the mid nineteenth century. This psychology, or rather historical memory, of defeat he was later to sublimate into a romantic admiration for the nobility, not only aping some of their mannerisms in his daily life, but also in his intellectual work trying to justify the persistence of the influence of the aristocracy in bourgeois politics. He even went so far as to use the aristocratic *ethos* as a source of inspiration in the shaping of political institutions appropriate to capitalism, wherever a genuine aristocracy of the blood happened to be thin on the ground.

If later in his life Schumpeter was troubled by signs of fading aristocracy, earlier he had been scathingly critical of what he took to be an insufficiently developed spirit of capitalism in the ranks of the modern bourgeoisie. Documenting in one of his earliest, and best, socio-political studies—*The Sociology of Imperialisms* (1919)—the historic compromise between the majority of the European bourgeoisie and the aristocracy of absolute monarchy he wrote:

> For that very reason, in his position as leader of the feudal powers and as a warlord, the sovereign survived the onset of the Industrial Revolution, and as a rule—except in France—won victory over political revolution. The bourgeoisie did not simply supplant the sovereign, nor did it make him its leader, as did the nobility. It merely wrested a portion of his power from him and for the rest submitted to him. It did not take over from the sovereign the state as an abstract form of organization. The state remained a special power, confronting the bourgeoisie.[2]

The result of this partial victory and partial defeat was that the ruling elite of modern society, at least in Europe, became a rather hybrid formation:

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[1] Joseph Schumpeter, *Capitalism, Socialism and Democracy* [henceforth CSD], London 1943, p. 346.
[2] *Zur Soziologie der Imperialismen*, Tübingen 1919, p. 93.

> [W]hile the bourgeoisie can assert its interests everywhere, it 'rules' only in exceptional circumstances, and then only briefly. The bourgeois outside his office and the professional man of capitalism outside his profession cut a very sorry figure.[3]

In its symbiotic entanglement with absolutism and aristocracy, the rise of the bourgeoisie generated appropriately hybrid ideologies and policies: a thirst for national glory, bullionism, mercantilism, chauvinism, imperialism itself, such is the indictment list of ideological capitulations Schumpeter taxes the bourgeoisie with. He claimed that 'all such modes of thought are essentially non-capitalist. Indeed, they vanish most quickly wherever capitalism fully prevails.'[4]

Schumpeter's Marxism and Samuelson's Orthodoxy

It would, therefore, seem that an early affiliation of Schumpeter's ideas to those of Marx can be traced, not only in the economic but also in the socio-political part of his work. To any unbiased reader the genuineness of his involvement with Marx appears incontestable. Yet it has been questioned by no less an authority than the student whom Schumpeter himself held in the highest esteem, Paul Samuelson. In the days of grand Cold War ideological confrontations and games (in one of which J. Edgar Hoover had personally targeted Schumpeter to the point of pressuring FBI agents to garner what evidence they could to bring him and his wife Elisabeth to trial[5]) the loyal student had, wisely perhaps, wished to clear from his old teacher's record the stain of unbecomingly close pro-Marxist sympathies:

> Some of Schumpeter's praise of Marx is only patronizing and superficial, designed more to *épater la bourgeoisie* than intended as a serious approbation.[6]

The imperious Austrian might, indeed, have quite often felt tempted to *épater* what must have seemed to him, by his old Viennese standards, the rather loud, even lumpen, bourgeoisie of his United States acquaintance. 'Why am I so disgusted? Why am I so sad? Why do I feel that those people and I have nothing in common' he jotted down, in moments of despair, in his American diary. It is certain that the bourgeoisie in question could not possibly find in Schumpeter's sardonic defence of their regime any of the solace they would later come to seek in the pedantry of Samuelson's assorted orthodoxies.

Nor was he ever either uncritically supportive, superficial in his evaluation or glib in his approval of Marx. On this score his 1949 article 'The Communist Manifesto in Sociology and Economics', written shortly before his death—one wonders if Samuelson ever bothered to read it; it certainly does not figure among his bibliographical references

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[3] Ibid., p. 92.
[4] Ibid., p. 94.
[5] This fact is documented in FBI–FOIPA nos. 335,669 and 335,670, as reported in Richard Swedborg's *Schumpeter—A Biography*, Princeton 1991, p. 273.
[6] Paul A. Samuelson, quoted in Arnold Heertje, ed., *Schumpeter's Vision*, Eastbourne 1981, p. 18.

—sets the right tone. Critical in many sensible ways of Marx, the article goes on to acknowledge him as the real originator of three fundamental discoveries in social science: the recognition of the revolutionary character of the bourgeoisie in shaping modern economic life; the importance of creative destruction; the power of the spirit of capitalistic economic rationalism in dissolving various impractical romantic ideological constructs about social life, inherited from the artisanal era. Significantly, the first two of these three discoveries, attributed by Schumpeter to Marx, had by 1948 been acclaimed by Schumpeter's admirers as typical of his own particular brand of sociology and economics. But the proud, honourable Austrian would brook no such shading of the truth. Disdaining to repudiate his debts, whether business or intellectual (his biographers inform us that he used part of his American professorial earnings to pay back debts contracted in his youth in Europe), he experienced no inhibition at all about confessing the Marxian roots of his thinking.

In further evidence of his involvement with the political, not just the economic, aspects of Marx's thought Schumpeter went on to say that, through having properly diagnosed the role of material interests in shaping political realities, Marx 'will always remain the founder of modern political science even though not a single one of his propositions should stand the test of further research'.

Such are the accolades to Marx in the 1948 article on the *Communist Manifesto*, things hardly written in a tongue-in-cheek spirit. But still more importantly, Schumpeter argued in *Capitalism, Socialism and Democracy* that two essential propositions of Marxism had certainly not failed that test. The first of these is the fundamental principle of historical materialism, formulated by Marx in the 1859 Preface to *A Contribution to the Critique of Political Economy*, to the effect that 'in the social production of their life, men enter into definite relations that are indispensable and independent of their will' (CSD, pp. 129–30). The second, equally unconditionally accepted, Marxist proposition is Marx's analysis of the way in which the preconditions of socialism mature inside the very body of bourgeois society.

What emerges is a profound affinity between Marx and Schumpeter. The Austrian both subscribes to Marx's general methodological principles of historical and social study and draws from him specific ideas which he weaves into his own pattern of analysis of capitalism. Two of these ideas, the revolutionary character of bourgeois activity in production and the concept of creative destruction, were explicitly traced back to Marx by Schumpeter himself. He could have added various others. Treating capital not as a thing but as a social relationship was Marx's idea. The creeping bureaucratization of the economy in advanced capitalism, if not a theme of Marx himself, was characteristic of later Marxism. The antinomy between the liberal character of bourgeois political institutions and the class monopoly underlying it was Marx's idea, as was the role of the banks—Schumpeter's 'ephors' of the capitalist economy—in socializing individual capital. In fact, the thesis can plausibly be defended that a large part of Schumpeter's celebrated analytical model of capitalism is, when it comes down to it, little more than an extended footnote to Marx.

But it is a footnote with method. It sets off from a theoretical and political choice radically different from the Marxist one. It certainly elevates Marx but in ways which he himself would have considered subversive of his purpose. Marx is embraced principally as a source of support for the bourgeois order of things. Schumpeter feels this order to be under threat, indeed to be most threatened by some of the historical trends identified in *Capital*. 'Can capitalism survive? No. I do not think it can.' But bourgeois supremacy need not vanish, the bourgeoisie need not cede its social hegemony to a rising working class. Bourgeois rule can continue, in a modified manner, even after the demise of the capitalist economy; bourgeois capitalism may well be succeeded by some form of bourgeois socialism. In this context Marx's interpretation can be given a new twist. To the extent that his analysis ascertains the great historical role of the bourgeois class it can be used as a testimonial of its social usefulness, indeed of its uniqueness. In *Capitalism*, *Socialism and Democracy*, he concludes his presentation of Marxism with this significant sentence:

> To say that Marx, stripped of phrases, admits of interpretation in a conservative sense is only saying that he can be taken seriously.[7]

In this way Marx is both elevated and subverted in Schumpeter's acceptance of him. Any sign of a positive evaluation of the bourgeois epoch, of the bourgeois *ethos* by the author of *Capital* is eagerly seized upon. Without a doubt it was Marx's depictions of the bourgeoisie as revolutionary despite itself, that Schumpeter relished. He saw, in that most memorable passage from the *Manifesto*, the outline of his own thought:

> The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and with them the whole relations of society. . . . Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind.[8]

The gale of creative destruction, what else! 'No reputable economist of that or any other time—certainly not A. Smith or J.S. Mill—ever said as much as this,' concludes Schumpeter with undisguised delight.[9]

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[7] CSD, p. 58.

[8] 'Manifesto of the Communist Party', Karl Marx, *The Revolutions of 1848*, London 1993, pp. 70–1.

[9] Compare this to Schumpeter's formulation: 'First of all, the creative role of the business class is, by identity, a revolutionary role. This must not be taken as a mere reflex of Marx's philosophical position according to which any creation involved "revolution". The revolution in question is "a constant revolutionizing of production", *creation that spells* obsolescence and consequent *destruction* [italics added] of any industrial structure of production that exists at the moment: capitalism is a process, stationary capitalism would be a *contradictio in adjecto*. . . . second, this incessant economic revolution tends to revolutionize the preceding social and political structure

But if so, what prevented Marx from himself becoming one of the most enthusiastic spokesmen of the bourgeois regime? Ideally, in Schumpeter's eyes, this is exactly what he should have been. But he lost his grip. He committed the unpardonable sin of turning against the class whose greatness he had perceived and acknowledged. For Schumpeter, Marx was a great thinker who had faltered in his class consciousness, he was a lapsed bourgeois, a class renegade. Admittedly, Marx's fatal slip had been precipitated by circumstances. Even before the revolution of 1848 had taken place, offering the German reactionaries of that epoch the ideal pretext for clamping down on free political thought and activity in Germany, Marx, the radical bourgeois journalist of the *Rheinische Zeitung*, had been subjected to humiliating censorship, to exclusion from academic posts, to exile, to wholly unjustified persecution by the tyrannical regime of his native country. He had some right to become bitter but . . . he could not be forgiven everything. He had gone too far. Led astray by youthful romanticism, he had taken sides with the poor, the underprivileged, the weak who deserved to be downtrodden, all those unable to stand up for themselves, to aspire to positions of command, all those unable to rise above the masses, to ride the masses and become their masters. He had abused his genius by putting it to the service of the crowd. He had offered the many something they ought never to be allowed to toy with: an analytical scheme of thought worthy only of leaders. This potent weapon had to be wrested from the hands of the masses, it had to be restored to its rightful owners: the few who by sheer force of personality shaped the destinies of mankind. The imperious Austrian was in love with such people. He made it his task to coopt Marx's ideas to the service of the masters.

A Lover and a Horseman

But who exactly, among the rich and powerful, deserved to be the masters? Schumpeter was not entirely clear in his own mind as to that. Early on in his career, with his understanding of the world still unclouded by his later resistance to change, the author of *The Sociology of Imperialisms* left no doubt that his real social allegiance was to a bourgeoisie disabused of any sentimentality towards the blue-blooded. But by the time he came to write *Capitalism, Socialism and Democracy* he had become a changed man. He was no longer engaged in analysing the political defeat of the bourgeoisie, he had internalized it. His distinguished students (Samuelson on the right [p. 7] but also Goodwin on the left) in the fondness of their reminiscences of their old teacher, have recorded the memory of his three great ambitions: the yearning to be 'the best lover in Vienna, the best horseman in Europe, and the greatest economist in the world'.

Apart from the last of these, such goals could be ascribed to a conventional if rather ambitious snobbery. No doubt Schumpeter found it

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[9] (*cont.*)
and class civilization. It breaks up the medieval environments that fettered but also protected the individual and the family. By destroying the feudal aristocracy, the peasants, and the artisans, it also destroys the moral world of feudal aristocrats, of peasants and artisans. It changes the *mind* of society.' J.A. Schumpeter, 'The Communist Manifesto in Sociology and Economics', *Journal of Political Economy*, 1949.

easy to play the part of an aristocrat in the social wilderness of Harvard, where the foxes said goodnight to each other. Where could one meet the jolly Viennese to talk horses and love and Marxist theory! But behind the theatre lurks a growing and obsessive fear of the communist threat hanging over the whole of bourgeois existence. In this context, aristocratic imagery assumed an entirely different colour. Gone were the days of his youth, when he could coldly survey the antics of the European courts, even to the point of denouncing their male chauvinism. He now had to turn himself into a medieval troubadour, singing the praises of lovers and horsemen, of aristocrats, born leaders of men and conquerors of women, of the old nobility or at least their spirit which he felt to be indispensable to bourgeois survival:

> There is a . . . fundamental reason for those failures such as are instanced by the French or German experiences with bourgeois attempts at ruling—a reason which again will best be visualized by contrasting the figure of the industrialist or merchant with that of the medieval lord. The latter's 'profession' not only qualified him admirably for the defence of his own class interest—he was not only able to fight for it physically—but it also cast a halo around him and made of him a ruler of men. The first was important, but so were the mystic glamour and the lordly attitude—that ability and habit to command and to be obeyed that carried prestige with all classes of society and in every walk of life. . . .
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> Of the industrialist and merchant the opposite is true. There is surely no trace of any mystic glamour about him which is what counts in the ruling of men. The stock exchange is a poor substitute for the Holy Grail.[10]

This unabashed defence of the squire is indeed hard to square with earlier tributes to creative destruction. The old Schumpeter, who treated the young Marx as a lapsed bourgeois, turns out to have become the most internally defeated bourgeois of them all. He ended up falling for the siren-song of medievalism which Marx in his youth had described as 'legitimat[ing] the baseness of today by the baseness of yesterday'.[11]

Capitalism, Feudalism and Democracy

For Schumpeter, this backsliding to medievalism was the complement to his revolt against the idea of a popular democracy in the United States of the mid 1940s. For Marx, rejection of feudal nostalgia was the prelude to his struggle for a radical bourgeois democracy in the Germany of the mid 1840s. It is not often recalled that Marx began his political activity as a radical bourgeois democrat. It is even less remembered that he remained a deeply convinced democrat throughout his whole life. Not much attention is paid to how much the ideals of popular democracy inform and guide virtually everything he wrote. His formula of the dictatorship of the proletariat, projected in the light of its horrendous utilization by the Soviet regime, was too convenient a weapon for the opponents of Marxism not to seize, too much of an embarrassment for Marx's followers, at least those who

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[10] CSD, p. 137.

[11] 'Contribution to the Critique of Hegel's Philosophy of Law', Karl Marx and Frederick Engels, *Collected Works*, vol. 3, London 1975, p. 177.

remained of a democratic persuasion, to overcome. It must be mentioned as one of Schumpeter's special distinctions that he never stooped to such facile propagandistic distortions of Marx's thought. In an epoch of heavy political bias, of ideological bigotry, he had the courage to proclaim:

> Whatever his doctrine may have been, the uprooted bourgeois had democracy in his blood. That is to say, belief in that part of the bourgeois scheme of values which centres in democracy was for him not alone a matter of the rational perception of the conditions peculiar to the social pattern of his or any other time. Nor was it merely a matter of tactics. . . . For Marx democracy was above discussion and any other political pattern below it. This much must be granted to the revolutionary of the 1848 type.[12]

Indeed. The revolution of 1848 had been for Marx a great watershed. It represented the culmination of the struggle—in which he, together with Engels, had become fully immersed—of Germany to achieve for itself, for the first time in its history, the democratic freedoms considered increasingly natural, even though often still resisted, in the rest of western Europe. The tragedy of Germany, in the eyes of Marx and Engels, consisted not only in its backwardness but, much worse, in that absence of the agency of change present in previous democratic revolutions.

What Germany lacked most was the militant *tiers état*, the politically conscious and active bourgeoisie which had led the struggle for democracy in England, France and elsewhere. Economically, this class had indeed begun to make its appearance even in the German lands. As a purely economic force it was having an impact. It was its political nullity that created the problem. Marx and Engels could not stomach the pusillanimity of their bourgeois compatriots, their manifest inability to emulate the brilliant precedents set by the bourgeoisie in the English or French revolutions against absolutism. The youthful idealists of 1848 could hardly contain their disgust at the historical compromises of their homegrown bourgeoisie, at the dishonourable, self-seeking deals it went about concluding with its respective *anciens régimes*. No wonder they became bitter, even abusive. Schumpeter, on the other hand, writing from the safe perspective of the historian rather than in the heat of direct participation, could afford to be more relaxed. He did not, of course, deny that democratic revolutions could have had certain merits:

> In the first half of the nineteenth century, the oppositions that professed the classical creed of democracy rose and eventually prevailed against governments some of which—especially in Italy—were obviously in a state of decay and had become bywords for incompetence, brutality and corruption. . . . Under these circumstances, democratic revolution meant the advent of freedom and decency, and the democratic creed meant a gospel of reason and betterment.[13]

Like a good pupil of the materialist interpretation of history he added that 'historically, the modern democracy rose along with capitalism

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[12] CSD, p. 313.
[13] CSD, p. 267.

and in causal connection with it'. He even toyed with the idea of 'fetters', one of the terms made famous by Marx in his succinct statement of historical materialism in the 1859 Preface to the *Contribution to the Critique of Political Economy*:

> Economically all this meant for the bourgeoisie the breaking of so many fetters and the removal of so many barriers. Politically it meant the replacement of an order in which the bourgeois was a humble subject by another that was more congenial to his rationalist mind and to his immediate interests. But, surveying that process from the standpoint of today, the observer might well wonder whether in the end such complete emancipation was good for the bourgeois and his world. For those fetters not only hampered, they also sheltered.[14]

Things must have looked pretty bad to Schumpeter in 1942 to make him feel the need of such disreputable shelter. He tried to whistle in the dark: 'Can capitalism survive? No. I do not think it can.' But he derived some solace from the prospect that just as the old feudal nobility had reconstructed and grafted itself onto the bourgeois body politic, a similar fate could be in store for the bourgeoisie. This could only happen however if the bourgeoisie advertised its distinction and indispensability, and in this art it had much to learn from the aristocracy.

It was precisely this grafting of the old onto the new that Marx saw as the defining feature of modern Germany. In his first grand tableau on the subject, the great proponent of the class struggle as motive force of social development surprises his readers with the unexpected picture of a society in a state of universalized class paralysis. Marx sees German history as irredeemably bogged down in a morass, where all classes arrive on the stage too late to play a progressive role in the drama of human progress. By the time they feel ready to claim the leadership of society, the objective conditions of their decline have already emerged. They feel threatened, they become defensive, they have to compromise with their oppressors, just like the European bourgeoisie of Schumpeter:

> [In Germany] every section of civil society goes through a defeat before it has celebrated victory, develops its own limitations before it has overcome the limitations facing it and asserts its narrow-hearted essence before it has been able to assert its magnanimous essence. Thus the very opportunity of a great role has on every occasion passed away before it is to hand, thus every class, once it begins the struggle against the class above it, is involved in the struggle against the class below it.[15]

Despairing of the bourgeoisie around him Marx turned to the proletariat as the only credible force still capable of achieving the bourgeois-democratic political programme in German society. Later on, emerging from his purely German frame of reference he would perceive the dereliction of democracy no longer as a specific feature of German underdevelopment but as a defensive reflex of the bourgeoisie in general, when coming under threat by the rise of the

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[14] CSD, p. 135.

[15] Karl Marx, 'Contribution to the Critique of Hegel's Philosophy of Law', p. 213.

working class. In this historical context democratic institutions themselves acquired a dangerous anti-bourgeois edge. A mere temporary suspension of democratic freedoms for the duration of an acute phase of the class struggle in modern society, a simple state of emergency, would no longer provide a way out of the bourgeois predicament. Survival of bourgeois class rule called the very substance of democracy into question:

> The bourgeoisie had a true insight into the fact that all the weapons which it had forged against feudalism turned their points against itself, that all the means of education which it had produced rebelled against its own civilization, that all the gods which it had created had fallen away from it. It understood that all the so-called civil freedoms and organs of progress attacked and menaced its *class rule* at its social foundation and its political summit simultaneously, and had therefore become 'socialistic'. . . . Thus, by now stigmatizing as '*socialistic*' what it had previously extolled as '*liberal*' the bourgeoisie confesses that its own interests dictate that it should be delivered from the danger of its *own* rule.[16]

For the bourgeoisie to survive, bourgeois democracy had to be injected with a good dose of aristocratic authoritarianism or something sufficiently similar since, writing in the United States, Schumpeter had to realize that his medievalist dreams were, there at least, totally inapplicable. The European reservoir of idle aristocrats was just not available to draw public servants from, while the political culture of the country was not such as to take very kindly to upstart military dictators. Something else had to be found; Schumpeter set off to invent it in his theory of democracy.

Government for the Masters, by the Masters, of the Masters

To make democracy safe for the bourgeoisie he first had to empty it of all significant popular content and then build up, under cover of representative, elective institutions an authoritarian structure to do the real governing. What he called 'the classical doctrine of democracy', with its emphasis on the sovereign role of the majority of ordinary men and women, had to be demolished; the concepts of the common good and the will of the people had to be discredited. The ordinary citizen, what we might call 'the common person', had to be put firmly in her or his place.

The formal side of his argument can be summarized quite briefly. The idea of the common good (or 'general interest') is rejected on the

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[16] 'The Eighteenth Brumaire of Louis Bonaparte', *Collected Works*, vol. 11, London 1979, pp. 142–3. Compare this with Schumpeter's formulation: 'The inference is obvious: . . . the bourgeois class is ill equipped to face the problems, both domestic and international, that have normally to be faced in a country of any importance. The bourgeois themselves feel that in spite of all the phraseology that seems to deny it, and so do the masses. Within a protecting framework not made of bourgeois material, the bourgeoisie may be successful, not only in the political defensive but also in the offensive, especially as an opposition. For a time it felt so safe as to be able to afford the luxury of attacking the protective frame itself; such bourgeois opposition as there was in imperial Germany illustrates this to perfection. But without protection by some non-bourgeois group, the bourgeoisie is politically helpless and unable not only to lead the nation but even to take care of its particular class interest. Which amounts to saying that it needs a master.' CSD, p. 138.

grounds that, in the presence of disagreements on fundamental values among people, such a concept simply cannot be defined. Barring universal consensus which is, of course, unrealizable, the common good just does not exist. Without it the idea of the general will, directed at promoting the common good through the agency of government, collapses. It is left without a focus capable of unifying around it, by means of rational discussion, the wills of all various individuals in society so as to form a coherent will of the people. Hence the people in a democracy have no obvious logical or other claim to rule—in the real sense of making specific decisions on the various issues of the day. The will of the people is found to be an empty shell.

At this point, the arrogance of Schumpeter's social prejudices explodes with a vengeance. Few things fill him with more contempt, not to say horror, than the prospect of the common person, the ordinary citizen, acquiring any real political power. To begin with, a good quarter of all human beings are viewed by him as 'subnormal':

> This term does not refer to isolated pathological cases but to a broad fringe of perhaps 25 per cent of the population. So far as subnormal performance is due to moral or volitional defects, it is perfectly unrealistic to expect that it will vanish with capitalism. The great problem and the great enemy of humanity, the subnormal, will be as much with us [under socialism] as he is now.[17]

Nor did he think of the 'subnormal' in any neutral statistical sense, as simply those belonging to one of the tails of the normal distribution of some ability curve. 'Niggers, Jews and subnormals' were all, with equal abomination, lumped together by him in a revealing passage of his diary. But 25 per cent is quite enough to hold the balance in any electoral contest, with more than two parties involved. Even if subnormals are fairly evenly spread among all political parties, instances can no doubt easily be imagined where the outcome of important voting events will be decided by the imbeciles, the enemies of humanity. Should we deliver our government in the hands of our enemies? One suppresses one's enemies, one does not offer them the chance of a fair and rational democratic debate. In any case they are incapable of meaningful conversation. And not just they. Ordinary people in general are unable to think for themselves. As Schumpeter put it, 'the mass of people never develops definite opinions of its own initiative'.[18]

Moreover, they have no will of their own. How could the gates of sensible collective decision-making processes be thrown open to such deplorable material:

> If we are to argue that the will of the citizens per se is a political factor entitled to respect, it must first exist. That is to say, it must be something more than an indeterminate bundle of vague impulses loosely playing about given slogans and mistaken impressions. Everyone would have to know definitely what he wants to stand for.[19]

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[17] CSD, p. 213.
[18] CSD, p. 145.
[19] CSD, p. 253.

Things become infinitely worse when large numbers of such basically unworthy individuals begin to gang up in teams. Borrowing a leaf from Gustave Le Bon's *Psychologie des Foules*, Schumpeter looked at the modern crowd with the icy gaze of a gendarme, denouncing

> the realities of human behaviour when under the influence of agglomeration—in particular the sudden disappearance, in a state of excitement, of moral restraints and civilized modes of thinking and feeling, the sudden eruption of primitive impulses, infantilisms and criminal propensities.[20]

Schumpeter is, at this point, careful to guard against the accusation that he is using Le Bon's exaggerations to lampoon the working class. In a footnote, one of those amazing Schumpeterian footnotes where, once every so often, he buries away and by so doing reveals some of his innermost concerns on central isues, he writes:

> The German term, *Massenpsychologie*, suggests a warning: the psychology of crowds must not be confused with the psychology of the masses. The former does not necessarily carry any class connotation and in itself has nothing to do with a study of the ways of thinking and feeling of, say, the working class.[21]

His sincerity here cannot be put to question; all crowds, irrespective of social origin, are equally suspect in his eyes:

> Every parliament, every committee, every council of war composed of a dozen generals in their sixties, displays, in however mild a form, some of those features that stand out so glaringly in the case of the rabble, in particular a reduced sense of responsibility, a lower level of energy of thought and greater sensitiveness to non-logical influences.[22]

Moreover, the crowd does not have to gather physically in one place in order to come into existence. Newspaper readers, radio audiences, members of a party—even, perhaps, the readership of *Capitalism, Socialism and Democracy*—all make up psychological crowds of varying degrees of noxiousness and imbecility.

Crowds need indeed not be typically working-class. But how is it possible to avoid concluding, Schumpeter's prudent disclaimer notwithstanding, that it is the working-class event which typically draws the big crowds, indeed crowds of ordinary individuals. By implication, it has to be the class least likely to generate a political or a social leadership.

With the common man portrayed as little better than a common idiot, with all mass movements moreover seen as little different from semi-criminal conspiracies, one is left to wonder what chances humanity has of a functioning democracy. Here Schumpeter makes the justified point that, in modern nations, institutions and the whole organization of life render the participation of the ordinary citizen in any genuine political decision-making entirely derisory. Individuals enter social life as private persons, their concerns are with their own business,

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[20] CSD, p. 257.
[21] Ibid.
[22] Ibid.

with their families, beyond which they are just unable to reach. The objective conditions of their very existence prevent them from claiming any meaningful role in politics. It is an area in which they lose their sense of direction, their sense of reality even:

> This reduced sense of reality accounts not only for a reduced sense of responsibility but also for the absence of effective volition. One has one's phrases, of course, and daydreams and grumbles; especially one has likes and dislikes. But ordinarily they do not amount to what we call a will—the psychic counterpart of purposeful responsible action. In fact, for the private citizen musing over national affairs there is no scope for such a will and no task at which it could develop. He is a member of an unworkable committee, the committee of the whole nation, and this is why he expends less disciplined effort on mastering a political problem than he expends on a game of bridge.[23]

Politics, in a modern democracy, becomes a profession, a matter for specialists. In them Schumpeter discovers the real rulers of the modern state. The role of the people is to be confined to choosing from among professional politicians of the various brands on offer—from among the political parties—the ones who will actually govern for a fixed period of time. Other than that, the people cannot do. They have no other role to play in political life. In fact they would be well advised for the rest of the time to keep quietly to themselves, and leave the serious work to serious people. Don't talk to the driver while the bus is moving!

Even elections are ultimately just another illusion insofar as the electorate never exercises any genuine initiative in selecting anybody. Here again electorates, crowds, the masses, are simply instruments, material to be shaped by the few, or even the one, the party leader, the man of vision, of strong initiative and overpowering personality who dictates to society his programme. 'Collectives act almost exclusively by accepting leadership.'[24] Their will, which they think their own when they place it in the ballot box, is a Manufactured Will (capitalized as such by Schumpeter). His great prototype of a leader was none other than Napoleon, using his power autocratically to arbitrate without consultation the religious quarrels of France.[25] A main condition of success of parliamentary democracy in Schumpeter's version is exactly this: it has to provide scope for similar exploits by a horde of little world spirits on horseback.

This clears the way for an elective team of Platonic guardians, acting in Napoleonic style, to take charge of the commanding heights of society. In their hands democracy becomes the perfect vehicle of perpetual class domination of a kind impervious even to a socialist transformation of society. Therefore democracy—that kind of democracy—can fit, as a neutral political envelope, either capitalism or socialism, the substance of which has itself been redefined by Schumpeter in a most unsocialistic way. The 'socialism' of *Capitalism, Socialism and*

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[23] CSD, p. 261.
[24] CSD, p. 270.
[25] CSD, p. 255.

Democracy has nothing to do with the democratic rule of the people spreading from the sphere of politics to that of the economy. It has nothing to do with the liberating vision of a democracy of producers:

> The essential point to grasp is this. No responsible person can view with equanimity the consequences of extending the democratic method, that is to say the sphere of 'politics', to all economic affairs. Believing that democratic socialism means precisely this, such a person will naturally conclude that democratic socialism must fail. But this does not necessarily follow. As has been pointed out before, extension of the range of public management does not imply corresponding extension of the range of political management.[26]

Indeed. What it rather implies is extension of the rule of a civil-service bureaucracy, uncontrolled and essentially uncontrollable by the immediately interested parties, the actual producers. Any transfer of real power to producers is exactly what has to be jettisoned first for the authoritarian side of the blueprint, the planned economy, to gain respectability. Indeed Schumpeter was convinced from his post-First World War involvement in the German socialization commission (which Karl Kautsky chaired) that planning and democratic councils were fundamentally incompatible.[27]

Schumpeter does predict socialism, but only after he has satisfied himself that it has become emptied of every egalitarian feature, every impulse which might be liberating for the labouring majority. A true child of his age, overimpressed by the effectiveness of contemporary dictators, he braced himself for the advent of a 'tyrannical socialism':

> Once more: it is only socialism in the sense defined in this book that is so predictable. Nothing else is. In particular there is little reason to believe that this socialism will mean the advent of the civilization of which orthodox socialists dream. It is much more likely to present fascist features. That would be a strange answer to Marx's prayer. But history sometimes indulges in jokes of questionable taste.[28]

According to Schumpeter, there is nothing in this socialism to prevent the economy from flourishing, not even the demise of the entrepreneur. The bourgeoisie would retain its function in the new social order, not on efficiency grounds but as a Platonic class of guardians, just as the squires had watched over and domesticated the middle classes. But the bourgeoisie continues to need a master; this service is increasingly provided by the iron discipline of the monopoly which has brought the process of creative destruction under the organized management of its bureaucratic hierarchies. Even the limited freedom of an earlier competitive era is no longer necessary for economic progress. Under the rule of oligopolies, the economy does not fail to flourish:

> [T]he actual efficiency of the capitalist engine of production in the era of the largest-scale units has been much greater than in the preceding era of small or medium-sized ones.[29]

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[26] CSD, p. 299.
[27] CSD, p. 300.
[28] CSD, p. 375.
[29] CSD, p. 189.

Why should it not be even greater under the organized super-monopoly of the planned economy? Unafraid to follow his logic wherever it might take him, this is exactly what Schumpeter ends up asserting. A feudally distorted competitive capitalism, a combination of party bosses and financial manipulators under monopoly capitalism, a fascist-style socialism (all phenomena of undeniable reality in our history) find their justification, or at least their rationalization, in Schumpeter's emasculation of the classical doctrine of democracy. The question is: has any Marxist anything to complain about?

Two Theses on Democracy

In all of Schumpeter's diagnoses of the ills of democracy and even in his polemics there is undeniably a great deal of Marxist good sense. The idea of the common good, or the general interest, does come in for quite a bit of rough treatment in Marx:

> In the state . . . where a man is regarded as a species-being, he is the imaginary member of an illusory sovereignty, is deprived of his real individual life and endowed with an unreal universality.[30]

Moreover, Schumpeter's justly ironical treatment of the narrowly bourgeois character of the common good as defined by the early Utilitarians —'[N]one of them seriously considered any substantial change in the economic framework and habits of bourgeois society. They saw little beyond the world of an eighteenth-century ironmonger'[31]—faithfully echoes Marx's sarcastic comment on Bentham in Volume 1 of *Capital*.

Schumpeter's debunking, in his perception of the emergence of the 'Manufactured Will', of the myth of an allegedly sovereign, independent individual will, his pointing to the role of the manipulators of public opinion, are all additional themes of very respectable Marxian ancestry. The ruling ideas in every epoch are the ideas of the ruling class. Even for Schumpeter's appeal to a religious foundation of the ingrained democratic belief in human equality ('But Christianity harbours a strong equalitarian element. The Redeemer died for all. He did not differentiate between individuals of different social status'[32]) an uncanny anticipation can be found in a passage from the early Marx:

> Political democracy is Christian since in it man, not merely one man but every man, ranks as *sovereign*, as the highest being, but it is man in his uncivilized, unsocial form . . . man who is not yet a *real* species-being. That which is a creation of fantasy, a dream, a postulate of Christianity, i.e., the sovereignty of man—but man as an alien being different from the real man —becomes in democracy tangible reality, present existence, and secular principle.[33]

Despite such striking similarities, the difference in conclusions between Schumpeter and Marx could not be more profound. The

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[30] 'On the Jewish Question', *Collected Works*, vol. 3, London 1975, p. 134.
[31] CSD, p. 252.
[32] CSD, p. 265.
[33] 'On the Jewish Question', p. 159.

coincidence of the two authors is limited only to the symptomatology, so to speak, of certain ills that plague bourgeois democracy. In their causal analysis as well as the intention of their criticism they are miles apart. For the illusory character of the idea of the common good, or the general interest, Marx seeks an explanation in the realm of economic structure, while Schumpeter seeks it in the very nature of the human being. For Marx, the separation, even the contradiction between private and general interest has its material basis in the undeliberate, unplanned, anarchic division of labour characteristic of commodity production (or of the market economy, to use the most closely proximate non-Marxist term). But the general interest exists, it is something real, individual differences of opinion about values do not render it illusory, as Schumpeter insisted. Marx offered a theory reconciling its existence with the perverse form it assumes in bourgeois society:

> [T]he division of labour . . . implies the contradiction between the interest of the separate individual . . . and the common interest of all the individuals who have intercourse with one another. And indeed, this common interest does not exist merely in the imagination, as the 'general interest', but first of all in reality, as the mutual interdependence of the individuals among whom the labour is divided.[34]

In this social context, individuals attempting to relate themselves to the pursuit of the general interest will, of course, fall victim to all the imbecilities, the frustrations and incapacities which Schumpeter taxes them with. The solution, however, or at least Marx's solution, is not to surrender to the fatality of the conflict of interests and put one's salvation in the hands of self-selecting professional politicians, a modern version of Platonic guardians, in an army of little or big Napoleons, or simply in some real army officered by the remnants of a decrepit feudal nobility. It is to seek a transformation in the economic base of society such that will eliminate the gulf between private and general interest to the point where, in the phrase of the *Communist Manifesto*, 'the free development of each is the condition for the free development of all'.

Is it possible to reach a state of such perfection? With the human material available, particularly the human material which the working masses at present consist of, clearly not. But this material has been shaped by economic practice, by economic conditions of exploitation which dehumanize the human being. The psychological state of the working majority is a consequence and a precondition of class domination. Different economic circumstances may well shape humanity differently, they may even bring it to the point of being able to agree on its fundamental values. Schumpeter was not, of course, unaware either of this argument or of its purport. In fact, he opens his discussion of democracy with an attempt not so much to refute as to relegate the argument to another area of discourse; to shift its ground from politics to economics:

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[34] 'The German Ideology', *Collected Works*, vol. 5, London 1976, p. 46.

> According to this theory, private control over the means of production is at the bottom of the ability of the capitalist class to exploit labour and of its ability to impose the dictates of its class interest upon the management of the political affairs of the community; the political power of the capitalist class thus appears to be but a special form of its economic power.
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> The argument is essentially Marxian of course . . . it will have to share the fate of the doctrine of 'exploitation of man by man'.[35]

Equilibrium, Disequilibrium and Exploitation

Exploitation. Bourgeois Marxists prefer to talk about it as little as possible. Schumpeter is no exception. He approaches the topic obliquely. Contemptuously alleging against the doctrine of exploitation a total failure in sense of proportion, he brandishes at it the image of an unreal extreme polarization of social classes to which the doctrine should lead, if it were valid:

> From first to last, Marx seems to see nothing but opposition of interests between them: essentially and inevitably, their relation to each other is struggle ('class war'). And from first to last they are relations between oppressors and oppressed, exploiters and exploited. If these and similar terms meant nothing but value-judgements, there would be nothing to be said—everybody, if he so pleases, is free to consider himself exploited by the (n – 1) other inhabitants of the globe.[36]

Exploitation is thus made into a subjective notion, an obsessive idea belaboured by cranks and social misfits. Its alleged victims are never particularly concerned with it; it is just an empty slogan, forged by intellectuals for the use of agitators:

> The masses have not always felt themselves to be frustrated and exploited. But the intellectuals that formulated their views for them have always told them that they were, without necessarily meaning by it anything precise.[37]

Of course, while Marx had sought to move beyond empty phrase-mongering, even his attempt must be declared a failure. Schumpeter trots out all the usual tired arguments against Marx's theory of surplus value; he makes heavy weather of the artificiality of the claim that labour-power is a commodity: if so, where is the factory that produces it? Sometimes he even descends to arguments inferior to his justified reputation as a first-rate historian of economic thought: his identification of Senior's foolish view that all profit is made during the last hour of the worker's daily employment (so that *any* shortening of the working day risks its elimination) with Marx's concepts of necessary and surplus labour—despite Marx's explicit refutation of Senior's idiocies—is a case in point. In all his negative onslaught against the labour theory of value Schumpeter never stops to consider the possibility that of the various theories of value extant in his day or in ours, none could have withstood the combination of excruciatingly stringent

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[35] CSD, p. 235.
[36] 'The Communist Manifesto in Sociology and Economics', in R.V. Clemence, ed., *Essays on Economic Topics of J.A. Schumpeter*, Cambridge, Mass. 1951, p. 290.
[37] CSD, p. 26.

logical standards imposed on, and bad faith deployed against, the labour theory. The polemicist has taken over from the scholar here.

But this is not all. Schumpeter proceeds to present additional arguments drawn from his own original vision of the economic process. These are far more interesting than the hackneyed criticisms of the labour theory of value which he trots out. He begins with the remark that 'perfectly competitive equilibrium cannot exist in a situation in which all capitalists make exploitation gains. For in this case they would individually try to expand production and the mass effect of this would tend to increase wage rates and reduce gains of that kind to zero.'[38] Having established this, to his own satisfaction, he proceeds to add:

> But there is another aspect of the matter. We need only look at Marx's analytic aim in order to realize that he need not have accepted battle on the ground on which it is so easy to beat him. This is so easy as long as we see in the theory of surplus value nothing but a proposition about stationary economic processes in perfect equilibrium. Since what he aimed at analysing was not a state of equilibrium which according to him capitalist society could never attain, but on the contrary a process of incessant change in economic structure, criticism along the above lines is not completely decisive. Surplus values may be impossible in perfect equilibrium but can be ever present because that equilibrium is never allowed to establish itself. . . . This defence will not rescue the labour theory of value. . . . But it will enable us to put a more favourable interpretation on the result, *although a satisfactory theory of those surpluses will strip them of the specifically Marxian connotation*.[39]

Entrepreneurs, Ephors, Swindlers and Prophets

In fact Schumpeter could, and probably did, draw from Marx many specific hints for his own theory of surplus-value beyond a mere general look 'at Marx's analytical aim'. The idea that the innovator, by introducing new techniques, generates an extra surplus for himself was considered by Marx important enough to merit integrating into his main, but somewhat heavy statement of the labour theory of value and also into his theory of the falling rate of profit where, burdened with fewer technicalities, the idea can be readily identified:

> No capitalist ever voluntarily introduces a new method of production . . . so long as it reduces the rate of profit. Yet every such new method of production cheapens the commodities. Hence, the capitalist sells them originally above their prices of production, or, perhaps, above their value. He pockets the difference between their costs of production and the market-prices of the same commodities produced at higher costs of production. He can do this, because the average labour time required socially for the production of these latter commodities is higher than the labour-time required with the new methods of production. His method of production stands above the social average. But competition makes it general and subject to the general law. There follows a fall in the rate of profit . . . which is, therefore, wholly independent of the will of the capitalist.[40]

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[38] CSD, p. 28.
[39] Ibid. Italics added.
[40] Karl Marx, *Capital* Volume 3, Moscow n.d., chapter 15, section 4.

The whole Schumpeterian explanation of entrepreneurial profit—indeed, his whole theory of cycles—is contained here in embryonic form. The innovator's activity creates a disequilibrium in the market which enables him to reap from the sale of his product a rent over and above the normal rate of profit, as long as he maintains the monopoly of some new method. Little by little, however, imitators appear who, by duplicating the original innovation and increasing the supply of the relevant product, erode prices and cause the collapse of profits.

However, for Marx this kind of profit arising from disequilibrium in the market is over and above the basic kind of profit that is derived from the exploitation of labour even under conditions of equilibrium. For Schumpeter equilibrium profit—surplus value as an equilibrium phenomenon—simply does not exist. With this, the most crucial point of his project to 'de-Marxize' Marx is reached. If wealth is not the product of exploitation, then deprivation of the masses—of the majority who thereby lose control of their own destinies—cannot be laid at the door of the profit-making process. Nor can it be abolished by the mere socialization of the means of production. It must be seen as the consequence of the natural separation of mankind into 'sub-normal' and 'supernormal' individuals, and accepted as an eternal feature of social life. Not even increasing material affluence can do anything about it.

That is where the entrepreneur becomes essential. The inspired innovator, typically not himself a capitalist in the sense of owning capital, is an individual who begins by securing for his project the blessing of that great paternalistic figure of capitalism, and German capitalism especially: the banker. Having acquired that blessing and, more to the point, the credit that goes with it, he moves into action, shakes up all comfortable established zero-profit equilibria in his sector and, by the elementary expedient of a disequilibrium price, pulls out of his magician's hat profits for himself, interest for the banker and material affluence for the lowly plebs:

> It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars and so on that are the typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man. Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.[41]

The activity of the entrepreneur is the exclusive source of surplus. In physiocratic terms, entrepreneurs are the only *classe productive*. Capital as such, devoid of entrepreneurship, offers no original productive service; from that point of view it is non-productive.

Unlike in Marx, capital for Schumpeter is a passive instrument in the hands of the entrepreneur; it is even produced virtually costlessly, at will, by the banker, a specialized agent peculiar to a social system

[41] CSD, p. 67.

based on production subject to no prior social planning but depending exclusively on an *ex post* coordination by the market:

> The banker, therefore, is not so much primarily a middleman in the commodity 'purchasing power' as a *producer* of this commodity. However, since all reserve funds and savings today usually flow to him . . . he stands between those who wish to form new combinations and the possessors of productive means. He is essentially a phenomenon of development, though only when no central authority directs the social process. He makes possible the carrying out of new combinations, authorizes people, in the name of society as it were, to form them. He is the ephor of the exchange economy.[42]

Ephors, in ancient Sparta, were elders who arbitrated the affairs of that primitive collectivist military society. They had the casting vote on all serious matters, their power was enormous, virtually dictatorial. But in terms of personal income they were very modest men, sharing the frugal, barracks-style existence of their fellow citizens. Their style corresponded to the description of 'high custodians of the public interest', if any officials ever did. Schumpeter's ephors are of a far more mercenary disposition. Despite not contributing to production any original factor of their own, they go ahead and charge a hefty systemic rent on the one and only creator of real wealth, the entrepreneur. The ephors of the exchange economy are also the worst exploiters on the Marxian or any other sensible definition of the term:

> Interest flows essentially from the surplus values just considered. It can flow from nothing else since there are no other surpluses in the normal course of economic life. . . . Without development . . . there would be no interest. . . . Interest must flow from entrepreneurial profit. Development, then—in some way—sweeps a part of profit to the capitalist. Interest acts as a tax upon profit.[43]

All this coincides virtually completely with Marx's diagnosis of the matter:

> Interest . . . appears originally, is originally, and remains in fact merely a portion of the profit, i.e., of the surplus value, which the functioning capitalist, industrialist or merchant has to pay to the owner and lender of money-capital whenever he uses loaned capital instead of his own.[44]

But then, the entrepreneur is not without his consolations. His nexus with the banker enables him to ply his trade at the expense, and the risk, not of his own but of other people's money. 'The entrepreneur is never the risk-bearer.'[45] While the banker, Schumpeter's exalted 'ephor' of the exchange economy, operates as just another link along the chain of exploitation which keeps the capitalist system on its toes. Undoubtedly, despite the interest 'tax' imposed on him, the Schumpeterian entrepreneur is no impoverished character! Far from it. He does amass a personal fortune. But he rarely considers doing anything so

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[42] *The Theory of Economic Development*, New Brunswick, NJ 1983, p. 74.
[43] Ibid., pp. 173–5.
[44] *Capital* Volume 3, chapter 23.
[45] *The Theory of Economic Democracy*, p. 137.

vulgar as financing his enterprise by his own means. The aim of his personal wealth is to free him from everyday cares so that he can concentrate on the really important task: acquiring control over a share of the social capital, the total credit available in the economy. Long before Schumpeter, Marx had already described the creation of capital as a socio-economic conjuring act:

> The control over social capital, not the individual capital of his own, gives [the capitalist] control of social labour. The capital itself, which a man really owns or is supposed to own in the opinion of the public, becomes purely the basis for the superstructure of credit.[46]

There is, therefore, in Marx's capitalism, just as there is in Schumpeter's, room for a man who becomes a capitalist not by virtue of his prior ownership of the means of production but by the sheer force of his personality:

> Even when a man without fortune receives credit in his capacity of industrialist or merchant, it occurs with the expectation that he will function as capitalist and appropriate unpaid labour with the borrowed capital. He receives credit in his capacity of potential capitalist. The circumstance that a man without fortune but possessing energy, solidity, ability and business acumen may become a capitalist in this manner—and the commercial value of each individual is pretty accurately estimated under the capitalist mode of production—is greatly admired by apologists of the capitalist system. Although this circumstance continually brings an unwelcome number of new soldiers of fortune into the field and into competition with the already existing individual capitalists, it also reinforces the supremacy of capital itself, expands its base and enables it to recruit ever new forces for itself out of the substratum of society.[47]

These insights of Marx into some defence mechanisms of class society, and capitalism as a special form of it, are easy to rediscover in Schumpeter:

> Although entrepreneurs are not necessarily or even typically elements of [the bourgeois] stratum from the outset, they nevertheless enter it in case of success. Thus, though entrepreneurs do not per se form a social class, the bourgeois class absorbs them and their families and connections, thereby recruiting and revitalizing itself currently while at the same time the families that sever their active relation to 'business' drop out of it after a generation or two.[48]

Despite these similarities in their perception of the social dynamics of the rise and *modus operandi* of entrepreneurs, Marx and Schumpeter are once again poles apart. The basic reason for their difference is that Marx places exploitation of labour at the centre of the wealth-creating process of capitalism, while Schumpeter gives innovation the central role. Therefore for Marx the primary personage in the capitalist drama is the exploiter, the owner of the means of production, while for Schumpeter it is the entrepreneur. But, dependent on this first,

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[46] *Capital* Volume 3, chapter 27.
[47] Ibid., chapter 36.
[48] CSD, p. 134.

there is also a second significant difference between them. It regards the banker/entrepreneur duality. In *Capital* Volume 3 Marx had anticipated this duality, seeing in it a sign of the maturing of capitalism into a more advanced form. Capitalism, in the phase where the duality operates on a large scale, has become depersonalized. The vast fortunes accumulated at an earlier period begin to function as self-propelling entities, employing professional managers, developing vast business bureaucracies and becoming independent of personal individual owners. The separation of the ownership of capital from the management of the production process and from entrepreneurship, together with its corollary—the emergence of the banker in an independent managerial capacity of administrator of other people's money—fall naturally into place among the institutions of late capitalism.

Of such developments Marx gave in *Capital* only the briefest of sketches. The analysis was carried forward at the beginning of the century by Marxist authors like Hilferding, Kautsky and Lenin who were conscious of dealing with changes sufficient to inaugurate a monopolistic phase of the capitalist system. Schumpeter, who in *Capitalism, Socialism and Democracy* explicitly refers to Hilferding and Schmoller on this issue,[49] accepted a lot of their analysis and completely adopted the concept of the emergence of a distinct modern epoch of capitalist development, dominated by oligopolies. At the same time, however, the banker/entrepreneur duality, which on a large scale becomes a feature of capitalism only at its late phase, he attributed to early capitalism. His prediction of the obsolescence of the entrepreneurial function follows from this disjointed historical perspective and allows him to formulate his doctrine of a tyrannical democracy, where the role of the ruling elite of society shifts from the entrepreneur to the political boss.

For Marx, who never lost sight of this historical perspective, the implications of the depersonalization of capital and of the professionalization of management are different. He interprets them as the beginning of 'private production without the control of private property',[50] with the character of both entrepreneurial and banking activities altered in the direction of increased recklessness:

> The credit system appears as the main lever of over-production and over-speculation in commerce solely because the reproduction process, which is elastic by nature, is here forced to its extreme limits, and is so forced because a large part of the social capital is employed by people who do not own it and who consequently tackle things quite differently than the owner, who anxiously weighs the limitations of his private capital in so far as he handles it himself.[51]

In the context of such overheating, innovation itself becomes a means of short-term speculation:

> If the rate of profit falls . . . there appears general swindling by recourse to

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[49] CSD, p. 42.
[50] *Capital* Volume 3, Moscow n.d., chapter 27.
[51] Ibid.

> frenzied ventures with new methods of production, new investments of capital, new adventures, all for the sale of securing a shred of extra profit which is independent of the general rate and rises above it.[52]

As to the financiers, only at that late phase do they acquire the character of directors in charge of the deployment of a type of capital which is, effectively, a social force, placed under their control by the institutional development of capitalism. The sagacity of ephors appears nowhere in their deliberations. The way they augment the wealth-making capacity of society is not by their judicious paring out of credit to the most deserving project but by grabbing for the loot in an increasingly turbulent frenzy of surplus-value extraction:

> It is this ambiguous nature, which endows the principal spokesmen of credit from Law to Isaac Pereire with the pleasant character mixture of swindler and prophet.[53]

Individualism and Social Forces

Not just swindlers, prophets as well. Innovators, leading humanity on to its unknown destiny by unconsciously mobilizing the one genuine creative force: labour on an increasingly large scale. Marx could scarcely have missed this positive aspect of the unleashing of the entrepreneur from the limitations of the need for personal capital accumulation. From this to recognizing the importance of the entrepreneurial element in all capitalist epochs is not that big a step. It is strange that Marx did not make it, particularly as he did not lack the evidence. In his epoch-making study on *The Condition of the Working Class in England*, Engels had catalogued the pioneers of the first industrial revolution, the very entrepreneurial figures who, by virtue of their inventiveness, combined with capital accumulated in their hands, launched the modern era of mechanized production. Marx most certainly did not ignore their role; why did he not ascribe them the central importance which his own references to the revolutionary role of the bourgeoisie in the development of production might seem to imply? The answer most probably must be sought in Marx's methodological approach towards forces active in societies, in his excessively deterministic understanding of the role of individuals in history and in particular of individuals in the context of a capitalist market economy.

Marx's doctrine of the 'fetishism of commodities' can be seen as one possible way to concretize the deterministic principles he imposes on capitalist individuals. Absence of direct socialization of productive activity—of what, in very simple terms, one could describe as cooperative economic planning—leads to a situation where the product is dominating the producer. The process of economic life becomes unintelligible, unpredictable. The producer can take action only on the basis of informed guesses. In that sense all economic agents, from the humblest to the most exalted, have to confront the unknown in their day-to-day activities; in that sense we all have to be 'entrepreneurs'. There is nothing all that unique in entrepreneurial activity to deserve a special reward. Entrepreneurship is just one aspect of productive

[52] Ibid., chapter 15, section 3.
[53] Ibid., chapter 27.

labour, to be rewarded from the product of labour, from value and surplus-value.

In a broader sense, a kind of fetishism can be seen to operate in Marx's scheme over the whole historical period which, in the Preface to *A Contribution to the Critique of Political Economy*, he describes as the 'prehistory of humanity', the epoch of class-divided society. During this epoch, the divisiveness of the class struggle, together with the low level of social cohesion dictated by low levels of productivity, end up by making human action subject to impersonal social forces. These do not have to be evil forces; they may even work for the long-term benefit of humanity and, therefore, ultimately for the benefit of individuals, its basic components. But they are not controlled by, they control and dominate individuals: 'In the social production of their life, men enter into definite relations that are indispensable and *independent of their will*.'[54]

In the field set up by these impersonal forces individuals certainly take action, but they do so in a rather peculiar way. Some of them personify the social forces which dominate society and by these means they dominate their fellow humans. They certainly need certain special abilities to do that, entrepreneurship probably being one of them. But their personal abilities, great or small, are not constitutive of their function, they are executive of it. Whatever effectiveness they display in performing their role does not belong to them, it is a reflection of the potential of the impersonal force they represent. In the context of autonomized social forces, individual abilities give the actors the capacity to play a role but not to create a role. Marx gave what was perhaps his clearest statement of that 'personification' of impersonal social forces, despite certain moral overtones, in the Preface to the first edition of *Capital* Volume 1:

> I do not by any means depict the capitalist and the landlord in rosy colours. But individuals are dealt with here only in so far as they are the personifications of economic categories, the bearers of particular class-relations and interests. My standpoint, from which the development of the economic formation of society is viewed as a process of natural history, can less than any other make the individual responsible for relations whose creature he remains, socially speaking, however much he may subjectively raise himself above them.[55]

Capitalists organize the production process; under their command productivity of human labour increases in a vertiginous manner; but in fact capital, not the capitalist, is the real force behind the rise. In this context what is capital? It is the objectified social relationship enabling one individual, the possessor of money, to buy the labour-power of many. To the natural question whether the inventiveness, initiative and cleverness of the person who sets up and manages the division of labour does not count for something in the final outcome, Marx saw fit to provide an answer:

> The simple belief in the inventive genius exercised a priori by the individual capitalist in division of labour, exists now-a-days only among German

[54] Karl Marx, *Early Writings*, London 1991, p. 425.
[55] *Capital* Volume 1, Preface to the first edition.

> professors. . . . The more or less extensive application of division of labour depends on length of purse, not on greatness of genius.[56]

Not only is it capital, not the capitalist, that lies behind any increase in productivity, but a quantitative relationship may be traced between the size of capital—the length of the purse—and economies of scale. The personal contribution of the capitalist to the role of coordinator, which capital vests in him, is simply to enforce discipline on the reluctant team effort of the workers. Arkwright, the man who introduced the factory system in the spinning of cotton, someone who must, therefore, count among the greatest pioneers of the industrial revolution, is mentioned by Marx simply as someone who devised and administered a successful code of factory discipline. Marx's comment on the code was as acerbic as it was revealing:

> [T]his code is but the capitalist caricature of that social regulation of the labour-process which becomes requisite in cooperation on a large scale, and in the employment in common of the instruments of labour. The place of the slave-driver's lash is taken by the overlooker's book of penalties.[57]

Productivity is the property of social labour, it has nothing to do with the owner of capital.

Other students of the industrial revolution had taken a very different view of Arkwright. Marx himself quotes Andrew Ure, whom he ridicules as 'the Pindar of the factory system', describing Arkwright's enterprise as 'Herculean', his achievement as 'noble'. Not so, says Marx. 'Whoever knows the life history of Arkwright, will never dub this barber-genius "noble". Of all the great inventors of the eighteenth century, he was incontestably the greatest thiever of other people's inventions and the meanest fellow.'[58]

Well-known for his passionate polemics, for the ruthless attacks on those he considered either ideological opponents or, even worse, class enemies, Marx never allowed controversy to deflect his scientific judgement on serious matters. The question of the sources of productivity was indeed of utmost seriousness for an author who made the increase in the forces of production the ultimate determinant of historical evolution. Had he become convinced that entrepreneurs played a significant role in this area, no degree of polemical necessity would have prevented him from saying so. The fact that he did not, that he actually argued the opposite, indicates the presence of a deep-seated theoretical conviction of his on this issue, the reasons for which, not fully specified by him in his writings, have been reconstructed in the manner indicated above.

It is interesting to note that, on this point, Marx's perception is rather isolated in the literature. It deviates even from that of Engels, to whom after all he owed his initiation to the history of the industrial revolution. Regarding the importance of entrepreneurial initiative for the transformation of the social production process Engels, who also made specific references to Arkwright, had taken a considerably more

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[56] Ibid., chapter 14, section 5.
[57] Ibid., chapter 15, section 4.
[58] Ibid.

positive view. In the opening pages of *The Condition of the Working Class in England*, he drew a striking contrast between the passivity of the early, artisanal commodity producers and the initiative of the industrial innovators who displaced them:

> They were comfortable in their silent vegetation, and but for the industrial revolution they would never have emerged from this existence, which, cosily romantic as it was, was nevertheless not worthy of human beings.[59]

Incapable of initiative they were, nevertheless, quite capable of resisting progress. Indeed technical progress was resisted, in violent ways, not only by artisans but also by workers:

> As a class they first manifested opposition to the introduction of machinery at the very beginning of the industrial period. The first inventors, Arkwright and others, were persecuted in this way and their machines destroyed.[60]

In these descriptions by Engels, Schumpeter would easily recognize his own vision of the 'entrepreneurial moment' in history:

> We have seen that the function of the entrepreneur is to reform and revolutionize the pattern of production. . . . To undertake such new things is difficult and constitutes a distinct economic function, first, because the environment resists in many ways that vary, according to social conditions, from simple refusal either to finance or to buy a new thing, to physical attack on the man who tries to produce it. To act with confidence beyond the range of familiar beacons and to overcome that resistance requires aptitudes that are present in only a small fraction of the population. . . . [61]

And to that fraction of the population Schumpeter had surrendered. He had done so in the best of his own lights: he firmly believed that strong, brilliant and original individuals were the only ones who created wealth, material affluence, progress for themselves and for everybody else. He believed in leaders. They were the only ones to merit serious consideration on the part of the social scientist. To them he gave his heart. Yet his heart was not totally at ease on the matter. He could not, out of sheer class prejudice, bring himself to recognize the dialectical moment in Marx's conception of 'creative destruction' in which the transformation of the methods of production, indeed the very transformation of nature through man's productive activity, results in the transformation of the producers themselves. Man acts upon external nature and changes it, and in this way he simultaneously changes his own nature.

For Schumpeter it is of course not man but the entrepreneur who, in early capitalism, transforms nature. In late capitalism even the entrepreneur is done away with, the bureaucratic organization takes over. This does not worry the imperious Austrian whose fundamental loyalties are with the perpetuation of class rule, the eternalization of the split of society into leaders and led, not with the flowering of

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[59] *The Condition of the Working Class in England*, Karl Marx and Frederick Engels, *Collected Works*, vol. 4, London 1975, p. 309.
[60] Ibid., p. 509.
[61] CSD, p. 132.

human personality implicit in a universalization of entrepreneurship. The elective tyranny, which he represents as a democracy, and the fascist 'socialism' whose advent he predicts, are both quite consistent with an authoritarian bureaucracy in charge of production. To justify these trends theoretically Schumpeter undertook, in *Capitalism, Socialism and Democracy*, a very broad ideological manoeuvre. He began by debunking the egalitarianism of the classical concept of democracy in order to deprive socialism of its human justification and thereby bolster up what he saw as the crumbling defences of capitalism. The 'socialism' envisaged by him is little but a technocratic transformation of bourgeois class rule.

His only real concession was in his sense of time. His consciousness was that of the last-ditch battle. But then empires have lasted for centuries fighting in the last ditch. Schumpeter did not aim for secular victories. Creative destruction had at least taught him the importance of immediacy. The pursuit of eternal victories he left for his opponents. For his own side he prayed *da nobis hodie*:

> This is why the facts and arguments presented in this and the two preceding chapters do not invalidate my reasoning about the possible economic results of another fifty years of capitalist evolution. The thirties may well turn out to have been the last gasp of capitalism—the likelihood of this is of course greatly increased by the current war. But again they may not. In any case there are no *purely economic* reasons why capitalism should not have another successful run which is all I wish to establish.[62]

Another successful run of fifty years, with a bit of tinkering here and a bit of piecemeal social engineering there, yet another with a bit of innovation, and let the Marxists wait for history to put an end to its prehistoric phase and move humanity bodily from the realm of necessity into the realm of freedom. The outstanding success of oligopolistic capitalism in increasing productive power might prove sufficient defence against all hairbrained schemes of social liberation. And even if the worst came to the worst and the social system did suffer a change, the same people, the technocratic bureaucrats, would maintain their posts of command and run the successor economic system with equal if not greater efficiency. Masters and servants would always exist. The entrepreneurs, a romantic vestige from capitalism's heroic past, would have served their purpose and long been forgotten. Strange though it may sound, at the end of the day Schumpeter abandoned the entrepreneur.

The Victory of the Entrepreneur

But the entrepreneur did not abandon Schumpeter. In the great contest of social systems, of modes of social life and organization, which filled the best part of the century, victory ultimately went to those who offered greater scope to individual creativity—inherent in every society but repressed in various ways by all sorts of idiotic, self-serving, exploitative or plain barbarous institutions. In that respect Marx, with his emphasis on impersonal historical forces at the expense of any role

[62] CSD, p. 163.

for individual creativity in the historical process, and the implicit disdain for individual creativity which his theories—perhaps misinterpreted but certainly lending themselves to this particular misinterpretation—fostered among his followers, performed a very bad, indeed a catastrophic, service to his own cause. The rule of the masters gained another respite, though Schumpeter's forecast of the future was not vindicated either. Fascist 'socialism', the tasteless joke of history which he had predicted, came to a sorry end. And as to modern capitalism, it was not Schumpeter's tyrannical parody of democracy or the oligopolistic authoritarianism he had come to admire that gave it the winning edge. Despite these trends, which no doubt made themselves felt in a very assertive manner, despite itself in a manner of speaking, the system up to a point socialized itself. In that context, it offered more people greater opportunity for individual self-expression, for creative initiatives, for entrepreneurship, strengthening itself in the process.

It did not cease being an exploitative system. It still wasted vast amounts of human potential, all those working people who were never given much of a chance. Schumpeter has argued that socialists ought to admit there is sufficient opportunity in capitalism for talent to make progress, that in fact there is more opportunity available for talent than talent available for opportunity. His one reservation was that 'there may be social losses particularly in the class of semi-pathological genius [though] it is not likely that they are very great'.[63]

But is it so surprising that the supply of talent would falter when the way of life that Schumpeter defended as eternal, the mode of production, the class-divided, class-dominated society is at every step draining away the creative urges of the main body of mankind, the daily workers? What is the point of setting up ladders if you are simultaneously creating a desert around them? Or, how can you perceive the human loss in capitalism, even in modern capitalism, if you start convinced at the outset that a quarter of mankind, all these Jews and niggers and non-Aryans in general, are subnormal enemies of humanity? Marx, who was no doubt wrong to have neglected the significance of entrepreneurship in capitalism, had at least, in his broader assessment of the human condition, taken a more generous view of his fellow human beings, given a genuine socialist transformation of society:

> In this transformation, it is neither the direct human labour he himself performs, nor the time during which he works, but rather the appropriation of his own general productive power, his understanding of nature and his mastery over it by virtue of his presence as a social body—it is, in a word, the development of the social individual which appears to be the great foundation-stone of production and of wealth. . . . [64]

For someone like Schumpeter, so impressed with the achievements of the entrepreneur's individuality, this should not have been such an alien gospel to preach. But had the imperious Austrian adopted that part of Marxism, together with all the others he did take over, he would have ceased being a bourgeois Marxist. He would have become, simply, a Marxist.

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[63] CSD, p. 188.
[64] Karl Marx, *Grundrisse*, London 1974, pp. 705–6.