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Marx and Schumpeter: A Comparison of their Theories of Development

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ABSTRACT *This paper challenges Paul Samuelson's claim that the development theories of Marx and Schumpeter have little in common. There are indeed broad similarities between the two theories, arising principally from Schumpeter's use of Marx's method (with some interesting modifications), which he calls the 'economic interpretation of history'. This discussion leads us to ask if we can incorporate into Marx's method some of the insights suggested by Schumpeter's modifications. We show that Marx's method is enriched by the insertion into it of an explicit, although limited, role of the individual (human agency). The paper then turns to the differences between the two theories, concerning the theory of value and the analysis of social classes. We find an unresolved tension in Schumpeter's system of thought, between his attempt to construct a model of a dynamic, evolving economy on Marxian lines (albeit an alternative to Marx's model), and his emphasis on the role of the individual, which he inserts into an essentially static, Walrasian model.*

1. Introduction

In the 'Preface' to the Japanese edition of his *Theory of Economic Development*, Schumpeter (1951, pp. 160–161) wrote:

It was not clear to me at the outset what to the reader will perhaps be obvious at once, namely, that the idea and the aim are exactly the same as the idea and aim which underlie the economic teachings of Karl Marx. In fact, what distinguishes him from the economists of his own time and those who preceded him was precisely a vision of economic evolution as a distinct process generated by the economic system itself. In every other respect he only used and adapted the concepts and propositions of Ricardian economics, but the concept of economic evolution which he put into an unessential Hegelian setting, is quite his own. It is probably due to this fact that one generation of economists after another turns back to him again and again although they may find plenty to criticise him.

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Paul Samuelson categorically rejected Schumpeter's view regarding the similarities between the latter's work and Marx's. He wrote:

I am of course aware that Schumpeter has in many places articulated words of praise and admiration for Karl Marx. But I and other of his students found this puzzling since in neither his lectures nor his writings could we identify the reasons for this admiration. It would be an evasion for us to write it all off as typical Schumpeterian empty praise—as when he would introduce to Harvard audiences with flowery compliments the Mises he looked down on and the Hayek whom he considered overvalued. Somehow his respect for Marx was more long lasting and seemed genuinely sincere. Despite repeated investigations I never could find the answer to the puzzle. Indeed in the end the evidential record requires me to conclude that, even if under hypnosis Schumpeter were to insist on the genuineness of his admiration for Marx, careful comparison of how the two writers would interpret dozens of different questions and processes will reveal that Schumpeter's answers are 180 degrees from Marx's—and the differences are generally precisely those differences that neoclassical pedants have with Marxian writers. Pragmatically what counts is not a scholar's rhetoric but rather his substantive hypotheses and descriptions. (Samuelson, 1993, pp. 250–251)

This paper disputes Samuelson's claim and argues that there are indeed broad similarities between the two theories, arising principally from Schumpeter's use of Marx's method.

The next section of the paper outlines those elements of Marx's thought with which Schumpeter is in broad agreement and which, with some interesting modifications, he uses to underpin his own theory of social evolution. This set of ideas Schumpeter refers to as 'the economic interpretation of history,' a term he considers philosophically neutral (Schumpeter, 1954, p. 438). In Section 3, we discuss aspects of Marx's approach to historical development which, though crucial for Marx's analysis, have no place in the Schumpeterian system.¹ Section 4 outlines Schumpeter's modifications of Marx's method and the hypothesis that he puts in place of those aspects of Marx's approach he rejects. The following four sections are devoted to a discussion of the theories of economic and social evolution of the two authors. Section 9 suggests that some of the insights suggested by Schumpeter's modifications of Marx's method can be incorporated in the latter. Section 10 discusses the nature of the gulf that divides Marx and Schumpeter and the unresolved tensions that exist in Schumpeter's thought. Some concluding remarks are offered in Section 11.

¹The full range of Marx's ideas on his materialist approach was christened by Frederick Engels as the 'materialist conception of history,' also as 'historical materialism'. His formulations of the method can be found in *The German Ideology* (Marx & Engels, 1845–1846), Marx's December 1846 letter to P.V. Annenkov (Marx & Engels, 1958, Vol. 1), *The Communist Manifesto* (Marx & Engels, 1848), and the Preface to *A Contribution to a Critique of Political Economy* (Marx, 1859).

2. Marx's Materialist Method

First, Marx sees society as an organism whose different parts complement each other and perform life-preserving functions. No individual part of this structural whole, be it religion, family life, the educational system, scientific activity, etc., can be understood in isolation from other aspects of social life. In the economic sphere, the organic nature of society shows itself in the social division of labour and interdependence between different activities. We note that in a system thus visualised, change in one part of the organism requires appropriate adaptations in other parts of the system. The process of development thus becomes a process of adaptation of various parts of the organism to any 'initial' change in one or more parts.²

Second, Marx sees social phenomena as elements of a historical process in constant change. Engels was referring to this aspect of Marx's vision when, acknowledging his and Marx's debt to Hegel, he wrote that the great merit of the latter's philosophy was that the natural, historical and spiritual aspects of the world were 'represented as a process of constant transformation and an effort was made to show the organic nature of the process' (Engels, 1883, p. 132).³ Marx conceptualised this process as one in which society reproduces itself in time. Each generation inherits its physical capital, its stock of knowledge, value systems and culture from the preceding generation, acts on this inheritance, discards some elements of it, builds on others and passes it on to one that follows. This is historical development or social evolution. Marx was expressing this idea when he wrote: 'Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given and transmitted from the past' (Marx, 1852a, p. 247).

Third, there is the assumption that social reality evolves through some 'internal necessity,' that there is some thing inherent in the social organism that causes it to undergo constant change on its own accord. In other words, no external force is needed to move it, as 'the analogy of Newtonian mechanics suggests.'⁴ We should note that without this assumption that change is truly endogenous, historical development will appear simply as the result of unpredictable exogenous influences

²According to Schumpeter (1950a, p. 109) all social phenomena need to be understood as 'adaptations to existing needs.'

³Schumpeter (1954, pp. 435–437) also emphasises the historical nature of the social process: the 'social process is a unique process through time,' and 'incessant and irreversible change [is] the most obvious characteristic of social phenomena.'

⁴While discussing Hegel's 'evolutionism', Schumpeter (1954, p. 437) writes: 'the reader will observe that of Hegel's emanatist conception of evolution something remains, even if we drop its metaphysical trappings, namely, the idea or perhaps discovery that reality, as we know it from experience, may be in itself an evolutionary *process*, evolving from inherent necessity, instead of being a set of phenomena that seek definite state or level, so that an extraneous fact—or at least a distinct factor—is necessary in order to move them to another state or level as the analogy with Newtonian mechanics suggests.'

and there would be no theory of development. With this assumption it becomes the task of the theory of development to identify the inherent or endogenous force that provides the source of change, and suggest the manner in which economy and society internally adapt to initial changes. A corollary of this way of looking at the social process is that any theory that conceptualises the economy in static terms will not be adequate for the task of studying 'constant and irreversible' change that arises from the very nature of the organism. An analytic apparatus formulated specifically for the purpose of studying the economy as a process of change will be needed.

The basic idea underlying Marx's materialist method was expressed by him in one of his *Theses on Feuerbach* (1845): 'Social life is essentially *practical*. All mysteries which mislead theory into mysticism find their rational solution in human practice and in the comprehension of this practice.' The same thought was reiterated many years later when Marx recalled the period when this idea was first formulated. He wrote (Marx, 1859, p. 362) 'My investigations led to the result that legal relations as well as forms of state are to be grasped neither from themselves nor from the so-called general development of the human mind, but rather have their roots in the material conditions of life, the sum total of which Hegel . . . combines under the name of "civil society", that, however, the anatomy of the "civil society" is to be sought in political economy.'⁵

We have here the idea that society's social structure and its general institutional framework and cultural and value-systems are functions of existing material conditions, at the core of which lies the structure of production or the technological-economic base. As he put it rather graphically in one of his earlier expositions of this method (Marx, 1847, p. 166), the social structure and beliefs and value-systems of the feudal economic and social organisation rest on the foundation of the hand-mill type of technology, while the social structure and culture of the capitalist society (of his day) rest on methods of production as embodied, for instance, in the steam-mill. The feudal social organisation and value-systems would be entirely incompatible with the kind of technology that provided the basis of the 19th century capitalist society, just as the later would be inconceivable as resting on the hand-mill type of methods of production. Thus, the hypothesis emphasises, in the first instance, the complementarity or organic relation between methods of production, economic, legal and social institutions, and the value-systems of society, and second, it assigns relative autonomy

⁵Schumpeter's 'materialist' approach—the importance of the economic factor as the basis of our rational thought and logic—is discussed in chapter XI ('The Civilisation of Capitalism') of *Capitalism, Socialism, and Democracy* (Schumpeter, 1950b). There he writes (pp. 122–123): 'Now the rational attitude presumably forced itself on the human mind from economic necessity; it is the everyday economic task to which we owe our elementary training in rational thought and behaviour—I have no hesitation in saying that all logic is derived from the pattern of the economic decision. . . . Once hammered in [in the sphere of production] the rational habit spreads under the pedagogic influence of favourable experience to other spheres of life and there also opens eyes to that amazing thing—the Fact.'

to the economic and technological infrastructure of society. For Marx, this idea provides the key to understanding historical development or social evolution. That is, changes in the nature of social organisation, social and cultural institutions, the way we live, do philosophy, interpret religion, etc, are all function of changes in economic conditions. The economy develops according to certain 'internal necessities,' and changes in social, political and cultural conditions are the 'necessary' adaptations to changes in forms of production and the economy in general. These adaptations or adjustments arise spontaneously, incrementally and in response to needs created by changes in the organisation of production. The cumulative effect of these changes in the long run is to alter the structure and nature of social organisation and with it our belief systems. There are two sub-hypotheses here: one relates to economic evolution and the other to social evolution which is the necessary concomitant of the former.

To summarise: Marx's materialist method is an approach to studying economic and social development in which society is conceptualised as an organism in a process of constant change, that is self-evolving through the working of some endogenous force or necessity that is of essential economic character. Schumpeter subscribed to this general viewpoint, which he considered as ideologically neutral, as a working hypothesis for his own theory of social evolution (see, however, the discussion in Section 10 below).

3. Marx's Theory of Social Classes and the Concept of Mode of Production

We turn now to the other aspect of Marx's general materialist approach which Schumpeter considers to be logically separable from the method outlined in the preceding paragraphs and which, according to him, is ideologically inspired. We may have some doubts about the philosophical neutrality of the 'economic interpretation of history,' but there is no doubt that it is through this 'additional' hypothesis that Marx's political philosophy enters his general system of thought. Since it is at this point that Marx and Schumpeter (guided by 'a very wide difference in general outlook,' as Schumpeter puts it) go their separate ways, it is useful to note the nature of the hypothesis we are now considering. The materialist method outlined above tells us about the way that we conceptualise the social process in general: we see it in organic terms, and undergoing constant change driven by economic forces. But it postulates nothing about the nature of the society we are considering. For instance, it says nothing about whether the society is tribal or capitalistic; and if it is capitalistic, it says nothing about whether this system is exploitative or welfare generating; it makes no assumption about the nature of the 'inner necessities' that cause the society to change and develop. The materialist method is like a black box; the additional hypothesis discussed in the present section is the content that Marx puts into this box.

Marx's additional hypothesis refers to his theory of social classes and the related concept of the mode of production. This hypothesis is the centrepiece of Marx's thought; it gives unity to all his thinking on economic and social

questions.⁶ It is this hypothesis that provides the basis of Marx's theories of value, profit and accumulation and implements his conception of social evolution. Social evolution is seen to take the form of a succession of modes of production, transition between them being effected through class struggle.

Marx locates the existence of social classes in the sphere of production; in particular, in the ownership or control of the means of production. And the relationship between classes, one owning the means of production and the other living by its labour alone, becomes the focal point of social structure. Directing his attention to any given situation of production methods and level of social product, Marx argues that the relationship between the two classes must necessarily be one of antagonism. This is the case because, given the level of social product, more for one means less for the other.⁷ It is true that there are other tensions in society, for instance, between producer and producer who must compete for markets, between worker and worker who compete for jobs, between one religious or ethnic group and another. However, Marx assumes that the commonality of economic interests among property owners on the one hand and among those who live by work alone on the other will dominate over intra-class tensions. Thus, class conflict becomes for Marx the central 'contradiction' in society, a 'contradiction' that can only be resolved by a fundamental change in the class structure of society or by a change in the mode of production. This standpoint is underpinned by a further interpretation of the materialist method according to which (as we saw earlier) society's ideological superstructure is a function of material conditions of life. Conditions of production determine social structure and through it the whole march of cultural and political history. The idea is quite simple: a person's economic life-situation determines his outlook on life and his way of understanding and interpreting economic and political issues of the day. It follows that members of a social class, having similar economic needs and sharing essentially the same economic life-situation, will come to share the same outlook on social questions.

Thus, given that there are two social classes, ranged on opposite sides of the production system and each with distinct economic interests, we should find, broadly speaking, two competing world-views in society. One sanctions the prevailing property relations and power structure and declares the existing social order as just and immutable. This is the ideology of the ruling class. This ideology

⁶Schumpeter (1954, pp. 550–551) writes: 'Two-class analysis is essential to the Marxist system. It unifies [Marx's] sociology and economics by making the same class concept fundamental to both. On the one hand, the social classes of sociology are ipso facto the categories of economic theory; on the other hand, the categories of economic theory are ipso facto the social classes. The importance of this feature becomes particularly clear when we observe its bearing upon class antagonism, which in this system is at the same time an exclusively economic phenomenon *and* the all important fact about all pre-capitalist history.'

⁷The assumption of a *given* level of output should be noted. Schumpeter has argued that historically, under capitalism, benefits arising from increases in productivity have typically been shared with labour. It follows that the antagonism between capital and labour has been kept within tolerable limits (Schumpeter, 1950b, Chapter V).

prevails because the dominant class has all the means to disseminate it. However, with the development of the economy the oppressed class gains in strength and class-consciousness and eventually learns to articulate its own ideology and use it as a weapon in its struggle against the ruling class.

The other, related, aspect of Marx's thinking on historical development is that the organic, self-evolving process takes the form of succession of modes of production. A mode of production is a *distinct* type of economic and social organisation, its central features being the form in which property is held and the form that relations between owners of property and direct producers take. Each mode of production thus has its own unique value and belief systems. In his early writings (*The Communist Manifesto*, for instance), Marx identified three modes of production that history had by then witnessed: the 'ancient', based on slave labour, the feudal, characterised by labour's bondage to land, and capitalism, with its juridically free labour and competitive labour market.

When a mode of production comes into existence it is progressive relative to the one it succeeds. Most of the barriers that the preceding mode had placed on economic progress are swept away, and new institutions develop to suit the requirements of economic development, which coincide with the needs of the new ruling class. During this period of development, the ruling class performs necessary social functions. There is progress toward greater rationality and humanity, the exploitative character of the ruling class notwithstanding.

However, there comes a time when the process of institutional adaptation to changing economic and social needs begins to falter. Strains and tensions develop in the system; there is a state of imbalance between the requirements of economic development on the one hand and the economic and legal institutions on the other. As a result, an economic and social crisis ensues.

Two questions arise: how do we explain the maladjustment between the forces of production and the institutions appropriate to the conditions of production? And, how is the crisis resolved? In the early stages of development within the existing mode of production (as we have seen) appropriate institutional adjustments were taking place to keep in step with progress in the forces of production. It was so because these changes were in the interests of the propertied ruling class that had come to power with the emergence of the new mode of production. But now—and this is a crucial assumption for Marx's theory of revolution—economic development has reached a point where it requires changes that the dominant class is unable or unwilling to make. That is the case because these changes threaten the existing power structure of society. The class that had formerly led the way in institutional change has now become conservative. It is an essential part of Marx's general approach that at some point in its life the mode of production undergoes a process of ossification. It fails to deliver progress.

However, according to the hypothesis, this failure does not stop progress. The process of development, as it creates problems, also generates the forces that find solutions to those problems. That is after all what it means to say that the process of development is endogenous in its nature. In fact, the old mode, in the course of its development, has already created the forces that will take society forward. These forces—essentially of a political nature—are represented by the oppressed

class. In the course of development this class learns that within the existing institutional frame there is little scope for any improvement in its living conditions; it grows in class-consciousness and learns to articulate its own ideology. Given the economic and social crisis that has gripped society, it can speak for the entire society. It is ready to seize political power. At the same time, the development within the old mode of production has also created all the material conditions for the new mode, which has been gradually evolving within the ‘womb’ of the old mode. The development process in the old mode of production has thus created both the cultural and the physical infrastructure for the new order. The scene is thus set for the transition from the old to the new mode of production and for economic and social progress to continue. This historical process—in which one mode of production, a more progressive one, succeeds another—continues until a classless communist society is established. We will then have a new era in the history of humankind.

To summarise: we have drawn a distinction between the general hypothesis of organic-evolutionary-materialist approach (the materialist method) in which a social system creates the conditions of its own destruction as well as of reconstruction (a process of ‘creative destruction’, as Schumpeter would later call it in its application to industrial and technological development) and the specific form in which this hypothesis is implemented, that is, the manner in which transition between one mode of production and the next is effected. The latter requires a specific conception of society and social classes. Both these ideas uniquely belong to Marx. Schumpeter accepts the first aspect, the materialist method, in broad terms, and implements it in a fundamentally different way.

4. Schumpeter’s Theory of Social Classes

In this section we take up for discussion the stuff that Schumpeter himself puts into the ‘black box’ referred to earlier—his own theory of social classes, and his modifications of the materialist method.⁸ The theory of social classes was presented by Schumpeter in a highly systematic way in an article entitled ‘Social Classes in an Ethnically Homogeneous Environment’ (1950a). But that is not the case with his modifications of the materialist method. These we find in some of his discussions of the actual historical processes, in particular of early European capitalist development (in addition to Schumpeter, 1950a, see also Schumpeter, 1946; and Schumpeter, 1954, Part II, chapters 2 and 3). I have found it convenient to highlight these ideas—interesting departures from, or modifications of, Marx’s way of

⁸A number of writers have suggested that Schumpeter’s views changed over time, in particular with reference to the nature and role of the entrepreneur (see Prendergast, 2006; Becker & Knudsen, 2002; Shionoya, 1997; Swedberg, 1991). These changes, whatever their importance, do not affect the argument of this paper. I am inclined to agree with Samuelson (1951) and Stolper (1951) that despite some changes on particular issues, Schumpeter’s ‘view of things as a whole’ (as Stolper put it) did not undergo any change; see footnote 29 below.

thinking—by outlining (with ‘desperate brevity’, as Schumpeter himself would have said) the perspective from which he views early capitalist development.⁹

In Schumpeter’s theory the leading factors that account for the existence of social classes are the differences in aptitudes of individuals and the nature of the social functions that must be performed in any society. Schumpeter defines aptitudes in terms of qualities such as the general level of intelligence, capacity for intellectual analysis, willpower, resoluteness, ability to command obedience, etc. This means that specific talents, such as those of opera singers, do not play any part in his theory of classes. He is interested in qualities that make for social leadership, a central idea in his schema, as we will see shortly.

The aptitude for leadership, like most aptitudes, is not confined to a select group in the population. Most of us have it in some degree—a schoolteacher, for example, could not function successfully without possessing it in some measure—though some have it more than others. However, what is confined to a relatively small part of the population is the aptitude for leadership for functions of higher social value.

Now we consider the other important concept in this theory—social functions that the environment at any time makes ‘socially necessary.’ In any society of any size and complexity, there exist a variety of social functions that need to be performed. These functions have different social values. For instance, in feudal society, the function of a warrior carries a much higher social value than that of ploughing the land; in capitalist society, a society whose primary orientation is towards economic activity, the introduction of new methods in the production system is given a higher social value than the work of an unskilled labourer. Although Schumpeter does not go into any detail on this point, we have here a clear idea of a hierarchy of social functions, with the class structure consisting of a hierarchy of families located according to the social value of the functions they perform. Since the functions they perform depend on their aptitudes, people who possess qualities of leadership to a higher degree will occupy places in the upper strata of society, and those whose aptitudes are limited in this respect will find themselves in the lower layers of the social hierarchy. This aspect of the theory is further discussed in Section 10 below.

Another important idea in the theory is that of social mobility—ascend into, and descent from, the upper strata of society. Social mobility is assumed to be a feature of all societies, particularly of capitalism. We may say, with some exaggeration, that all that a peasant in the Middle Ages needed in order to rise in social hierarchy was the aptitude to distinguish himself on the battlefield (and of course to possess a horse and appropriate armour). With little or no exaggeration it could be said of the early period of capitalist development that it was people with ‘extraordinary’ qualities of leadership—entrepreneurship—who rose from the lower strata of society to become pioneers of capitalism, that is, who became merchants, bankers and craft guild masters. Similarly, under

⁹In Section 9 below we shall see that some of the insights suggested by these modifications can be incorporated into Marx’s materialist method without doing any violence to the essential features of this method.

developed capitalism the barrier to ascent into the business class set up by lack of ownership of means of production (emphasised by Marx) is scaled with the help of bank credit (a feature so important in Schumpeter's theory of economic development that it is included in his definition of capitalism; see Schumpeter, 1946).

Thus, class barriers are always in a state of flux. There are shifts of families within a class. These movements depend on the extent to which different families can solve the problems with which their environment confronts them. The qualities that enable a family to rise in its own class are the same that enable it to ascend into the upper strata. We thus have a picture of constant upward and downward movement: families with ability moving up the social hierarchy, and those who have lost the quality of leadership of their forefathers descending into the lower strata of society. Although Schumpeter does not put it in these terms, we can say that there is a long-term tendency in historical time toward a socially desirable allocation of abilities and aptitudes across the variety of functions that the changing environment creates. The upper strata of society are constantly replenished by new talent and, by the same logic, the lower strata are constantly denuded of it.

So much for the theory of social classes. We will see presently how it informs Schumpeter's theory of capitalist economic development. Now let us note some interesting modifications to the materialist method as suggested by Schumpeter's own use of it in interpreting early capitalist development.

For Schumpeter, economic development means capitalist development. The origins of capitalism (in the shape of capitalist enterprise) can be traced back to the classical world, in fact further back to Hammurabi, if you like. There was then production on private account aimed at the market; there were merchants who traded locally and internationally, and there were bankers to whom producers had access. Capitalist enterprise did not totally disappear in the Dark Ages. And feudalism, the warrior society that emerged from the disorders of the time, contained within it practically all the significant elements, either lingering from the Roman times or recently formed, of capitalism. By the 11th century, alongside the evolution of feudalism, a class of definite bourgeois character had made its appearance. By the beginning of the 13th century, when the feudal civilisation was reaching its zenith, the bourgeoisie as a class was already outgrowing the feudal institutional framework. By 1500 many of the phenomena that we associate with modern capitalism had made their appearance. The economy continued to develop on capitalist lines, but the political frame of society remained stubbornly aristocratic. The descendants of the old warrior class continued to be the pivot of the social system.

This symbiosis between two different 'social systems' (or two distinct social classes) received further support during the 16th century. This latter development he attributes to incidental factors external to the logic of capitalism, in particular to the flow into Europe from the New World of large quantities of gold, and the breakdown of what he calls 'medieval internationalism', the dual power of the Holy Roman Empire and the Catholic Church (Schumpeter, 1954, pp. 144–147) What emerged was the Nation State or Absolutism. This, according to Schumpeter, was feudalism run on capitalist lines. The King's position remained essentially feudal, but the state shaped economic policy to propel capitalist

development, and the king and the aristocracy lived increasingly on the revenue generated by capitalist development. Over time, the descendants of the old warrior-aristocratic class metamorphosed into statesmen, administrators, diplomats and colonial officers. Having lost one social function (war or protection), they found another—public administration (Schumpeter, 1950b, p. 163). This symbiosis was the essence of the Nation State. And not only of that: this arrangement (England is the 'classic' case) lasted right into the 20th century.¹⁰

Two points are of particular interest here. First, in Schumpeter's conception of economic history, capitalism as a mode of production, in its embryonic form pre-dates feudalism and its development is one of slow and continuous transformation. This means that theories that attempt to explain the origins or 'rise' of capitalism in Europe by appealing to some special factor (such as the rise of Protestantism in the 16th century) are explaining a problem that simply does not exist. The same criticism applies, to some extent, to Marx's theory of 'primitive accumulation' that placed the evolution of capitalism in Europe from around the last part of the 15th century. We note also that Schumpeter completely dispenses with the concept of the mode of production as used by Marx.

Second, Schumpeter makes an interesting modification of the materialist method: he introduces a disjunction between the economic base and the superstructure. We have seen that in Schumpeter's interpretation of early capitalist development, although the economic base continues to become increasingly capitalist, the political structure remains obstinately pre-capitalist. What is more, the pre-capitalist political structure endured into the post-Industrial Revolution period, and survived right up to the end of the 19th century. It is a general position of Schumpeter that elements of the superstructure are coins that do not melt easily and that this historical lag between the economic base and the superstructure plays a fundamental part in the evolution of capitalism.

We will return to these questions in Section 9.

5. Marx on the Nature and Imperatives of Capitalism

A number of times in the course of our earlier discussion we had occasion to refer to the 'internal necessities' that cause economic change to take place—an idea that is essential to the systems of thought of both Marx and Schumpeter. It is now time

¹⁰This idea plays an important role in Schumpeter's theory of social evolution discussed in Section 8 below. Marx also subscribed to the idea of a 'symbiosis' between the bourgeoisie and the landed aristocracy in England, although with a very different slant on the nature of the relationship. In an article entitled 'Tories and Whigs' published in the *New York Daily Tribune* (Marx, 1852b) he referred to the Whigs as 'the aristocratic representatives' of the bourgeoisie. In an article written on 'The British Constitution' for the German newspaper *Neue Oder-Zeitung* (Marx, 1855), he argued that before the 1832 Reform Bill the bourgeoisie were the ruling class 'in actual practice' and the aristocracy formed the 'official government.' After the Reform Bill, the bourgeoisie were 'on the whole acknowledged also *politically* as the *ruling class*,' but only 'on the condition that the entire system of government in all its detail . . . remained safely in the hands of the landed aristocracy.'

to consider these ‘necessities.’ The task that Marx set himself in the writing of his *Capital* was, in his own words, to discover the ‘laws of motion of capitalism.’ So the question to be discussed is: What are the ‘internal necessities’ that underlie these ‘laws’? These ‘necessities’ according to Marx arise from the very nature of capitalism, from its internal logic; they are objective in the sense that they are independent of individual volition. It thus becomes crucially important to understand the manner in which Marx conceptualises capitalism.

In identifying the main features of capitalism, Marx used some of the ideas of his classical predecessors. Adam Smith, for instance, had conceptualised the emerging ‘commercial society’ of his time as one in which there are owners of ‘stock’ (capital) who want to put ‘industrious’ people to work in order to make profit; and there is a class of people who, lacking their own means of subsistence, need a ‘master’ for whom they can work for a wage and thus make a living. Adam Smith had also drawn attention to another feature of modern capitalism—the principle of natural or perfect liberty. By this he meant the freedom of the capitalist to choose his field of investment and the freedom of the worker to choose his occupation and employer. Marx’s definition of capitalism embodied all these three features. For Marx, capitalism is characterised by, first, the accumulation of capital in the hands of a small class of profit-motivated people, second, the existence of a large class of property-less people who are forced to sell their labour-power on the market in order to survive and, third, competition in the sense of free mobility of capital and labour in the economy.

We should add a further condition for the existence of capitalist production. According to Marx, a necessary condition for capitalist production to come into existence is that the unit of production is large enough for it to practice division of labour and realise economies of scale. (For Marx, the production in the medieval guild, though motivated by private profit, is not capitalistic, but the pin factory of Adam Smith’s famous illustration is. The latter practises division of labour and enjoys economies of scale, the former does not.) In the absence of economies of scale there could be no capitalist production, and there could be no capitalist class. Such a world will be one of independent producers, not of a small class of capitalists and property-less labour; in it every one will be able to set up his own production. In such a world there will also be no possibility of the sustained, cumulative development that is an essential feature of capitalism.

By conceptualising capitalism in these terms and by focusing on the capitalist class rather than the individual capitalist Marx gives capital a very specific meaning. Capital becomes a relation between two classes in the productive process. It is a relationship of power—power based on the ownership of the means of production by one class. Of course, capital goods come into the picture, but such goods are employed in every form of society. What is unique to capitalism is that, unlike the tools of the guild master and the peasant, this capital is not tied to any particular physical form or economic activity. It is something homogeneous—changeable in its physical form, and moveable, footloose, as we will say today. (Marx conceptualises labour in similar terms; see Section 10 below.) It constantly seeks new avenues of investment and new markets; it seeks self-expansion. It enforces a particular kind of behaviour on the part of the individual capitalist. Unlike the capitalist of the orthodox economic theory

who is essentially a consumer, who saves to consume another day, Marx's capitalist is under a necessity to accumulate. This is so because, operating as he does in a competitive market, he must constantly invest (and try to innovate) to defend his business position. Just as a knight of the Middle Ages lived by physical combat and war, the capitalist lives by accumulation. The inner necessity of capitalist development is located in the institutional frame of capitalism rather than in the volition, and subjective preferences, of the individual capitalist.

Given this necessity, this is how Marx sees capitalism's economic expansion.¹¹ Early capitalist development from, say, 1500 to the middle of the 18th century (here, as elsewhere, England is the 'classic' case) laid the foundation for the establishment of the modern power-driven industry, the emergence of machine building as a specialised activity, and the establishment of industry's capacity to harness natural science to production. In this way, under modern capitalism, rising productivity of resources (appropriated by the capitalist as surplus value) becomes the basis for accumulation and economic expansion. The scarcity of land presents no barriers to expansion, as it did in Ricardo's model. The application of natural science to agricultural production holds the operation of the law of diminishing returns in permanent abeyance. Thus, the system creates its own material resources for expansion. The supply of labour, with the skills required for the process of development, also presents no barrier to expansion. Marx argues that normally employers will face an elastic supply of labour over time. This is made possible by natural increases in population, the existence of traditional economic activities that contain a large reservoir of underutilised or less productive labour on which modern industry can draw (without significantly raising wages), and the increasing mechanisation of production that economises on labour. Furthermore, technological development, being an evolutionary process, itself creates the skills that its progress requires.

We have here Marx's vision of capitalist development as a wholly endogenous process. Once the economy has made the critical breakthrough from craft technology of the feudal period to power-driven industry, and from the restrictive frame of guild production to free competition, it becomes characterised by virtuous circles of technical progress, high productivity and high rates of accumulation. It comes to be characterised by self-generating and self-sustaining expansion, or what a later generation of development economists would refer to as the process of cumulative causation.

6. Marx on the Transition to Socialism

This completes our discussion of Marx's theory of *economic* development. The second part of Marx's project consists of showing that economic change leads to social changes, more specifically, that economic development will ultimately result in the demise or breakdown of capitalism and the establishment of a socialist

¹¹As in his conceptualisation of capitalism, here also Marx draws on the ideas suggested by the classical economists, especially Adam Smith.

order.¹² As the general features of this aspect of Marx's thought—economic change leading to social changes—were discussed earlier, here we can be brief. The core of the argument in the present context is that, through the working of its internal logic, capitalism will reach a stage in its economic development at which no further progress within its institutional frame will be possible. But this failure will not leave a void or result in chaos. Through its own logic it would have, in the course of its development, completed all the essential requirements for the successful establishment of its successor mode of production. The method of dealing with these issues followed from Marx's general evolutionary approach, according to which the future is being formed in the womb of the present. This approach suggests that if we can understand the present (by understanding the internal logic of the system) we can understand the direction that development will take in the future. Thus, Marx sought to identify certain tendencies in contemporary capitalism that arise from its internal logic and to project their working into the future. It is these tendencies that he referred to as the 'laws of motion' of capitalism. (We will see presently, in Section 8, that Schumpeter adopts a similar method in his analysis of capitalist evolution.)¹³

There are two strands in this discussion. The first, as already noted, relates to the idea that during the process of capitalist development preparation for the establishment of socialism has been under way. The second addresses the question of the eventual disruption of capitalism. Thus, the ripening of the conditions for the social management of production under socialism and the process of disintegration of capitalism have been proceeding apace. We will start with the first strand.

First, it is a necessary condition for the establishment of a classless, socialist society that there should be abundance of material goods. According to Marx, you cannot create a classless society in a poor country; people will fight over scarce goods with the result that classes (in one shape or another) and economic and

¹²This is true only in a general sense. It is widely agreed that Marx did not work out a theory of the 'specifically economic breakdown' of the capitalist system, nor of the transition to socialism (see, for instance, Sweezy, 1942, pp. 191–192). An added consideration may be alluded to: a major tendency in capitalist development, dramatically highlighted in the *Communist Manifesto*, is its expansionary character: it knows no national boundaries; it tends to become a world system. This means that in any discussion of the future of capitalism, consideration must be given to its international character, something which Marx was unable to do. The discussion here is aimed at no more than giving a general impression of Marx's thought on the subject.

¹³Schumpeter was fully aware of the limitations of this method: 'Any prediction is extra-scientific prophesy that attempts to do more than to diagnose observable tendencies and to state what the result would be if these tendencies should work themselves out according to their logic. . . . Factors external to the chosen range of observation may intervene to prevent that consummation; because with phenomena as far removed as social phenomena are from the comfortable situation that astronomers have the good fortune of facing, observable tendencies, even if allowed to work themselves out, may be compatible with more than one outcome, and because existing tendencies, battling with resistances, may fail to work themselves out completely and may eventually "stick" at some half-way house' (Schumpeter, 1950b, p. 422).

political domination will re-emerge. Socialism can only be established when society has attained the potential to produce an abundance of material goods. It has been the historic function of capitalism to lay the basis for such capacity, at least as a potentiality. This was in the course of being achieved through a long process of accumulation and by the harnessing of natural science to the needs of production.

Second, another necessary condition for socialism is that society's productive resources are concentrated in large units. Social management of resources cannot be effective when resources are dispersed in small parcels over a large geographical area (as in a society of small peasant holdings). Capitalist development was fulfilling this condition by achieving concentration of production in large units.

Third, concentration of productive resources in large units as well as the geographical agglomeration of related industries (which necessarily accompanies economic development) means, of course, large geographical concentrations of workers. Concentration of large numbers of workers, broadly doing similar types of work, sharing the same working conditions and the same problems, provides the foundation for the formation of class-consciousness—consciousness of the identity of economic interests. (Because of their wide geographical dispersion, peasants are seldom able to achieve class-consciousness, despite the identity of their interests.) This leads to collective action to improve their working conditions. Through these struggles workers come to see that their salvation lies only in the overthrow of the existing system.¹⁴

Let us now, finally, try to convey some idea of Marx's thinking on the 'break-down' of the capitalist system. As already noted, in this vital aspect of Marx's project his theory is far from complete. It is presented in the part of *Capital* (Volume II) that Marx left unfinished at his death.¹⁵ The following two paragraphs are intended only to give some indication of the complexity of Marx's thinking on the subject of economic crises.¹⁶

The principal contradiction in the capitalist system is between the society's capacity to produce and the capacity to consume, the latter being limited by the maldistribution of the social product between profits and wages. This is the root cause of the economic crises that characterise capitalist production. There are tendencies in the economy, in particular the tendency toward increasing mechanisation, that create the tendency towards chronic unemployment that keep wages down practically at the subsistence level. This restricts the consumption of

¹⁴Marx was aware of the increasing differentiation within the working class—something that Schumpeter would later emphasise—but decided to treat it as merely a 'counteracting factor', that is, a factor that is not strong enough to offset the main tendency.

¹⁵Marx's ideas on economic crises are scattered throughout the three volumes of *Capital*, his *Theories of Surplus Value* and several other writings. Engels, who was left with the task of editing the second and third volumes of *Capital*, observed in his preface to the second volume that Marx had left a 'large number of versions, most of them incomplete.'

¹⁶For a brief and non-technical introduction to the subject, see Rosa Luxemburg (1948, pp. 370–380); a more comprehensive discussion can be found in Sweezy (1942, Part Three).

workers who constitute the mass of the population. The restriction of the output of consumption goods industries means that the demand for capital goods will also be restricted. This means in turn that investment in capital goods industries will not expand sufficiently to absorb the potential output of these industries. Thus, the conditions that keep wages, and therefore consumption, down set up the chronic tendency for the failure of the system to realise its potential with respect to production. Hence, the economic crises that Marx claimed would get worse and worse with time. ‘The ultimate reason for all crises,’ he wrote (1894, p. 615), ‘always remains the poverty and restricted consumption of the masses, in fact of the drive of capitalist production to develop the productive forces as if only the absolute consumption capacity of society set a limit to them.’

However, this is not a problem that can be resolved by government policy, say, aimed at raising wages in order to boost consumption, because such a policy will create other problems. In the second volume of *Capital*, Marx (1885, pp. 486–487) observes that it is a ‘pure tautology’ to say that crises are caused by a lack of effective demand:

If the attempt is made to give this tautology the semblance of greater profundity, by the statement that the working class receives too small a portion of its product, and that the evil would be remedied if it received a bigger share, i.e. if its wages rose, we need only note that crises are always preceded by a period in which wages generally rise, and the working class actually does receive a greater share in the part of the annual production destined for consumption.

But this improved situation of the working class does not avert the crisis. In fact, the relative prosperity of workers is always a ‘harbinger of crises.’

7. Schumpeter’s Theory of Economic Development

We turn now to Schumpeter’s theory of *economic* evolution.¹⁷ Schumpeter takes as his starting point the Walrasian model of a stationary capitalist economy in perfect equilibrium. He observes that in this model there are three ‘factors’, treated as data or parameters, through which change may be introduced into the economy. These are consumer tastes, quantities of factors of production, and methods of production or technology. Schumpeter excludes from his own model the first two as possible independent sources of change. Changes in tastes seldom occur autonomously. In any case, given the level of consumer incomes and production methods (as assumed in Walras’s model), any change in consumer tastes will result in a reallocation of society’s existing resources rather than initiate a process of ‘incessant change.’

Changes in factors of production can be divided, broadly speaking, into changes in population and changes in the quantities of produced goods (i.e. capital goods). Schumpeter has little difficulty in dismissing the first as an

¹⁷Schumpeter’s theory of economic evolution was first presented in his *Theory of Economic Development* published in 1911.

independent factor in initiating economic change. He argues that there is no unique relation between an increase in population and, say, an increase in output per head: population changes may be associated with falling, constant or rising levels of productivity. Likewise, increases in produced goods if they embody the same technology as that already in use—say, production of more and more mail coaches—cannot initiate a process of incessant change. In other words, accumulation of capital by itself does not necessarily mean development.

This is how in Schumpeter's model the entire burden of explaining economic development falls on autonomous changes in methods of production, a term that he uses broadly to include not only changes in techniques narrowly defined, but also new methods of business organisation, new products, discovery of new materials and markets. He calls these changes 'Innovations'. The essence of the idea is that things are done differently from existing practice and, as a result, *existing* resources are put to better and more productive uses. We note that since innovations do not take place by themselves, they have to be introduced by someone, that 'someone' occupies the central place in Schumpeter's theory of development. He is the Entrepreneur.

Let us now see how entrepreneurial initiative generates economic development. We start with a competitive capitalist economy in the stationary state and imagine that an entrepreneur enters upon this scene with a plan to introduce an innovation; say, a new technique to produce a particular product. We assume that the innovation is a major one, like the railways or the computer, rather than a new kind of sandwich, and that it is financed by bank credit.

The success of the innovation will mean that the entrepreneur introducing it will have seized an advantage in terms of costs over his established rivals. With the old price still prevailing he will enjoy 'monopoly' profits the size of which will be determined by the difference between his costs and those generally prevailing in the industry and the time it will take others to match his efficiency. As the success of the new method is perceived, some of the established firms will begin to imitate the new method and follow the path cleared by the leader; and as the success of the new method is more widely observed more and more will follow suit. Eventually, all, or nearly all, of the producers will have adopted the new technique. By then, the price of the product will have fallen to the average costs of production associated with the new method, and profits will have been eliminated. This dynamic process is sometimes referred to as 'Schumpeterian competition'.

We can now summarise some of the results of the changes brought about by the innovation in the industry where it was introduced. (a) Costs of producing the product in question have fallen and so has the price of the product; (b) the size of the market for the product in question should have increased (depending on its elasticity of demand) and, given the assumption of increasing returns to scale, we expect the typical size of the industrial unit to have increased; (c) most of the firms in the industry have earned profits, the size of profits of each firm depending on the stage at which it adopted the new method; (d) those firms that were unable to adjust to new conditions have been eliminated.

This is of course only a partial view of the process generated by the innovation in question (let us call it 'primary' innovation). It is partial because up to

this point we have only considered the impact of the innovation on the industry where it was first introduced. Seeing beyond it, we observe that the success of the primary innovation will naturally have an influence on other industries. There will obviously be a significant impact on the sectors that supply it with capital goods and other inputs. This impact will, in the first instance, consist of increased demand for their products. And this in turn will increase the possibilities for greater division of labour and general technical improvements in these sectors of the economy. Downstream industries will also be expected to receive developmental impulses from the primary innovation. The new technology associated with the primary innovation (and the 'secondary innovations' that may have followed) might also have found uses in other sectors of the economy. The general point here is that an important innovation in one sector of the economy gives rise to chain reactions and creates possibilities for development well beyond the field of its original application.

This view of the process suggests *clustering* of innovations in a small number of related sectors. Innovations will also be clustered in time. It is at this point that Schumpeter's theory of development links up with his theory of the business cycle which, as we will see presently, is simply an aspect of the development process. What we have been witnessing in the preceding paragraphs is an economic upswing or a period of prosperity initiated by the primary innovation. This phenomenon is explained by the fact that innovations and developments associated with them come in a swarm-like movement. First comes the leader, the original innovator, who is followed by his imitators in the same industry; then, we see entrepreneurs introducing secondary innovations in other parts of the economy who are then followed by *their* imitators, and so on. It is this herd-like stampede that causes the upswing.

The period of prosperity *necessarily* comes to an end—because the upswing itself creates the conditions that retard its progress and bring about a period of deflation—and is followed by a period of recession. A recession is a reaction to an upswing; it is a time for adjustment after a period of technological and industrial upheaval; a time to absorb the results of the developments initiated by the primary innovation. If there were no clustering of innovations, that is, if innovations were introduced independently of each other and distributed randomly in time, then the changes associated with them would be gradually and smoothly absorbed by the system. Or, if innovations were always of the type represented by a new kind of sandwich, then too would new changes be smoothly absorbed in the economy. Business cycles then would not exist, although there would still be good times and bad times for reasons external to the economy. But when innovations are major in magnitude and are bunched in time then the changes initiated by the primary innovation cannot be smoothly and gradually absorbed in the system. The absorption of a concentration of innovations and their consequences—restructuring of large parts of the economy, elimination of inefficient businesses, transfer of labour from contracting to expanding industries, liquidation of indebtedness incurred during the upswing through inflationary finance, and so on—requires a period of calm, which is provided by the recession. The trough of the recession represents the economy's new equilibrium. The re-establishment of equilibrium shows that

the upheavals created by the introduction of the innovation eventually correct themselves.¹⁸

The sequence of events from one position of equilibrium to the next, in historical time, constitutes the process of economic development. During this interval, the economy undergoes a number of important changes. Some of these may be noted. (a) Profits emerge as a result of entrepreneurial initiative and are unequally distributed among businesses; generally leaders earn more than the 'mere imitators'. (b) Labour productivity and the aggregate social product increase. (c) The composition of the social product changes significantly. (d) Industry structure is transformed; it is characterised, among other things, by the emergence of new industries and increase in the size of the typical unit. (e) The technology used in various sectors of the economy improves significantly. (f) There is an increase in the real incomes of consumers since all improvements in labour productivity and cost reductions are passed into lower prices.

Finally, three important features of Schumpeter's theory should be noted. First, the process is characterised by discontinuity: although recession is a necessary reaction to the upswing, an upswing does not automatically follow a recession. The next period of prosperity must 'wait' for a new act of business leadership, the introduction of a major innovation. We will expect activity to resume, assuming that the spirit of capitalist enterprise is alive. But since the introduction of innovation is a matter of individual volition, its timing cannot be predicted. Second, the existence of profits is explained in dynamic terms. They arise as a result of an innovation and disappear as the adjustment process is completed (for a discussion of Schumpeter's theory of profit, see Haberler, 1951). Third, an act of previous saving has not figured in the outline of the model presented above. (Recall that the primary innovation was introduced with the help of bank credit.) The essence of the development process lies in the diversion of existing resources from less to more productive uses. In fact, the phenomenon of savings is neither a necessary nor a sufficient condition for development. It is not necessary because, as noted, existing resources are put to more productive uses to achieve development; it is not sufficient because savings can be used to invest in more and more mail coaches, in which case there would be no development.

8. Schumpeter on the Transition to Socialism

Schumpeter said in several places that his prognosis—capitalism's 'march into socialism'—was the same as Marx's. But, given that Schumpeter's 'general

¹⁸We note the following points in passing. (a) The possibility of deficient aggregate demand which concerned Marx and later Keynes so greatly has no place in Schumpeter's explanation of the business cycle. (b) Since the business cycle is part of the natural process of economic development there is no room here for government intervention to mitigate the effects of recessions. (c) The recessions that we are talking about here are distinct from depressions of the type experienced during 1929–1933; the latter are pathological phenomena that have altogether different causes and may require intervention.

outlook' and conception of capitalism are so different from those of Marx, it should come as no surprise that the mechanism of evolution suggested by him, and the kind of socialism he envisaged, are very different from Marx's. In Schumpeter's schema there is no economic breakdown, no impoverishment of the masses and no class struggle. On the contrary, long-term economic expansion results in the improvement in labour's standard of living. This means that Schumpeter's mechanism of social evolution has to solve the apparent paradox of capitalism's economic success being associated with its political failure. The central point here, as we will see, is that economic development under capitalism destroys elements of the superstructure on which the continued existence of the bourgeoisie as a class depended.

It is important to note that, like Marx's suggestions regarding the breakdown of capitalism, Schumpeter's account of capitalist evolution is less a well developed theory than a set of ideas pointing in a certain direction. Like Marx, he offers his prognosis on the basis of certain observed tendencies and he recognises that the prognosis will be fulfilled only if these tendencies continue to work themselves out as they are doing at present, and if no events external to the logic of capitalism interfere with their operation (Schumpeter, 1950b, p. 163; also fn. 13 above).

Before dealing with Schumpeter's leading ideas on the future of capitalism, it would be useful if we attempt briefly to convey what we take to be an important, if not the central, line in his thinking. To understand this we need to go back to the evolution of feudal society during the turmoil that followed the destruction of the Roman Empire. In those disorderly times the function with the highest social value was war. In this situation, men with a strong aptitude for leadership on the battlefield came to form the upper strata of society. Military leadership naturally extended into political leadership, and the 'mystic glory' that attaches to the figure of the warrior on horseback was naturally transferred to leadership in political and social life. As a result, it was natural that the class of warrior-aristocrats should command general obedience of the mass of people and that the latter should consider them as their natural superiors. This was the historical context in which the culture of obedience was established. Once established, the tradition of obedience is passed from generation to generation and periodically renewed. As we shall see presently, what capitalist development does is first to weaken the bourgeoisie as a class and create a climate of opinion generally hostile to it (Schumpeter, 1950b, Part II, chapter XIII) and second, by exerting a rationalising influence on life in general it erodes the willingness of the masses to submit to their superiors, i.e. to those who perform social functions of higher value. Seen from the long-run historical perspective, socialism may be nothing more than society's device to re-impose social discipline.¹⁹

Let us now briefly highlight some of the tendencies that, according to Schumpeter, are impelling capitalism towards socialism.

¹⁹The idea of social discipline held by Schumpeter is similar to Marx's. But Marx attributes the inculcation of social discipline in the capitalism of his day to repressive measures taken by the state, particularly the poor laws and laws against vagabondage.

It is a natural consequence of capitalist development that the size of the typical enterprise should increase. Family-owned and family-managed industrial units are displaced by the emergence of giant, bureaucratic corporations that are characterised by separation of ownership and management. Typically, such an enterprise is owned by a large number of shareholders and managed by salaried executives. In this situation, the management of the enterprise comes under the control of committees or boards of directors, and scientific and technical research comes to be carried out by teams of experts. In this way progress becomes 'automatised' and 'institutionalised' and the individual entrepreneur, who was the principal actor on the stage of economic development, loses his social function. This has a profound effect on the bourgeoisie as a class.

We have seen that the entrepreneur need not be a member of the capitalist class; the doorway to the capitalist class is open to men of extraordinary ability. It is this constant entry into the bourgeoisie of men possessing qualities of leadership and willpower from other strata of society, and the exit of those who have lost the vigour of their forefathers, that gives the bourgeoisie its vitality as a class. With the evolution of the family-owned and family-managed enterprise into the giant corporation, the bourgeoisie tends to lose its dynamism and then its social function—a function that consisted of taking society forward technologically and economically. A class that loses its social function tends to die, unless it is able to find another function. The social function is still there, but it is performed 'collectively,' by salaried executives rather than individual entrepreneurs.

This process has important consequences for the institutional frame of capitalism. Here we will direct attention to only one of these, the weakening of the capitalist motivation or the 'evaporation of the substance of property.' With the decline of individualistic capitalism the personal and family motivation tends to fade away. The businessman develops the psychology of a salaried executive, who is with one firm today and with another tomorrow. He loses the long-term perspective and the sense of commitment and responsibility that goes with 'full-blooded' ownership. Under individualistic capitalism, with family-owned enterprises, the bourgeois would stand at the doorstep of *his* factory and defend it against attack. Would the salaried executive or the 'absentee' shareholder do the same?

Now the question is, whence comes the 'attack'? (Schumpeter does not specify the form it may take.) As we have seen, the bourgeoisie has done its duty by working people who have seen a secular rise in their standard of living. And we know that trade unions generally are not socialist; they are primarily interested in improving the working conditions of their members within the frame of capitalism (Schumpeter, 1950b, Part II, chapter V; Part V, chapter XXV). So, why the attack and 'march into socialism'? There is no single answer to this question. For instance, Schumpeter (who was writing during the 1940s) considered the possibility that a country might 'sleepwalk' into socialism through the establishment of a welfare state. Or, the system may degenerate into some kind of 'labourism', a situation in which the government primarily serves the interests of the working class. Other routes to 'socialism' are of course possible. But central to Schumpeter's overall thought is the idea that the threat comes from 'the masses'

(though not, as in Marx, from organised labour consciously and rationally attacking the capitalist citadel).

As noted earlier, the problem is one of social control. The social discipline that we observe under capitalism was inherited from the feudal period. Working people transferred part of the respect they showed their feudal lords to their new masters. Life was made easier for the bourgeoisie in this respect because it continued to live, even under individualistic capitalism, in symbiosis with the descendants of the old warlords. The landed aristocracy that provided the political class of social traditions continued to manage the machinery of the state while the bourgeoisie devoted all its energies to economic activity (Schumpeter, 1950b, p. 302). It therefore continued to enjoy the benefits of the habits cultivated in pre-capitalist times.

However, with continuing economic development the pre-capitalist structure and the mechanisms of social control that had provided the bourgeoisie with a protective shield were gradually undermined. And with the erosion of the pre-capitalist superstructure, the bourgeoisie became defenceless against attack.

Two further questions need to be answered. First, why can the bourgeoisie, even in its weakened form, not renew the culture of obedience? The answer is quite simple: 'the industrialist and the merchant, as far as they are entrepreneurs, also fulfil a function of leadership. But economic leadership of this type does not expand, like the military lord's leadership, into national leadership. On the contrary, the ledger and cost calculation absorb and confine' (Schumpeter, 1950b, p. 137). The capitalist's pursuit of profit is a very different thing from the feudal knight's pursuit of the Holy Grail.

Second, capitalist development advances a rational approach to life and creates a critical frame of mind. So we are led to ask, why is the ruling class unable to argue the case for capitalism on its utilitarian credentials? Again, Schumpeter's answer is simple. Political attack cannot be met by reason. Reasoned argument may tear the rational garb of attack but it cannot reach the extra-rational impulse that drives it. In any case, in political matters the masses are generally incapable of seeing where their true interest lies. They see only monopolistic practices, high profits and social inequality. To see the case for capitalism they would need to see further than the short run, and that requires powers of analysis that are quite beyond them.²⁰

9. Schumpeter's Contribution to Marx's Method

So far, we have argued that the similarities and differences between Marx and Schumpeter can be explained by Schumpeter's general acceptance of Marx's materialist method and his rejection of the second part of the general materialist conception that has to do with the content of Marx's schema. In the present

²⁰It is an important part of Schumpeter's 'general outlook' that the rational thinking of much of the population does not extend beyond their everyday concerns, that is, they are unable to take a rational view on broader political and social issues. For a finely nuanced discussion of this point, see Schumpeter (1950b, pp. 144–145).

section we ask whether it is possible to incorporate some of Schumpeter's insights, as suggested by his modifications of the materialist method, into Marx's method without compromising the latter's integrity. Our answer will be in the affirmative. In the section that follows we will indicate the philosophical and theoretical gulf that divides the content of their theories.

We will focus on two qualifications that we consider of particular importance. The first qualification refers to the time lag between changes in conditions of production and the adjustments in elements of the superstructure that follow. As noted in Section 4, Schumpeter viewed culture and social attitudes as resistant to change, so that in any period we will find disjuncture, rather than correspondence, between the economic base and elements of the superstructure that reflect an earlier mode of production. This means that actual behaviour may depart from what we would expect it to be if we interpreted it in terms of the prevailing mode of production.²¹

Marx would have had no problem with the idea of the lag. As one respected commentator on the subject (Rosenberg, 2000, p. 5) has remarked, Marx was 'much too sophisticated a historian to believe that economic changes generated "appropriate" social changes instantaneously. Indeed, ... Schumpeter himself absolves Marx of such possible naiveté, adding that Marx, although perhaps not fully appreciating the significance of lags, would not have taken the simplistic position involved in denying them a role.' Marx, we have seen (footnote 10 above), took the view that the bourgeoisie continued to live in a state of symbiosis with the landed aristocracy and that although the economy had become thoroughly capitalistic, elements of pre-capitalist political structure persisted into the 19th century. In this context Marx has no dispute with the notion of a disjunction between conditions of production and the political superstructure. The difference between his view and Schumpeter's concern the nature of social classes and how they collaborate. Further, it is clear that Marx would not have contested the view that certain feudal values persist in the age of capitalism; instead he would have challenged Schumpeter's claim that the bourgeoisie, by the nature of its social function, is peace-loving and incapable of territorial aggression.

We conclude that the Schumpeterian insight regarding the role that lags may play can be comfortably accommodated in Marx's materialist method. It allows for a degree of interaction between conditions of production and the superstructure without compromising the essential features of the materialist method.

Schumpeter's second qualification to Marx's method refers to the role of the 'individual' in the social process. The nature of the problems posed in the present

²¹For example, in his theory of imperialism in the age of capitalism Schumpeter (1950a; see also 1950b, esp. p. 128) postulates that the bourgeoisie is inherently non-militaristic; capitalist imperialism is therefore atavistic. Militaristic behaviour under capitalism is explained by attitudes and habits prevailing in pre-capitalist times when the lust for battle was an essential part of feudal culture. Schumpeter argues further that with the continuing development of capitalism, attitudes and behaviour associated with the feudal mode of production will be replaced by ideologies appropriate to the capitalist mode, and capitalist imperialism will eventually disappear.

case is rather different from the one just discussed. However, we can isolate some of Schumpeter's insights from the rest of his thought on this question (that is, the role of the human agency that intervenes in the social process to seek an outcome different from the one that would result in the absence of such intervention), and these can be incorporated into Marx's method without doing violence to its essential character. As already indicated, there are other aspects of his thinking that are alien to Marx's philosophic-theoretic standpoint; these are discussed in the section that follows.

We noted in Section 5 that, in Marx's treatment of the social process, the emphasis is entirely on the imperatives of the system. But when he neglects the role of the individual (or the subjective factor), say, in the accumulation process, it is obvious that he is not suggesting that the capitalist class acts collectively or in concert. If we start our consideration of the development process at one point in time (as Schumpeter does; see Section 7 above), one individual will be *seen* to take the lead and others will be *seen* to follow. The 'leader' will reap the reward for being first in the field.²² But he pays no particular attention to this leading role. Marx sees the introduction of innovations as a process in which the individual capitalist who, in a particular instance, takes the lead and introduces a new method of production, is driven by the imperatives of the system. The leader is seen as part of the ongoing process; he uses the contributions of others who came before him, and the capitalists who follow his lead, the so-called imitators, may play just as important a role when they disseminate the new idea or modify it and put it to different uses (see Rosenberg, 2000, chapter 4). This idea is extended to the historical process in general.

Schumpeter takes issue with this abstraction of the subjective factor from the social process. In the following passage he seems to be directly speaking to Marx:

Manifestly, the captured surplus value *does not invest itself* but must *be invested*. This means on the one hand that it must not be consumed by the capitalist, and on the other hand that the important point is *how* it is invested. Both factors lead away from the idea of objective automatism to the field of behaviour and motive—in other words from the *social force* to the *individual*—physical or family, from the *objective* to the *subjective*. It may be objected that the logic of the situation forces the individual to invest his profit, that individual motivation is only a fleeting intermediate phase. This is true, as far as it goes, and must be acknowledged by any reasonable person. Naturally the individual psyche is no more than a product, an offshoot, a reflex, and a conductor of the inner necessities of any given situation. But the crucial factor is that the social logic or objective situation does not unequivocally determine *how much* profit shall be invested, and *how* it shall be invested, *unless individual disposition is taken into account*. Yet when it is done, the logic is no longer inherent solely in the system as distinct from the individuality of the industrialist himself. (Schumpeter, 1950a, pp. 118–119; all emphasis in the original)

²²Marx was fully aware of the process that we have referred to as Schumpeterian competition (see, for instance, Marx, 1867, p. 436).

It is important to emphasise that while making qualifications to the materialist method, Schumpeter does not depart from its general principles. The subjective factor is also a social fact. Its capabilities and ways of thinking are products of the social process. The individual can never stand outside this process. Thus, nearly twenty years after the work from which the passage quoted above is taken, he wrote:

[M]ankind is not free to choose. This is not only because the mass of people are not in a position to compare alternatives rationally and always accept what they are being told. There is a much deeper reason for it. Things economic and social move by their own momentum and the ensuing situations compel individuals and groups to behave in certain ways whatever they may wish to do—not indeed by destroying their freedom of choice but by shaping the choosing mentalities and by narrowing the list of possibilities from which to choose. If this is the quintessence of Marxism then we all of us have got to be Marxists. (Schumpeter, 1950b, pp. 129–130)

We can now see that the manner in which Schumpeter's insights may be incorporated into the materialist method are suggested by Schumpeter himself. First, for Schumpeter, the organic-evolutionary nature of the social process does not mean that one stage of this process contains within it *all* the necessary and sufficient conditions for the next stage in its complete shape and form. If that were the case then there would be no role for the human agency in the social process and, to re-phrase the most famous of the *Theses on Feuerbach*, there would be no point for philosophers to try to understand it. Schumpeter is suggesting that the historical process normally confronts the subjective factor with a range of possibilities, a range limited by the material and social conditions inherited from the past. Thus, for example, the entrepreneur who introduces the innovation has some choice of what innovation to adopt and in what form to introduce it. But the possibilities open to him are contained in the data of the stationary equilibrium from which he starts. It is this range of possibilities created by the objective historical process that provides the space for the human agency to intervene in the process. The exact form and shape of the process carries the imprint of the conscious intervention by the human agency.

Second, although the human agency is the product of the social process, its quality at any time is not uniquely given. In general, the quality of leadership, say, at the national level at any time is determined by the level of social and cultural development of society; but society's 'choice' of the personnel that makes up the leadership is not confined to one individual or group of individuals. The same social situation is capable of throwing up different calibres of decision-making personnel. The individuality of the entrepreneur whose innovation initiates a particular phase of the development process is not uniquely given. A person different from the one who actually took the lead in a particular situation could have come forward with an innovation of his own. The same, with appropriate modifications, can be said for the policies adopted at the national level. Hence, the response of an industry or society to a given set of possibilities is also not uniquely determined. A society's response to the objective possibilities depends partly on who happens to occupy the position of leadership (see Schumpeter, 1950b, p. 399n).

These considerations are entirely consistent with Marx's often-quoted statement that human beings make their own history, but within the limits determined by the objective social process. The underlying forces, as suggested by the materialist method, remain paramount and human agency is the product of the historical-social process. The latter determines the objective possibilities available and the limits within which the subjective factor can intervene in the objective process. At the same time, human agency is not an automaton; it has a degree of freedom and responsibility.

10. 'Wide Differences in General Outlook'

In the preceding section we were able to isolate those aspects of Schumpeter's standpoint on the role of the human agency that could be incorporated into Marx's method from those that related to the content of his theory and that were alien to Marx's thought. We now turn to the latter aspects of Schumpeter's theory.

These aspects of Schumpeter's thought were noted in our discussion of his theory of social classes. In that theory, classes are formed on the basis of *differences* between individuals—differences in their aptitudes and abilities that enable them to perform the various social functions that are necessary in any large and complex society. *Given* their aptitudes and abilities, individuals or families get distributed to various classes for which their abilities are most appropriate. A crucially important aspect of this theory is that abilities are unevenly distributed in society, and that the quality of leadership required for the performance of functions of high social value is a rare ability.²³ Hence, the prominence given to the human agency in the shape of 'exceptional men' (they are always men!) of 'exceptional quality' of leadership who possess the 'will to conquer,' to establish a 'dynasty'—men who must be distinguished from the rest of the population. Schumpeter distinguished these aspects of his 'general outlook' from that of Marx. In the paragraphs that follow an attempt is made (again, 'with desperate brevity') to explore the assumptions behind these differences and to bring out the tension that exists between Schumpeter's evolutionary approach (where the similarity with Marx lies) and his exaltation of the role of the individual (that is associated with his general outlook or social philosophy and where his 'wide difference' with Marx is manifested). Since Schumpeter himself does not directly dwell on his own 'general outlook,' we will have to approach it dialectically, that is, we see the viewpoint he rejects, and the perspective from which he attacks it.

Marx's philosophical outlook was expressed in his *Theses on Feuerbach* and other writings of the 1840s. Relevant to our present discussion is his sixth 'thesis', which states: 'The human being is not an abstraction dwelling within the individual. In reality the human being is the ensemble of social relations.' According to Marx a momentous change takes place in human history when social division of

²³ A noteworthy aspect of Schumpeter's 'general outlook' is that abilities are inherited. He considered Sir Francis Galton, the founder of the 'science' of eugenics, as one of 'the three greatest sociologists—the others two being Vico and Marx' (Schumpeter, 1954, p. 791).

labour comes to be established. Now individuals produce not to satisfy their needs directly (as do independent producers in the absence of social division of labour), but by exchanging their products with those of others. From the observation that human beings are locked together in the process of production (and a network of social relations corresponding to this process), Marx goes on to suggest that an individual's wealth now no longer consists in his own labour, but in the quantity of labour of others that his product can command; his labour now counts only as 'social labour.' His labour is a fraction of the total social labour of society.

By adopting this viewpoint, Marx has made an assumption of the greatest importance for his system of thought: all human beings are seen as having potentially similar abilities. He sees labour in 'abstract' terms, as potentially homogeneous; the differences or 'concrete' forms of labour we observe are socially acquired, through upbringing, education and training. This means that labour with higher skills or abilities can be treated as a multiple of unskilled labour and therefore can analytically be reduced to it.²⁴ According to Marx, this is the 'reality' that lies behind the appearance of differences, say, between the skill of the shoemaker and that of the tailor. And if that is the case then behind the appearance of the shoemaker and the tailor exchanging their products is the hidden reality of the two exchanging equivalent quantities of a 'common substance,' social or homogeneous labour.

By eliminating concreteness of commodities (their physical characteristics), Marx has excluded use-value or utility from the laws of exchange. In other words, he has excluded the subjective factor from the determination of value, and rejected the use of what Schumpeter calls 'methodological individualism'—the approach in which determination of economic phenomena, for instance, values and prices, surplus value and profits can be traced to individual decisions and choices (Schumpeter, 1954, pp. 888–889). Two other points are worth noting. The assumption that human beings can be treated as similar in their abilities and the neglect of the subjective factor are two aspects of the same Marxian (and classical) idea, and with the concreteness of commodities eliminated from the model, the focus turns on the social relations between commodity producers.²⁵

²⁴For social labour Marx also used the term 'abstract' labour.' For a discussion of the concept of abstract labour, a critique of this concept, and two attempts to 'convert' concrete or complex labour to simple or abstract labour, see, respectively, Hilferding (1949, pp. 123–148), Prendergast (1995), Blaug (1982), Rowthorn (1974) and Roncaglia (1974).

²⁵The standpoint regarding homogeneous labour is adopted by all who subscribe to the labour theory of value. Thus, Ricardo explicitly excluded from his model commodities that are 'scarce' and whose value is determined by use-value alone. Ricardo defined commodities or resources as 'scarce' when they are not reproducible by the economic system. Examples of scarce resources or commodities are 'Old Masters' and land that produces a peculiar quality of wine. Labour skills are reproducible when they are acquired (not innate, in which case they would be categorised as 'scarce') (Ricardo, 1821, p. 12). Although Adam Smith did not always adhere to the labour theory of value, he did find the notion of 'abstract' labour useful.

This raises an important question—a question Adam Smith had posed in the second chapter of the *Wealth of Nations* (Smith, 1776), which has the title ‘Of the principle which gives occasion to division of labour’. If people have similar abilities and skills why do they choose to specialise? If the shoemaker can produce shirts as well as the tailor does, why does the shoemaker not make his own shirts? They should be able to satisfy their needs as independent producers as was the case before social division of labour came to be established. The answer is that by specialising each producer *becomes* more efficient in his chosen trade. The underlying reason for specialisation is the phenomenon of economies of scale. The economic basis for social cooperation, when people have potentially similar abilities and skills, lies in the fact that it results in greater productivity.²⁶ In this way of looking at things, the observed differences between people are the *result* of social division of labour, not the underlying cause of it.

In this Marxian and classical way of thinking the reproducibility of labour skills (and of resources in general), the evolution of the social division of labour, and therefore economic development precede, and indeed give rise to, differences in skills or specialisation. Evolution creates the resources it needs. That is the only way that it can be seen as self-generating.

This is the viewpoint that Schumpeter’s rejects, and he rejects it with his characteristic vehemence: he sees absolutely no merit in this approach (Schumpeter, 1954, pp. 588–605). The attack on Marx’s ‘general outlook’ is centred on the labour theory of value. The attack, on both Marx and Ricardo, is two pronged. The first prong is directed at the failure of the labour theory to hold outside the special case in which all branches of production have identical capital structures. The problem has been widely discussed in the literature. We need say nothing more on this aspect of Schumpeter’s critique of the labour theory.²⁷

The second line of attack is more fundamental in nature and also relevant to the present discussion. It is directed at the Ricardian-Marxian standpoint according to which, for the purpose of analysis, we can assume that observed differences between different types of labour are acquired or reproducible rather than innate and given. To be sure, Schumpeter does not deny that many differences in labour skills (as in shoemaking and tailoring) may be acquired and reproducible, but he takes the view that the labour theory is fundamentally flawed because it is unable to take account of, or neglects by assumption, differences in abilities that are natural and therefore not acquired. For this reason, and this reason alone, it must be discarded as a ‘detour’ and an aberration from the historical path that leads to the Walrasian theory of value. This latter theory, which (i) crucially depends on the assumption that resources with all their physical characteristics, including labour skills, are given; and (ii) traces the determination of all economic

²⁶See Marx’s extensive discussion of the relation between social division of labour and productivity in (Marx, 1867, chapter 14). Chapter 13 of *Capital*, Vol. I, devoted entirely to discussion of economies of scale, is titled ‘Cooperation.’

²⁷For a discussion of Ricardo’s problem and his attempts to resolve it, see Sraffa (1951). On Marx’s problem and his attempt to resolve it, see the non-technical discussion by Meek (1977, pp. 95–119).

phenomena to individuals' subjective choices, according to Schumpeter, is the only scientifically correct theory: it captures the 'pure logic' of the capitalist economy.

In contrast to Marxian and classical theory, which postulates that observed differences are the result of social division of labour, the Walrasian theory is based on the view that social division of labour (and exchange generally) is *explained* by the fact that people are different: in its theoretical framework, if people had similar skills and abilities there would be no scope for social division of labour.²⁸ Thus, in this model differences in skills and abilities come first and social division of labour after. The theory can therefore accommodate changes in division of labour, and therefore economic development, only by assuming that changes in abilities come from outside the process of development—from outside the economy.

This is the standpoint that informs Schumpeter's 'general outlook' and his conception of society. We will now see the manner in which the Walrasian system of thought enters Schumpeter's system. For this we must return to his Preface to the Japanese edition of the *Theory of Economic Development* (Schumpeter, 1951, pp. 158–160):

If my Japanese readers asked me before opening the book what it is that I was aiming at when I wrote it . . . I would answer that I was trying to construct a theoretic model of the process of economic change in time, or perhaps more clearly, to answer the question how the economic system generates the force which incessantly transforms it. This may be illustrated by a reference to two great names: Leon Walras and Karl Marx. To Walras we owe the concept of the economic system and a theoretical apparatus which for the first time in the history of our science effectively embraced the pure logic of the interdependence between economic quantities. But when in my beginnings I studied the Walrasian conception and the Walrasian technique (I wish to emphasise that as an economist I owe more to it than to any other influence), I discovered not only that it is rigorously static in character . . . but also that it is applicable only to a stationary process. These two things must not be confused. A static theory is simply a statement of the conditions of equilibrium and of the way in which equilibrium tends to re-establish itself after every small disturbance. Such a theory can be useful in the investigation of any kind of reality, however disequilibrated it may be. A stationary process, however, is a process which *actually* does not change of its own initiative, but merely reproduces constant rates of real income as it flows along in time. If it changes at all, it does so under the influence of events which are external to itself, such as natural catastrophes, wars and so

²⁸This point is nicely made by Kenneth Arrow, who observes that this theory draws its inspiration from the Ricardian theory of international trade: 'The Ricardo viewpoint extended from foreign trade to domestic market has been predominant in subsequent economic theory. It has been the view of the founders of modern economic theory—Alfred Marshall, Leon Walras, and Stanley Jevons in the latter part of the nineteenth century—and is largely the basis of most current theory. *Like differences in natural resources, the differences in individual talents are the basis of trade*' (Arrow, 1979, p. 155; emphasis added).

on. Walras would have admitted this. He would have said (and, as a matter of fact, he did say it to me the only time that I had the opportunity to converse with him) that of course economic life is essentially passive and merely adapts itself to the natural and social influences which may be acting on it, so that the theory of a stationary process constitutes really the whole of theoretical economics and that as economic theorists we cannot say much about the factors that account for historical change, but must simply register them. . . . I felt very strongly that this was wrong, and that there was a source of energy within the economic system which would of itself disrupt any equilibrium that may be attained. If this is so, then there must be a purely economic theory of economic change which does not merely rely on external factors propelling the economic system from one equilibrium to another. It is such a theory that I have tried to build and I believe now, as I believed then, that it contributes something to the understanding of the struggles and vicissitudes of the capitalist world and explains a number of phenomena, in particular the business cycle, more satisfactorily than it is possible to explain them by means of either the Walrasian or the Marshallian apparatus.

We have here (together with the passage from the Preface quoted at the beginning of this paper) in the clearest possible terms Schumpeter's manifesto. The Walrasian model is applicable only to the economy when it is in its stationary state; that is, it was not intended to deal with the process of economic development. The objective of Schumpeter's theory is to discover 'a source of energy' *within this system* (an economy conceptualised in Walrasian terms) that would provide the force which would 'incessantly transform it' so that it does not have to rely on external factors to propel it forward. Schumpeter discovers this source in the Entrepreneur, a man endowed with exceptional qualities of leadership who seizes the opportunities others have not seen and is capable of breaking the inertia that characterises the system when it is in its stationary state.

We are now led to ask a number of related questions. Is the idea that the system repeatedly 'returns' to equilibrium consistent with the notion of an internal dynamic force that drives it forward? How long will the system, settled in its 'central norm', have to wait before an exceptional man emerges to lead it forward? Can this process, whose progress depends on the unpredictable appearance of a leader, be characterised as one of 'incessant change'? And most critically, is the process genuinely endogenous? In other words, is the leader the product of the development process itself or a non-reproducible resource (in the Ricardian sense) of whose appearance on the scene we cannot be certain?

We suggest that there are two distinct viewpoints in Schumpeter's system of thought. One accords with our interpretation presented in the preceding section. In this line—where we can speak of a similar, even a common, Marx-Schumpeter perspective—we see certain imperatives of development independent of individual volition. We see, as Marx did, motion as a *natural* property of the system and human agency as a product of the process—a reproducible resource, (in Schumpeter's words) 'an offshoot, a reflex and conductor of the inner necessities of any given situation.' It is seen to work within certain historic conditions which find their expression in any given situation from which it is observed to launch its project. The project is taken up by others who add their own modifications and

innovations to it. In this view the leader does no more than to give shape and form to the process. Here the development process is truly endogenous—one in which the process creates the resources it requires—and also one of incessant change.

The other line of thought is more in line with Schumpeter's social philosophy and his unfaltering commitment to the Walrasian 'pure logic' of the capitalist system. In this line of thinking, abilities cannot be treated as reproducible resources—produced in response to the requirements of economic evolution—and equilibrium *must be assumed as the natural property of the system*. It has been our argument that it is difficult to accommodate in this model the idea of self-sustained change. In this case the system will move from one state of equilibrium to another, requiring in each state of equilibrium the intervention of a man of extraordinary abilities (the 'prime mover') to push it out of its state of rest.

To summarise: there are two distinct lines of thought in Schumpeter's analytical system. One leans toward Marx and his organic-evolutionary method in which change is seen as the natural property of the economy, which is driven by its own imperatives and which generates the skills and resources necessary for its continued progress. The other line looks in the direction of the Walrasian model, in which skills and resources are treated as given, and a 'prime mover' is needed to dislodge the system from its inertial state. The tension between these two lines of thought in Schumpeter's system remains unresolved.²⁹

11. Concluding Remarks

This paper has shown that there is no puzzle regarding Schumpeter's admiration for Marx. This admiration rests not only on Schumpeter having similar interest and intention, as does Marx, but also, and more interestingly, because Schumpeter emulates Marx by constructing a model of social evolution that runs parallel to that of Marx. Marx seems never to be away from Schumpeter's mind. The 'Marxian' element in Schumpeter's schema consists of the materialist method that conceptualises a self-evolving system that transforms itself into a different

²⁹According to Smithies (1951, p. 18) Walras provided the foundation for Schumpeter's 'edifice, but Marx suggested the method for building on that foundation, a structure that reflected his own vision'. The central element in that vision was the idea of leadership, 'exceptional man of exceptional abilities'. Smithies does *not* detect the kind of tension that we have suggested in this section.

It was noted earlier (footnote 11) that a number of authorities on Schumpeter have suggested that Schumpeter's views on the role of the individual softened over time. If we accept this view then it would follow (on our argument) that Schumpeter moved in the direction of Marx—and away from his social philosophy and his great devotion to Walras. This would mean that, contrary to what Samuelson and Stolper maintained, he moved away from the 'vision of his youth.' We cannot go into these questions here, but will simply note that, as the posthumously published *History of Economic Analysis* amply shows, there was absolutely no diminution in either Schumpeter's regard for Walras, or in his distaste for Marx's social philosophy and the labour theory of value (though, of course, his great admiration for Marx in general remained undimmed).

kind of social organisation. We saw in Section 9 that in using this method Schumpeter makes an important contribution to it.

But there is a deep gulf dividing Schumpeter from Marx. This relates to the manner in which the two conceptualise capitalism (and society in general). This is reflected in Schumpeter's devotion to the 'pure logic' of the capitalist system as seen by Walras and to the social philosophy that is associated with it. Schumpeter's attachment to the Walrasian approach came into conflict with his ambition to construct a model of a self-evolving, dynamic capitalist economy. So we find two lines of thought running parallel in Schumpeter's economics. In one, the Marxian imperatives of the system dominate and the role of individual leadership is downgraded, in the other 'the exceptional man of exceptional abilities' is exalted, but this is at expense of the self-evolving character of the development process.

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