THEORIES OF CAPITALIST TRANSFORMATION: CRITICAL NOTES ON THE COMPARISON OF MARX AND SCHUMPETER*

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John E. Elliott's [1980] article on some of the parallels between the visions of capitalist transformation to be found in Marx and Schumpeter is extremely significant insofar as it requires a serious reexamination of the Schumpeterian system. Elliott's argument, however, is somewhat misleading, since it overemphasizes the points at which their theories overlap, while largely neglecting the very crucial differences in "intentions and results" [Schumpeter, 1951, pp. 158–61]. It is nearly always a vain endeavor to attempt to analyze the often complex interconnections between economic theorists, while adopting the simple framework of an either-or of similarities and differences. The inadequacy of such a method is particularly evident in a case where the theorists being considered are each deservedly famous for their "dialectical imagination."

In my view, most of Elliott's observations are reasonably accurate, though limited and misleading. However, in one crucial respect this general accuracy is violated, with important consequences for his overall approach. In his description of "Marx's version of the precapitalist exchange economy" and its relationship to Schumpeter's notion of the "circular flow," he confuses two quite different Marxian categories: "simple commodity production" and "simple reproduction" [1980, p. 50n]. It was the latter concept and not the former that was Marx's equivalent of Schumpeter's "circular flow," as well as Walras's "general equilibrium" and Marshall's "long-run equilibrium" [Sweezy, 1970, p. 277; Khan, 1957, pp. 73–76]. According to Elliott, the Marxian model of stationary equilibrium, which he takes to be equivalent to simple commodity production (a "simple exchange economy" in which exchange value is not the object of production), involves "the absence of a capital-labor class division" [1980, p. 50]. This is in clear contradiction to Marx's actual model of a steady-state economy (simple reproduction), which has as its basis not the *absence* of a division between capital and labor, but the assumption that

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capitalists consume the total surplus value produced [Marx, 1967, pp. 566–78; Khan, 1957, pp. 72–76].[1]

This misunderstanding of a key aspect of Marx's analysis blinds Elliott to some of the more important differences between the theories of technical change and accumulation presented by Marx and Schumpeter. To put the matter briefly, Marx creates his model of stationary equilibrium (simple reproduction) by "assuming away" accumulation *but not the capitalist*, while Schumpeter's model of the circular flow abstracts from the existence of the entrepreneur himself. In Schumpeter's theory, "equal access to capital" through bank credit is the defining characteristic of capitalism. This contrasts sharply with Marx's notion that capitalists, by definition, have a monopoly over the means of production. Consequently, although both theorists emphasize the discontinuous nature of the capitalist dynamic, Schumpeter sees economic development and technical change as the result of the individual entrepreneur's initiative, while in Marx's view it is the structure of accumulation itself that forms the "*primum mobile*" of capitalist development [Sweezy, 1970, p. 282 and 1972, pp. 140–41; Khan, 1957, pp. 72–76]. Indeed, Marx's theory of competitive capitalism actually derives the entrepreneur from accumulation, in clear contravention of Schumpeterian causality.

Elliott's emphasis on the concept of simple commodity production tends to distort his interpretation of the source of change in the Marxian system, apparently leading him to conclude that the mere appearance of a "capital-labor class division" explains the generation of surplus on an expanding scale [1980, p. 51]. Yet, for Marx, the "take-off" tendency within capitalism has its roots not so much in the class monopoly of the means of social creativity, as in the fact that both survival and success for the individual capitalist (and the class as a whole) are dependent on the ability to accumulate in ever larger amounts.

The bulk of Elliott's article is devoted to an examination of the concept of "creative destruction" as it applies to both Schumpeter and Marx. In doing so, he lifts Schumpeter's original notion almost

1. There is no concept within the Schumpeterian system that is strictly comparable to simple commodity production. This category, however, plays an important part in Marx's construction of the labor theory of value, since it is only by means of this step that he deduces the special character of labor in generalized commodity production (the "labor power" distinction). From there he proceeds to a systematic investigation of the conditions underlying the generation of surplus value. Not until Chapter XXIII of *Capital*, Volume I, does Marx introduce the notion of simple reproduction, as a point of departure for a theory of capitalist dynamics. Yet, this is precisely where Schumpeter *begins*, with his famous discussion of the circular flow in the opening chapter of *The Theory of Economic Development* [1934].

completely out of the context in which it was developed (the role of innovation in both competition and monopoly) and considers it from a wider philosophical viewpoint. It is true that there is some basis for this, but it is doubtful that there is a great deal of value in the very abstract and undifferentiated comparison of Marx and Schumpeter that results. Elliott's main point is that the so-called "Schumpeterian paradox," which claims that capitalism is being destroyed not by its failures but by its successes, is not very different from the general view advanced by Marx [1980, p. 46]. Or, in other words, capitalism is creative even in its self-destruction. This is an important observation, but one that can easily be beaten into the ground.

Nor can one push Schumpeter's theory of capitalist decline far in the Marxian direction without breaking its fragile casing. Most of Schumpeter's analysis, in this respect, is supported by two major pillars. The first, of course, is Schumpeter's own peculiar portrayal of the entrepreneurial function as capitalism's motor force. The second is a Weberian-like understanding of rationalization as a special product of capitalism (or modern society). Under conditions of what Schumpeter calls "plausible capitalism," the individual entrepreneur (captain of industry) is responsible for capitalist development. Thus, one might say that the essence of capitalism, for Schumpeter, lies in the discontinuity of its development under the leadership of the innovating entrepreneur. The process of rationalization, which Schumpeter sees as characteristic of capitalism, reduces the need for this leadership by smoothing out economic development, thereby shortening the period of time that elapses before other, less innovative, firms are able to enter the new market. As the discontinuities of the system fade, so does the special role of the entrepreneur. The historic function of the entrepreneur is supplanted by the managers of the modern corporation. With the decline of the entrepreneur the most dynamic element of the capitalist class fades away, and the class itself is doomed [Schumpeter, 1947, p. 134; Foster, 1978, p. 12]. Other causes of capitalism's "crumbling walls" are the demise of the "protective stratum" of the aristocracy, the anti-bourgeois character of intellectuals, and the breakup of the traditional organization of the family.

Marx's theory of the decline of capitalism is entirely different. It is true that Marx recognized that capitalism involves the progressive rationalization and socialization of the means of production. He did not, however, place any importance on the withering away of economic leadership as a cause of the eventual downfall of capitalism. As we have seen, Marx attributed capitalist development to the internal logic of the accumulation process itself, under conditions in which the capitalist class has a monopoly on the means of production (or, in other words, exclusive access to the accumulation fund of society). A threat to capitalist economic viability, for Marx, therefore depended on capital's tendency to create barriers to its own self-expansion.

But is it not true as Elliott [1980, p. 64] points out, that both Marx and Schumpeter saw socialism as the necessary "heir apparent" after the decline of capitalism? It is, but that tells one relatively little, unless their respective views of socialism are also examined, which Elliott largely fails to do. Schumpeter saw socialism as a distinct stage in the historical development of economic forms; a stage that was at the same time "culturally indeterminate" [Schumpeter, 1947, pp. 170–71]. Socialism, according to this outlook, means simply public "control" of the means of production, and has no particular ideological or class component, outside of the gradual erosion of the traditional position of the capitalist class and private property [1947, p. 167]. Hence, socialism is seen as relatively indeterminate in relation to Marx's theory which emphasizes not only that production would be under public control, but also (and more importantly) that the entire structure of society would come under the hegemonic domination of direct producers. Consequently, the fact that each saw "socialism" as, to some extent, the logical outcome of capitalist development and transformation *appears* to suggest a greater degree of convergence in outlook that can legitimately be deduced.

Schumpeter, of course, viewed the demise of the entrepreneur and the prospect of a "socialist" future as the chief tragedy of modern society. In his later years he frequently advocated a new form of corporate capitalism that could fortify itself against the menace of "authoritarian statism" [Schumpeter, 1975, p. 298]. Hence, he became a strong advocate of a "corporatism of associations" in which the conflict between businessmen would be virtually eliminated and the struggle between capital and labor significantly reduced. It was necessary to find ways of bolstering the system without falling into the socialist trap of planning by state agencies, which would strike at the very heart of capital. Schumpeter's objection to the Keynesian "solution" was that it tended to undermine capitalism in precisely this way [Smithies, 1951].

Given this political-ideological stance, Elliott's attempt to highlight the similarities between Marx and Schumpeter seems to miss what is most essential. Certainly, Schumpeter learned a great deal from Marx, as he himself was the first to admit. It is also clear that the Schumpeterian system represents one of the great "synthetic visions" [Kessler, 1961] of modern social theory, comparable in compass to the world-views of such great social theorists as Marx, Veblen, and Weber. The vastness of such undertakings should be enough to indicate that one cannot develop a critical understanding of the relationship between Marx and Schumpeter (or between Marx and Veblen or Marx and Weber, for that matter) through an exclusive preoccupation with the points at which their theoretical frameworks overlap and correspond to each other. In the final analysis, what is most interesting, and also most enlightening, is to concentrate on the way in which the socioeconomic systems of these theorists can be seen as *distinct* attempts to explain the laws of motion of capitalism. As with Weber, Schumpeter's enormous contribution to social theory is most usefully looked upon as an attempt to answer, in an entirely different way, questions originally posed by Marx.

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