The name of Joseph Schumpeter is still a prominent one in the social sciences. He was undoubtedly one of the leading economists of his generation. That by itself would have been enough to ensure him lasting fame, yet his importance as a social theorist extends far beyond that which is attributable simply to his performance as an economist. Unlike most economists, Schumpeter coupled his economic analysis with an historical outlook. The bulk of his immense theoretical contribution was directed toward an investigation into entrepreneurial capitalism as a transitory, historical phenomenon. This analysis of the growth of capitalism was tied to both a general theory of social classes and a detailed inquiry into the nature and function of the capitalist class. Nevertheless, while it is generally conceded that Schumpeter had a unified vision of the social process, few attempts have been made to examine his overall theory as a systematic whole. Consequently, works such as *The Theory of Economic Development*, *Imperialism and Social Classes*, and *Capitalism, Socialism and Democracy* are commonly read without reference to the Schumpeterian system in its entirety. Hence, an attempt will be made in the first part of this paper to present the general outlines of the Schumpeterian system, understood as a theory of the origins, development and decline of capitalism. This will reveal that Schumpeter's broad vision of society, even more so perhaps than that of Weber,
represented a major endeavour to turn "Marx upside down," raising historical and methodological issues that still lie at the very heart of political economy as a science in our time.¹

But the work of the enfant terrible of the Austrian school of economics demands our attention for other, more immediate, reasons as well. What makes Schumpeter much more than simply an interesting chapter in the history of economic thought is the importance that his work has assumed — either directly or indirectly — in the formation of contemporary schools of political economy. While it would be too much to say that anything like an intact Schumpeterian school of thought lives on in our time, vestiges of Schumpeter’s system can be found in prominent theories dealing with present-day capitalist economies — both dependent and advanced. And although there are signs that Schumpeter is increasingly becoming a rallying point for economists of the right and centre in their desperate efforts to construct a workable ideological alternative to Keynes, it is also true that a critical appreciation of Schumpeter’s historical analysis and theoretical method is often evident in two of the foremost traditions of radical political economy in North America: (1) the neo-Marxism analysis of monopoly capital and dependency, as exemplified in the work of Paul Baran, Paul Sweezy, Harry Magdoff, Andre Gunder Frank and Monthly Review in general; and (2) the closely related "new Canadian political economy" associated with the contributions of such theorists as Kari Levitt, Tom Naylor, Mel Watkins and Wallace Clement.² Indeed, a close examination of the Schumpeterian system should enable us to look afresh, in the final pages of this essay, at two of the most important questions confronting socialist theory today: (1) Where, if at all, did underdevelopment theory "go wrong"? and (2) How are we to understand the re-emergence of stagnation in the advanced capitalist economies?

Schumpeter as Economist and Sociologist

Schumpeter’s general theory of the rise and fall of capitalism is not to be found in any single treatise, but only through a careful examination of a number of distinct works widely separated by both time of composition and theoretical orientation. A conspicuous aspect of his overall theory of capitalist development was his characteristic method of combining economic variables with an analysis of social leadership.³ The entrepreneur or "innovator," first introduced in Theory of Economic Development (1911), was viewed as comprising the most dynamic element of the capitalist class, responsible for both economic development and the creation of "surplus value."
The theory of the entrepreneur — at all times the pivot upon which the entire Schumpeterian system turned — opened the door to a general theory of classes as functional groupings, which was later to be articulated in the lengthy essay, *Social Classes in an Ethnically Homogeneous Environment* (1927), and to a conception of the decline of the capitalist system from within through a transformation of the entrepreneurial function. In *Business Cycles* (1939) and in *Capitalism, Socialism and Democracy* (1942), written over a quarter of a century after *Theory of Economic Development*, he was to bring these lines of thought to their completion. As Paul Sweezy once suggested, the essay *Social Classes* can be looked upon as representing Schumpeter's theory of the origins of capitalism; *Theory of Economic Development* and *Business Cycles*; the theory of development; and *Capitalism, Socialism and Democracy*, the theory of decline.

In his economic theory, which is necessarily the starting point for an analysis of Schumpeter's social theory as a whole, he began with his famous concept of the circular flow. The circular flow of economic life is essentially a perfectly static model of the economic system, stripped of all its dynamic elements. While this does not preclude growth founded on population increases, changes in consumer tastes, etc. — or, in other words, all change that can be continuously absorbed — it does exclude all discontinuous development. The stream of economic activity is viewed as flowing incessantly through the same channels. Not surprisingly, in such a case, all economic action in the circular flow is repetitive and based on prior experience. As in all theories of stationary equilibrium, Say's Law holds and the aggregate quantities of supply and demand, expenditures and receipts, tend toward equality. This is similar in its results and general parameters to the traditional economic model of perfect competition in a state of general equilibrium, as exemplified by Walras. The circular flow is also very closely related to Marx's "simple reproduction."

The circular flow was not intended in any way as an explanation of capitalist reality. It was rather an abstract construction utilized for the purpose of highlighting some very real aspects of the economic process. Schumpeter arrived at his model of the circular flow by elimination of the entrepreneur, the source of all development. Since his main object was to determine the cause(s) of economic evolution, it is natural that he would have developed a rigorous static model as a point of departure from which to view dynamic factors. A commercially organized exchange society with private property, division of labour, and perfect competition was assumed. As in Walras's general equilibrium theory, Marshall's long-run equilibrium, and
Marx's simple reproduction, all value is consumed and saving/accumulation is non-existent. Since both the entrepreneur and accumulation are absent from the circular flow, there is also no capitalist class, and Schumpeter's model of stationary equilibrium is, therefore, that of an economic society made up entirely of landlords and labourers. Thus, while describing the circular flow, Schumpeter wrote that, "under these conditions there is no other class of people in the economic system, in particular there is no class whose characteristic is that they possess produced means of production of consumption goods."

In other words, Schumpeter assumed in his model of the circular flow not only that consumption motives dominated all economic action, but also that all individuals had roughly equal access to the means of production. This would not follow simply from the elimination of accumulation. Although Marx's theory of simple reproduction abstracted from accumulation, it did not at the same time eliminate the expropriation of surplus value, and consequently did not exclude the capitalist class from the model. In Marx's system, distribution is a product of the relations of production that exist between capital and labour. Therefore, distribution of income under capitalism is inseparable from this relationship and inherently unequal. For Schumpeter, on the other hand, as with the Marginalists, distribution was not necessarily prior to exchange but rather could be seen as a consequence of the exchange process; it was therefore possible from this standpoint to begin with a model in which inequalities in the distribution of economic surplus did not yet exist. To do so would necessitate a primum mobile of economic motion other than simply accumulation itself — in Schumpeter's case, the entrepreneur.

The key to an analysis of capitalism, which Schumpeter understood as being inseparable from the existence of constant change, was to comprehend how it destroyed and, at the same time, recreated itself. Schumpeter, then, viewed economic development as consisting of what he called in Capitalism, Socialism and Democracy, "creative destruction." In the capitalist economy it is not price competition but rather competition involving new combinations of existing resources that counts. The most fruitful economic activity, Schumpeter tells us, has not occurred through continuous adaptation but through revolutions in productive means. The entrepreneur introduces revolutions in the means of production through new combinations of existing means of production. "He" replaces, for example, the stagecoach with the railroad and in the process generates new, additional demand and opens new markets.
It is clear, then, that the function of the entrepreneur is outside "the ordinary course of business routine" and thus can only be perceived as an aspect of leadership. In essence, the social leadership of the capitalist class was seen by Schumpeter as stemming from the entrepreneurial function. At one point in his writings he referred to "active," "less active," and "decaying" sectors of the capitalist class. The active sector is undoubtedly the one engaged in innovation, which is the basis of the strength of the class.

It is an explicit part of his theory that the entrepreneur does not necessarily contribute anything to the new investment other than "will and action." The primary source of capital finance other than previously accumulated entrepreneurial profits stems from credit financing, which becomes available to the enterprising individual simply because development is anticipated by those who control financial capital. Hence, in all of his writings Schumpeter considered the defining characteristic of capitalism to be the creation of purchasing power in an "ad hoc" manner. The banker, through bank notes and deposits, expands the money supply beyond its actual value base, thereby providing a source of investment capital. This constitutes the system of productive credit. Schumpeter, in his later writings, was to amplify this argument with the distinction between a capitalist economy and "commercial society." The capitalist economy was a particular form of commercial society with the distinguishing feature of the creation of ad hoc credit. Commercial society in itself was simply a system of private enterprise with private ownership of the means of production and private profits/losses. In Capitalism, then, the banker was not merely an intermediary but a producer of purchasing power.

By constructing his theory in this manner, Schumpeter was able to place greater emphasis than might otherwise have been possible, on the creative leadership of the entrepreneur. Not only could economic development be seen as the result of the supernormal activity of the entrepreneur but, in addition, the stress laid on the creation of credit in an "ad hoc" way, as a source of initial investment capital, allowed the entrepreneur to be classified in a functional grouping of superior individuals rising out of the conditions of general equality of opportunity characteristic of the circular flow, and independent of previous accumulation or ownership of the means of production. By "raiding" the circular flow, the entrepreneur was able to accumulate excessive or short-term monopoly profits as a reward for "his" activity. Economic development brought about by successful fulfillment of the entrepreneurial function was seen as the ultimate explanation for the existence of both profit and interest.
The tendency of entrepreneurs to carry out innovations in clusters or swarms, as well as the fluctuations in the level of credit associated with such activity, formed the fundamental explanation of the inflationary and deflationary cycles endemic to capitalism.

Although Schumpeter, who played down the role of accumulation and the priority of income distribution, concluded that it was the exception for entrepreneurial action to be financed by past accumulation, Marxian analysis obviously points to the opposite conclusion — that it is very uncommon for an innovator to emerge from anywhere but the capitalist class, since access to capital for the carrying out of any revolution in the productive mode is obtained primarily through direct ownership of the means of production. This clearly indicates widely diverging views of the entrepreneur and the capitalist class. If the entrepreneur emerges from the great crowd where equal opportunity exists and through the creativity of “his” action revolutionizes the means of production, receiving as a reward the profits “he himself” has created, the result is a capitalist class whose existence and wealth can easily be legitimized. According to this view, the entrepreneur is a useful sociological category. On the other hand, if accumulation and the capitalist class are logically prior to the entrepreneur, and accumulation explains the competitive process which at no time has any grounding in real equality of opportunity, then a theory of exploitation is possible and virtually inevitable. In Marx’s theory the notion of the entrepreneur had little meaning since it was the capitalist class that was primary. For Schumpeter, in contrast, the entrepreneur, as we shall see, was not only the primary economic actor but also the dynamic element which accounted for the formation and perpetuation of the capitalist class.

**Social Classes**

The long essay, *Social Classes in an Ethnically Homogeneous Environment*, was considered by Schumpeter to be one of his major works. It was first visualized as a project in 1910, although it was not actually published until 1927. A further elaboration of it was one of the planned projects left undone at the time of his death. An examination of this work in relation to his other writings, however, leads one to the remarkable realization that it provided not only the general theory of “classes” that was to be the unifying link for all of the discussions of feudal and capitalist classes that thread their way through his many writings, but also a theory of the origins of capitalism. He also further elaborated here on the role of the entrepreneur as the leading actor in capitalism. Schumpeter rejected the categories usually referred to in economic theory as being only
deceptively similar to classes, not classes themselves. Class was not to be understood as consisting of categories such as the working classes — as used in general economic theory to indicate the “prosperous lawyer as well as the ditch digger,” or in the sense of indefinite groupings such as landlords; rather, a class was “a special social organism, living, acting, and suffering as such and in need of being understood as such.” Schumpeter’s class theory went far beyond a simple division of labour analysis. Each class was conceived as having its own distinct cultural identity and social cohesiveness. The roots of class formation, however, were to be found in functional stratification arising out of the division of labour and ability.

Classes were essentially conceived by Schumpeter as culturally homogeneous groupings of families that exist as distinct social actors and whose membership is always in a certain state of flux, even though there is often no clear change in membership except over long historical periods. “Class,” wrote Schumpeter,

is something more than an aggregation of class members. It is something else, and this something cannot be recognized in the behaviour of the individual class member. A class is aware of its identity as a whole, sublimates itself as such, has its own peculiar life and characteristic “spirit.”

The “true unit” of class is the family, but only the individual and not the family is born in a particular class situation. Gradually, along with changes in the position of some of its members, the class position of a family unit changes over time. Groupings of the extended family enter into Schumpeter’s definition of class in another way as well. The only “suitable definition of class” lies, for Schumpeter, “in the fact that intermarriage prevails among its members, socially rather than legally.”

The basis of social mobility and of the formation of class position (in other words, the stratification principle) is aptitude in fulfilling “socially necessary” functions. This idea that all societies are stratified according to the “aptitude” of individuals in relation to some “relevant social function” Schumpeter traced to Pareto. Furthermore, he saw the conception of this kind of “special function” in relation to a given class as being “the real core of all theories of the division of labour and occupation in the field of class phenomena.”

Thus, in the Schumpeterian system, as in Pareto’s theory, stratification is very closely related to the phenomenon of social leadership. The “intensity” of the relationship between a function and social leadership provides the basis in any given society for ranking social-
ly necessary functions. In a society of thieves, as Pareto suggested, the ability to steal would determine one's position on the social pyramid. Social leadership, in Schumpeter's argument, takes the form of the fulfillment of that function which is most vital for the existing social order.

It was Schumpeter's view that any study of classes and class position "leads in unending regression, to other classes and class situations." In his own work on social classes, however, he only actually discusses two historical examples: the feudal aristocracy and the modern bourgeoisie. The picture of the feudal aristocracy that appears in Schumpeter's analysis is one of a class based on the warrior function. In other words, the power of the nobility was based on the feudal knight's role as an "expert mounted fighter." Eventually, however, changes in the social environment which occurred with the rise of state power and the mercenary army changed the nature of the knight's function and the nobility became a warrior class only in name. Yet the knight, Schumpeter tells us,

endeavoured for a long time, by his bearing and appearance to convey the impression that he was prepared at any moment to ride out full tilt with lowered lance to meet the enemy in individual combat — though in the end he was likely to don armour only when his portrait was to be painted.

With the loss of its primary function through demilitarization, the nobility was to decline and perish. In Schumpeter's theory, this fall of the nobility was not so much a product of class struggle and the rise of the bourgeoisie as it was the result of a weakening of the class from within in the process of a transformation in its traditional role. The valuation of the warrior function declined while that of the entrepreneur rose; the feudal nobility languished and the bourgeoisie replaced it at the top of the social pyramid.

The capitalist class, unlike the feudal nobility, requires for its very survival the continual doing of "something altogether different" in the production process; in other words, it requires for its life-blood the fulfillment of the entrepreneurial function. Just as the knight was the basis of the social leadership of the feudal nobility, so the entrepreneur is the key to the leadership of the capitalist class. As Schumpeter was fond of saying, it was not the failure of the entrepreneur but its very success that would gradually lead to the decline of the system. According to his general method of historical interpretation, there are only two basic ways in which a transition to a new historical stage can take place: either the ruling class fails to
successfully fulfill its socially necessary function, in which case both it and its social empire decline; or the ruling class carries out its function so successfully that it gradually creates conditions that undermine its own position.\textsuperscript{26}

**Capitalist Decline**

Schumpeter's theory of capitalist decline, as we have noted, was developed most fully in his very influential work, *Capitalism, Socialism and Democracy*. The capitalist system is doomed not because of economic failures but because its very success transforms the social milieu into one that is actively hostile to capitalism. "Plausible" or entrepreneurial capitalism evolves through its own logic into "fettered" capitalism, or in other words, capitalism as its manifests itself in the "trustified" stage in which big business dominates. Capitalism during this trustified period resembles a mid-way house, or the temporary phase prior to the emergence of the new stage of social and economic development — socialism. Schumpeter believed that the socialization of the general environment in such a way that it became antithetical to capital was inevitable; hence, socialism itself was viewed to some extent as the image of humanity's future. It is clear, however, that he also believed that certain measures could be taken to give new life to the existing corporate system and therefore, perhaps, to delay the virtually inevitable (though not fully desirable) transition to socialism.

The decline of capitalism comes about, in the Schumpeterian system, primarily through a weakening of the entrepreneurial function. This derives from the growing rationalization of the social process — which Schumpeter conceived in the Weberian sense — as capitalism progresses. "The development of rational thought," according to Schumpeter, "precedes the capitalist order by thousands of years; all that capitalism did was to give a new impulse and a particular bend to the process."\textsuperscript{27} Yet, this "particular bend" in the rationalization process that occurs in capitalism, as he was to emphasize again and again, is a crucial one in that it reduces the social process to bureaucratic logic and rational calculation — in Weberian terms, to "formal rationality." "The capitalist process," Schumpeter wrote, "rationalizes behaviour and ideas."\textsuperscript{28}

This growing rationalization has disastrous effects on the ability of the entrepreneur to realize profit. As early as 1911, in *Theory of Economic Development*, he tolled the bell for the entrepreneur in a resounding manner:

> The more accurately, however, we learn to know the natural and social
world, the more perfect our control of facts becomes; and the greater
the extent, with time and progressive rationalization, within which
things can be simply calculated, and indeed quickly and reliably
calculated, the more the significance of this function decreases.
Therefore the importance of the entrepreneur type must diminish just
as the importance of the military commander has already diminished.29

Thus, the progressive development of rationalization, the level­
ing of social barriers, democratization, etc., all serve to reduce the
importance of leadership in the economy. Schumpeter, as he himself
stated, agreed with "the Marxian proposition that the economic pro­
cess tends to socialize itself — and also the human soul."30

To understand what happens to the entrepreneur in all of this it
is necessary to recall our examination of how this actor operates in
the economic life of society, as conceived by Schumpeter. En­
trepreneurial profit comes about precisely because the entrepreneur's
activity is an exceptionally creative one and because there is a lag
prior to the entrance of other firms into the new market. As the
economic process is rationalized, however, innovation itself becomes
liable to such rational calculation and it becomes increasingly dif­
ficult for the individual entrepreneur to stay ahead of the game. As
the gap between the normal circular flow and development is nar­
rowed through the rationalization process, it becomes more and more
difficult for the individual entrepreneur to find the investment chan­
nels in which "he" can receive an adequate return on "his" invest­
ment. Consequently, in line with the socialization process, en­
trepreneurial activity increasingly falls into the hands of big business
and government. The entrepreneur is replaced by the bureaucratic
manager. For Schumpeter, this essentially spells the end of "plausi­
ble capitalism." The decline of the entrepreneur, the most dynamic
segment of the capitalist class, will ultimately result in the death of
that class itself: "Economically and sociologically, directly and indi­
crectly, the bourgeoisie therefore depends on the entrepreneur and,
as a class, lives and will die with him."31

The achievements of capitalism, however, have created a hostile
social environment in other ways as well — one of which is closely
related to the process of rationalization. Most important of these
other changes in the social milieu (which tend to eat away at capitalism
from within) as it reaches its mature form is the elimination of the
"protective strata." These are elements of pre-capitalist society that
support the position of the relatively weak capitalist:

In breaking down the pre-capitalist framework of society, capitalism
thus broke not only the barriers that impeded its progress but also
the flying buttresses that prevented its collapse. The process, impressive in its necessity, was not merely a matter of removing institutional dead-
wood, but of removing partners of the capitalist stratum, symbiosis with whom was an essential element of the capitalist scheme.  

All of this goes hand in hand with the rationalization process. The result, however, is disastrous for the bourgeoisie. For it is "politically helpless" without the leadership of the remains of the feudal upper strata, and as political power is thrust on it alone, it will sicken and die.

To understand why the bourgeoisie cannot exercise political leadership by itself in the same way that it does economic leadership, one must understand Schumpeter's conception of the difference between the heroic and non-heroic ages. This is best explained by a telling passage from Capitalism, Socialism and Democracy:

capitalist civilization is rationalist and "anti-heroic." The two go together of course. Success in industry and commerce requires a lot of stamina, yet industrial and commercial activity is essentially unheroic in the knight's sense — no flourishing of swords about it, not much physical prowess, no chance to gallop the armoured horse into the enemy, preferably a heretic or a heathen — and the ideology that glorifies the idea of fighting for fighting's sake and of victory for victory's sake understandably withers in the office among all the columns and figures.

Basically, what the entrepreneurial knight, and hence the bourgeoisie, lacks is charisma, which it seems is an important component of social leadership for Schumpeter. In his view, the ideology of accumulation for accumulation's sake is obviously less effective than the warrior ideology. It is because of this that the bourgeoisie needs the old feudal class as a partner for political purposes. The bourgeoisie, when the rationalization of capitalism reaches its mature stage, stands alone and naked. This promotes the visibility of class relationships in the Weberian and also in the Marxian sense. For Schumpeter, however, the capitalist does not necessarily need to be pushed from the pinnacle of power; "he" will tumble on "his" own. Hence, without its partner, the old feudal nobility, the bourgeoisie fades as a class, and capitalism — the bourgeois order — crumbles.

Some of the other social conditions, which are characteristic of the fettered stage and promote the dissolution of the capitalist system, are also noteworthy. Capitalism, by its very nature, creates a social group with a vested interest in social criticism (i.e., the intellectuals). Although intellectuals existed in previous ages, only under capitalism do they find a mass audience amenable to rational argument. The
intellectual, Schumpeter tells us, has an interest in fomenting social unrest and yet the activities of this group cannot be curbed without seriously weakening the bourgeois freedoms of speech, of the press, etc. Schumpeter's argument with respect to the intellectual is, of course, highly problematic. It is, nonetheless, significant in that it once again underscores his emphasis on social leadership in any social transformation; the masses would never rise on their own.34

The rationalization of everything in life also results in the breaking up of the family and of the home as an institution at the base of society. In the bourgeois world, prospective parents soon realize the sacrifices in consumption that a child entails. The child is no longer an economic asset, as in traditional society, because in modern capitalist society children are removed from any role as producers during virtually their entire stay with the family. All of this gives the incentive not to procreate, and capitalist society also, Schumpeter points out, provides increasingly effective means of prevention. The home disintegrates as traditional functions are removed from it and transferred into the public realm. The typical bourgeois family likes to go out for food and entertainment and therefore is content with a smaller and more-compact house.35

Another transformation interfering with the traditional bourgeois form occurs in the area of property. As Schumpeter argued in the section of Capitalism, Socialism and Democracy titled "Crumbling Walls": "The capitalist process, by substituting a mere parcel of shares for the walls of and the machines in a factory, takes the life out of the idea of property." 36 He perceived that the old "captains of industry" were already an extinct phenomenon. No one individual controls or directs the modern corporation. Rather, it is influenced by three groups, none of which has a relationship to the corporation corresponding to the original notion of property ownership: the managers, the large stockholders and the small stockholders. The managers are removed from actual ownership and develop an employee attitude. The large stockholders, on the other hand, are cut off from the traditional functions of ownership. They have little direct control over the corporation. The small stockholders, of course, take little interest at all.37 It is hardly surprising that for Schumpeter, who put so much stress on the importance of the entrepreneur as a social leader, such developments would be seen as signs of decay.

These are the main manifestations of capitalist decline that Schumpeter listed. He could, of course, have listed many more. All of these conditions are essentially the result of the transformation of capitalism in its more advanced stage, building on a notion of rationalization and bureaucratization similar to that of Weber. Once
this process is seen as the general trend it is only necessary to apply it to each basic institution of bourgeois society to view the various manifestations of the change; this is in large part what Schumpeter actually did. The rationalization or bureaucratization process as perceived by Schumpeter, however, contains a peculiar twist that is not necessarily a part of Weber’s theory, although it is certainly closely related to it. For Schumpeter, the rationalization process as it takes place under capitalism is also a process of “socialization.” The movement from the small industrial firm to the large corporation, the democratization of social life, the elimination of the feudal remnants, the disintegration of the home in favour of the larger society, the displacement of the entrepreneurial function from the individual to the modern large-scale business: these were all aspects of both rationalization and socialization, or in other words, the basing of essential functions in ever-broader social entities. In Schumpeter’s analysis, it was this that made socialism inevitable: the progressing socialization of all aspects of life.

Socialism and Corporatism

We have said nothing up until now about what comes after the fall of capitalism. In relation to the transitionary stages, Schumpeter’s analysis is somewhat ambiguous and uncertain. It is, nevertheless, clear that he considered socialism to be the “heir apparent.” Yet, for Schumpeter, socialism was conceived simply as a system of public as opposed to private control of the means of production. In his view, socialism was “culturally indeterminate”; it implied no particular political or cultural order. He differed with Marx’s association of socialism with a classless society (or as a stage of transition toward such a society). Although he acknowledged that the capitalist class as such would certainly disappear with the emergence of the new economic order, other class relationships might still remain, without withering away to any significant extent. While for Marx socialism consisted of the socialization of all aspects of society — base and superstructure — for Schumpeter it could consist merely of the socialization (or statization) of the productive apparatus — of the base. Marx’s theory of socialism, according to Schumpeter, ignored the essential issues in the process of adopting a specific political form. This interpretation is certainly understandable in a theory, such as Schumpeter’s, which de-emphasizes class conflict. The primary issue for the transition to socialism then became, in the Schumpeterian system, whether or not it took place in a mature economic and social order corresponding to the traditional notion of the stationary state.
If it did, he believed it would work. The rise of socialism signified the complete negation of commercial activity — of those economies based on private property and free enterprise. Capitalism, with the added defining trait that credit expansion is utilized to provide a basis for productive capital, would, as a specific form of commercial society, decline from within during its fettered stage through the gradual socialization of the productive apparatus and the rationalization of the entire social environment. Thus, trusted capitalism represents the last stand of the bourgeoisie following the decline of the entrepreneur — the only social actor who could, through “his” action, satisfy the requirements of economic development and the circulation of elites and classes within capitalism.

The dissolution of capitalism would signify the transformation of the economic system from one in which economic development was carried out by factors endogenous to economic life and which operated according to the anarchical laws of the market, to a system in which planning by exogenous public agencies would determine the nature of economic enterprise and development. To understand why this was a tragedy for Schumpeter, it is only necessary to recall his continual emphasis on the heroic leadership of the entrepreneurial element. The entrepreneur was to follow the feudal knight into the dust heap of history and — so Schumpeter implies — much that was glorious and dynamic during the rule of the bourgeoisie would be lost. With the entrepreneur no longer a meaningful entity, socialism was virtually inevitable and, perhaps, even a bit opportune.

Schumpeter, however, never tells us just how favourably one should look upon the socialist prospect or, for that matter, just how “inevitable” it actually was. Indeed, many of his writings in his later years — even after the publication of Capitalism, Socialism and Democracy — seem to indicate that he much preferred the creation of a new form of corporate capitalism. Noteworthy in this context is a paper that he presented at a convention of Québec businessmen in November 1945 and is now known under the title, “The Future of Private Enterprise in the Face of Modern Socialistic Tendencies.” In this short paper Schumpeter attacked what he considered to be the Marxian theory of class struggle, emphasized the importance of the leadership of businessmen for the proper operation of the capitalist system, and stressed that the solution to the problem of capitalism’s crumbling walls was to be found neither in Bolshevism nor in democratic socialism, but only through a new “corporatism of associations” based on the enlightened cooperation of businessmen and the promotion of “peacable cooperation between worker and
Only by the development of such corporate cooperation could the existing tendency towards "authoritarian statism" and the threats to "the mechanisms of laissez-faire" be countered. While it is difficult, if not impossible, to come to any definite conclusions about Schumpeter's final political outlook from this or other similar, short publications, it is clear that he was interested in the development of new corporate relationships to replace the collapsing entrepreneurial capitalism, and to delay the emergence of socialist alternatives as a less palatable solution to the problems of the contemporary age. Despite his notion of socialism as, in all likelihood, the image of humanity's future, Schumpeter always retained his allegiance to the entrepreneur, and when the entrepreneur was fast becoming an extinct species, to corporate management. Calling capitalism "the civilization of inequality and of family fortune," he seemed to desire its preservation as long as it could be made to work.

At this point it seems appropriate to raise one of the most perplexing issues associated with Schumpeter's argument in *Capitalism, Socialism and Democracy*. His theory of capitalist decline placed great emphasis, as we have seen, on the fading away of the entrepreneur, associated with the rise of a modern corporate environment. But Schumpeter was no enemy of concentration and centralization in industry, which he saw as a natural consequence of innovation. What is more, he is generally regarded as the foremost defender of the giant firm. As Paul Baran has noted

It was reserved for Schumpeter (to be followed eventually by Berle, Galbraith, and others) to make an effort to save the "honour" of monopoly profits by proclaiming them to be "necessary costs of production." This *tour de force* was accomplished by pointing out that technological innovations were predicated upon monopoly gains on the part of the innovators, that is monopoly profit that enables corporations to maintain costly research laboratories, etc. Thus the static vice was made into dynamic virtue and the last attempt of economic theory to retain some minimum standards for the rational appraisal of the functioning of the capitalist system were swept aside by the comprehensive endorsement of the *status quo*.

However, the *tour de force* (as Baran was aware) concealed more than one classic dilemma. Granted that short-term monopoly profits could be defended as an inducement to innovate, and as a product of innovation. But what about long-term monopoly gains? For this Schumpeter had only one answer: "The perennial gale of creative destruction" would make it virtually impossible for any firm or group of firms to engage in monopolistic practices over the long-run. Behind "the refined subtleties of the Schumpeterian dialectic" lay the notion
that the entrepreneurial dynamism of the system would be such as to surmount all obstacles in the area of price and output, as long as "plausible capitalism" lasted. 45

But there's the rub. Capitalism, he went on to argue, is becoming increasingly implausible sociologically, in the face of corporate concentration. Ironically, the so-called "Schumpeterian thesis" so dear to conservative economists opposed to antitrust policies — the proposition, commonly attributed to Schumpeter, that large firms are inherently more efficient than small firms, when considered in terms of the technical aspect of innovation — is, quite apart from the question of its historical validity, perfectly compatible with the Schumpeterian view that trustified capitalism is less dynamic (or heroically creative in the risk-taking sense) than its earlier entrepreneurial stage. For Schumpeter, it is the demise of the entrepreneur, not the rise of the trusts, that is the problem; but each implies the other. 46

Schumpeter and Keynes

Even more complex, perhaps, is the question of Schumpeter's relation to Keynes. Most of Keynes's analytical model is confined to the comparison of equilibrium positions in the short-run, abstracting not only from changes in "production functions" (creative destruction), but also from alterations in "the quantity and quality of plant and equipment." 47 From a long-run point of view, as Keynes was well aware, this was inadmissible. 48 Still, his conviction that stagnation (or "unemployment equilibrium") was not simply a short-run, but also a long-run, problem, had not only the Great Depression to back it up, but also the view that oversaving and the emergence of "industrial maturity" had a tendency to pull down "the marginal efficiency of capital" (expected profits on new investment), resulting in a more or less permanent tendency toward stagnation of investment (oscillating around, and close to, the point of zero net investment). 49 For Keynes, this justified increased government spending, progressive income redistribution, "the euthanasia of the rentier," and even the "somewhat comprehensive socialization of investment." 50 Schumpeter's objection was characteristically blunt:

With Marx, capitalist evolution issues into breakdown. With J.S. Mill, it issues into a stationary state that works without hitches. With Keynes, it issues into a stationary state that threatens to break down. Though Keynes' "breakdown theory" is quite different from Marx's, it has an important feature in common with the latter: in both theories, the breakdown is motivated by causes inherent in the working of the economic engine, not the action of factors external to it. This feature
naturally qualifies Keynes’s theory for the role of “rationalizer” of anti-capitalist volition.\textsuperscript{51}

Schumpeter’s “breakdown theory,” in contrast, was socio-psychological rather than economic, and hence naturally qualified itself for the role of rationalizer of pro-capitalist volition. For Schumpeter, the problem of the Great Depression — which had less to do with the 1929 Crash than with the abnormally slow recovery after 1933, and the sharp cyclical drop in 1937 before full recovery had been reached — was due to the imposition of anti-capitalist policies within the context of a long-cycle (Kondratieff) downturn. In this he stood opposed to his Harvard colleague, Alvin Hansen, Keynes’s most influential advocate in the United States, who had pointed to the phenomenon of secular stagnation rooted in such factors as industrial maturity, capital-saving innovations, a decline in the rate of population growth, and the closing of the frontier. While Hansen, like Keynes, argued that increased government spending was economically (not to mention politically) expedient in these circumstances, Schumpeter replied that new technological waves, providing investment opportunities presumably equivalent in effect to those of the nineteenth century, would no doubt follow as a matter of course. Further government intervention would itself tend to undermine the remaining entrepreneurial dynamism of the system, reducing capitalism’s breathing space. Schumpeter always remained true to his belief, developed with great force in his essay, \textit{The Crisis of the Tax State} (1918), that the state was essentially an “economic parasite” within the context of capitalist society.\textsuperscript{52}

What made Schumpeter’s forward-looking perspective seem so imposing (even Hansen owed a great deal indirectly to him) was the fact that he never forgot Marx’s emphasis (most clearly enunciated in the beginning of \textit{The Communist Manifesto}) on the incessant revolutionaryization of the means of production, which for Schumpeter as well was the very essence of accumulation under capitalism. The weakness of his view was that he was far less willing than Marx or Keynes to acknowledge that, under certain historical conditions, overaccumulation could seriously threaten the rapid absorption of capital, and that there was no a priori reason to suppose that new technological innovations would always come to the rescue in sufficient number, quality and force to alleviate the resulting social crisis.

Indeed, in \textit{Business Cycles} Schumpeter had presented a rigid, three-year schema: the forty-month Kitchin (or inventory cycle), the 8-10 year Juglar (or normal investment cycle), and the 50-60-year Kondratieff (or technological cycle), with three Kitchins for every Juglar.
and six Juglars for every Kondratieff. All of this of course was sup­posed to be determined by the innovating activity of the entrepreneur — particularly in the case of the long cycle. But the entrepreneur was dying out, and whatever validity Schumpeter’s three-cycle schema may have had in the past, one might reasonably presume that it would inevitably perish as well. Lacking its sociological prime mover, the capitalist economic system would simply decay.53

Viewed in its entirety, Schumpeter’s vast intellectual output was an attempt, first and foremost, to stand Marx on his head — both historically and methodologically. He tried, in effect, to reverse Marx’s rough metaphor of base and superstructure, arguing that behind capitalism as a class economy lay the spontaneous initiatives of a supernormal group of enterprising individuals, with no claim to society’s proceeds other than that which arose from their own will and action.54 With the rise of the giant corporation, however, Schumpeter’s model became less and less relevant. On the one hand, Marx’s straightforward emphasis on the self-expanding character of capital, as an organic tendency of the system as a whole rather than simply a by-product of isolated genius and courage, became more meaningful in the age of trustified capitalism — even as Schumpeter’s model became less so.55 On the other hand, Marx’s inclination to see economic crises primarily in terms of capital’s tendency to create barriers to its own self-expansion, has generally proven to be a more durable approach than Schumpeter’s direct emphasis on the ups and downs in the process of creative destruction (successive industrial revolutions) caused by the clustering of entrepreneurial innovations.

Although seldom noted in so many words, it is a normal aspect of accumulation in capitalist societies that many of the larger social and economic consequences occur, as it were, behind the backs of the main actors. Any form of “class reductionism” is therefore ill-advised, particularly where the concern is with a presumed functional élite rather than a class as such. Hence, the Schumpeterian emphasis on personality traits as the spontaneous driving force of history appears myopic (and in our time historically naive) when compared to the Marxian treatment of capitalism as an ultimately irreducible but contradictory social entity, with its own distinct laws of motion (or historical logic), passing through stages of accumulation and class struggle toward periods of decisive social transformation. It is scarcely surprising, therefore, that while capitalism has long since passed beyond Schumpeter’s fundamental vision, it still remains within that of Marx.
Schumpeter's Significance for Socialist Theory

If the entrepreneurial order as such has passed away, the broad issue of entrepreneurship and innovation still remains, and this in itself accounts for Schumpeter's enduring influence. His thoughts on the general question of development and decline in the capitalist core have been utilized in various ways to account for problems of arrested development in the Third World and elsewhere (including Canada). Moreover, his contribution to the stagnation debate of the 1930s (particularly in the area of long-wave theory) has gained renewed importance, under current conditions of sluggish growth and high unemployment, in a growing body of literature concerned with the secular trend of the mature economies.

Dependency Theory

Schumpeter himself had little to say about the question of underdevelopment. Indeed, it would not be an exaggeration to state that the whole issue of development in the third world lay outside the purview of mainstream economics until the early post-World War II era. But the simplest construction that could be given to his general approach to development, if applied in this context, was immediately obvious. After a detailed discussion of Schumpeter's theory of economic evolution, Oliver Fox raised an important objection:

This is, manifestly, an exciting picture of capitalism. If it is valid, we should expect that any people on earth may imitate capitalism, and thereby attain the fabulous economic heights of leader capitalist nations — the critical need being only a liberal supply of entrepreneurial leadership. In any backward and static economy, may "see the figure of the entrepreneur . . . stepping in from outside the existing industrial organism to upset the equilibrium, to induce imitation, and to enforce adaptation, thereby creating new demand and new economic space for further ventures." It seems to me, however, that had capitalism been this sort of orthogenetic economy, it would never be today facing any problem of survival. Has our population failed to breed a large enough quota of competent entrepreneurs?

And yet, seemingly immune to all such criticisms, the new school of liberal development theory had already begun to utilize the idea of "the missing entrepreneur" as one of the major components of its analysis of Third World problems. Citing the noted examples of Yale Brozen, Moses Abramovitz and Arthur Cole, Paul Baran pointed out in Political Economy of Growth (1957) that it is all too common to hear "the lamentation bewailing the lack of 'entrepreneurial talent' in the underdeveloped countries,"

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the ample supply of which purportedly must be credited with the economic development of the Western countries. Inspired by the work of Weber and Schumpeter — both of whom, incidentally, stand miles above such platitudes — economists identified with this view stress the crucial role played by "the creative entrepreneur" in promoting economic progress.  

Baron argued further that if this general type of analysis, focusing on the absence of independent entrepreneurs, was not to be reduced to a simple truism — there is no industrial capitalism because there is no industrial bourgeoisie, and vice versa — it had to be based on one of two propositions: either it was purely pathological, or it was due to the formation of monopolistic positions of one kind or another. For Baran, the very idea that the presumed economic failures of a given underdeveloped country could be traced to a supposed lack of entrepreneurial talent, or to the wasting away of such talent as existed through a psychosomatic preference for unproductive forms of utilizing the available economic surplus, quite clearly contained strong, voluntaristic, nationalistic and even "racist overtones." But to attribute entrepreneurial backwardness to the formation of monopolistic positions was effectively to undercut the whole issue of the absent entrepreneur and to raise in its stead the problem of accumulation and class:

It is in the existence of these monopolistic positions [Baran wrote], as well as of all the other relations previously discussed [such as the utilization of potential economic surplus], that one has to look for an explanation of the slowness or absence of industrial growth in underdeveloped countries, rather than in sterile speculations of "inherent lethargy," "preference for the maintenance of family concerns," and "lack of enterprise" supposedly characteristic in backward countries.  

It is quite possible that Schumpeter, who was nobody's ideologue, would have agreed after a fashion. Faced with the question of imperialized economies grossly distorted by monopolistic practices, he might well have stressed the inapplicability of his framework. Certainly, the model of a plausible entrepreneurial order — as his theory of social breakdown indicates — was never meant to pertain to societies in which serious (non-fleeting) intrusions by corporate monopolies, powerful class factions and the state were commonplace. In any case, Baran's argument is of interest because it gives us some clue as to the method he himself employed in *Political Economy of Growth* (1957), out of which the neo-Marxian dependency theory arose. Baran's refutation of the missing entrepreneur thesis was the
second of three "corollaries" affixed to the end of his argument, in which he called into question the three main components of liberal development theory. Moreover, it is possible to see his entire "morphology of backwardness" as an attempt to provide a thoroughgoing critique of the basic axioms making up the liberal viewpoint. Thus he replaced the idea of a "capital shortage" (and the need for capital diffusion) with his analysis of class-based accumulation and imperial dependency, rooted in the concept of economic surplus; the notion of entrepreneurial backwardness with that of a class alliance between "wealthy compradors, powerful monopolists . . . large landowners" and international capital; and the Malthusian spectre of "overpopulation in relation to subsistence" with the more realistic view of "overpopulation in relation to employment" (pointing to the dire necessity of material betterment — though obtainable only at the cost of social revolution). Still, it is important to understand that Baran's "morphology" was not simply a rejection of liberal categories; in every case he took the analysis to a deeper, more complex level. Deriving his conceptual framework from Marxian notions of necessary and surplus labour, Baran emphasized the dialectical relationship between the production, appropriation and utilization of the economic surplus in underdeveloped countries, on one hand, and bonds of dependency externally imposed on these countries, on the other. And out of this complex interaction between overexploitation and late imperialism arose the historical imperative of socialist transformation in these countries.

However, Andre Gunder Frank and subsequent dependency theorists, who gave concrete meaning to Baran's analysis by placing it in specific historical settings, concentrated almost exclusively on the second and third aspects of his dialectic, strangely de-emphasizing the first. Dependency theory itself became associated with a one-sided, outward-looking perspective that ignored most of the root conditions of accumulation and class. Indeed, the entire question of class analysis was basically reduced to one of competing élites, perceived in terms of different functional characteristics, and therefore often couched in an almost "Schumpeterian" vein. Related to this was the well-known static character of certain early versions of dependency theory. Having detached Baran's analysis of class fractions from its logical roots in the underlying accumulation process, there remained only a Schumpeterian-like view of suppressed industrial entrepreneurship (together with the net outflow of surplus to the metropole) as the unchanging economic context in the periphery. Worse still, the all too frequent failure to appreciate the conceptual basis of Baran's theory of accumulation meant that the main point
of "the political economy of growth" — the very real possibility of substantial economic progress in a post-revolutionary society — was often lost.\textsuperscript{64}

\textbf{Canadian Political Economy}

Recently, Leo Panitch has argued that many of these same problems have cropped up in a new Canadian political economy, "the intellectual messiness" of which he ascribes to a rather indiscriminate mixing of Schumpeterian and Marxian methodologies.\textsuperscript{65} There can be no question about the fact that Schumpeter has been an important influence on theorists working within the Canadian dependency tradition. As Panitch indicates, this is particularly evident in the pathbreaking work of Kari Levitt and Tom Naylor. But it can also be seen, to some extent, in the contributions of such important theorists as Wallace Clement and Mel Watkins.\textsuperscript{66} In Naylor's case, "the bourgeoisie as a class" can be viewed in terms of "five major and somewhat contradictory economic functions": (1) "the omnipresent manager"; (2) "the rentier" pure and simple; (3) "the capitalist per se"; (4) "the industrial entrepreneur"; and (5) "the mercantile-financial entrepreneur." "The greatest contradiction," we are told, occurs between the industrial entrepreneur and the mercantile-financial entrepreneur, representing as they do the conflict between production and circulation.\textsuperscript{67} This method has much in common with the approach of Schumpeter (whom Naylor cites in this context) in that a dominant class is seen as being composed of various more or less functional élites, one of which plays the active, creative (and, for Schumpeter, class-defining) role. In the theoretical framework at hand, Canadian business history is largely a story of the continuing dominance of mercantile-financial interests (reinforced by alliances with outside capital) over the indigenous industrial entrepreneur: the evolution of staples production, the swamping of domestic industrialization, the resulting branch-plant status, the net export of economic surplus, the relative strength of financial capital — in short, all the contradictions of a "rich dependency" — are viewed in terms of this fundamental class-fractional conflict, rooted in conditions of colonialism and imperialism.\textsuperscript{68}

From this standpoint, Panitch's emphasis on the Schumpeterian thrust of the new Canadian political economy appears to be justified. Schumpeter's method, as Paul Sweezy has pointed out, involved the explanation of economic change in terms of "a special sociological type" (the entrepreneur).\textsuperscript{69} In doing so, Schumpeter was able to provide a more simple and straightforward theory of socio-economic evolution than Marx had — a fact of which Schumpeter was no doubt
As one observer has noted:

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*.

For Schumpeter, most of Marx's analysis of capital accumulation (and development), being rooted in an antagonistic class structure, was simply extraneous, and could be easily replaced by the introduction of the entrepreneur as a "*deus cum machina* — autonomous and inexplicable." The important social conflict occurred at the level of élites, with the entrepreneur — the last of the heroic functionaries, succumbing in the end to a faceless managerial stratum.

As seems to be true of much of the dependency tradition after Baran, the new Canadian political economy's early successes, which might be traced to the fact that it bypassed much of the problem of accumulation and class by focusing directly on the existence or non-existence of an autonomous industrial bourgeoisie (or indigenous entrepreneurial element), has been followed by an inability to make further theoretical inroads, due to the inherent failings of this very same method. The issue, as Panitch correctly points out, is not one of theoretical "contamination" — quite the contrary, since a continuing critical reappraisal of thinkers like Smith, Ricardo, Veblen, Schumpeter, Keynes and Innis has enormously enhanced the power and scope of neo-Marxian analysis — but rather one of class dialectics. In this sense, dependency theory in general, and the new Canadian political economy in particular, are only now showing signs of coming of age.

**Schumpeter and Sweezy**

If the contrast between Schumpeteran and Marxian methodologies cuts to the heart of the major developmental controversies of our time, Schumpeter's actual historical assessment has remained a pivotal point of reference for the neo-Marxian theory of maturity and stagnation. This issue has recently been raised in a dramatic fashion by John Elliott, in a very misguided statement on the importance that Schumpeter has assumed in the work of Paul Sweezy (Schumpeter's close friend, assistant and younger colleague at Harvard) and Paul Baran:

Although Sweezy objects to Schumpeter's notion of the entrepreneur (rather than capital accumulation) as the *primum mobile* of change,
he strongly agrees with Schumpeter's conception of innovation as a "central feature of economic development," and incorporates innovation as an important component of Marxian analysis. Indeed, the analysis of monopoly capitalism, by Sweezy and Paul Baran, rests upon the perceived innovational pressures of large firms under a kind of Schumpeterian "trustified capitalism," pushing down production costs, thereby substituting a "law of rising surplus" for Marx's original notion of a "law of the falling rate of profit" under capitalism.75

This presents problems on several levels. There can be little doubt that Elliott's statement in itself conveys a false impression. As Schumpeter was the first to admit, Marx's notion of "the incessant revolutionization of the means of production" was the intellectual forerunner of his own concept of innovation — differing only with respect to the motive force behind the technological change — and hence it makes little sense to see major Marxian theorists like Sweezy and Baran as followers of Schumpeter in their emphasis on the centrality of this factor. A similar point, of course, could be made with respect to the concept of "trustified capitalism,"76 while the very notion of "the tendency of the surplus to rise" could only be maintained through a direct refutation of Schumpeter's purely economic argument with respect to innovations and monopolies.

Still, all of this merely suggests that at a deeper, more complex level there is a dialectical interconnection between the ideas of Schumpeter, on one hand, and Baran and Sweezy, on the other. Sweezy has never hesitated to point out that his "theory of capitalist development" owned much "indirectly" to Schumpeter.77 More importantly, Baran and Sweezy's Monopoly Capital can be described, fairly accurately, as a critique of Keynes and Schumpeter from the standpoint of Marx and Kalecki.

Monopoly Capital was written with an eye to Schumpeter in three important respects. The first, and least significant, of these had to do with the critical attention that Baran and Sweezy gave to the thesis that the "behavioural" characteristics of the system had undergone a fundamental change, due to factors like separation of ownership from management, the gradual decline of the entrepreneur, and the growing "soulfullness" of the corporation — all of which were supposed to add up to the unavoidable conclusion that the capitalist class and the search for maximum profits had lost much of their former meaning. This broad idea, developed in various forms, and to increasing degrees of absurdity, in the works of Adolf Berle and Gardner Means, Schumpeter, Carl Kaysen, Herbert Simon, etc., was called into question by Baran and Sweezy on the grounds that corporate managers represented if anything, a purer form of capital than
had existed hitherto — if judged in terms of "the logic of profit-making." Although Baran and Sweezy agreed that Schumpeter's entrepreneur had passed away, the giant corporation was basically "an engine for maximizing profits and accumulating capital."

In advancing the Kaleckian notion of widening profit margins under monopoly capitalism, it was necessary to confront Schumpeter more directly. In defence of the idea that the monopolistic profits associated with large firms were simply transitory, Schumpeter had written:

But in capitalist reality as distinct from its textbook picture, it is not that kind of competition [price competition] that counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance) — competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives. This kind of competition is as much more effective than the other as a bombardment is in comparison with forcing a door, and so much more important that it becomes a matter of comparative indifference whether competition in the ordinary sense functions more or less promptly; the powerful lever that in the long run expands output and brings down prices is in any case made of other stuff.

All well and fine, in terms of pure economic logic. But in replying, Baran and Sweezy were able to use Schumpeter's own analysis of the changing economic sociology of the system:

There was undoubtedly something to be said for this theory when it was first formulated in the early years of the twentieth century. Emergent giant corporations — what Schumpeter calls "the largest-scale unit of control" — were in fact knocking the foundations out from under their smaller competitors and often expanding output and bringing down prices in the process. But in the highly developed monopoly capitalism of today such phenomena are of marginal importance. Once the "largest-scale unit of control" has taken over, "the new commodity, the new technology, the new source of supply, the new type of organization" all tend to be monopolized by a handful of giant corporations which behave toward each other in the manner which Schumpeter himself characterized as "corespective." These corespectors, as he well knew, are not in the habit of threatening each other's foundations or lives — or even profit margins. The kind of non-price competition which they do engage in are in no sense incompatible with the permanence of monopoly profits and their steady increase over time.

Schumpeter had argued that large-scale enterprises were technically more efficient with respect to innovations than small firms. But he
also believed that the innovational dynamic of the system was threatened by the gradual demise of the entrepreneur. Baran and Sweezy argued more directly that monopoly capital would be slower in implementing new innovations. Moreover, they sided with Hansen in their contention that innovations, in a mature monopolistic economy, were increasingly capital-saving as well as labour-saving, thus intensifying the overall problem of surplus absorption. When coupled with monopoly capital’s tendency to slow down and carefully regulate the growth of productive capacity, this meant that stagnation (or in low growth and high underemployment) was the normal state of the economy.

It is precisely at this point, however, that Schumpeter’s work takes on a fundamental importance for the neo-Marxian theory of secular stagnation. While theorists like Kalecki, Steindl, Baran and Sweezy argued that capital formation would stagnate due to the pattern of monopolistic accumulation, this ran up against the problem (symbolized, above all, by the work of Schumpeter) that the stimulus to invest over the long-run was partly independent of the normal process of income generation, and hence not altogether subject to economic logic in the usual sense. For Schumpeter, of course, it was almost entirely dependent on the “exogenous” factor of major innovations. In the famous debate of the 1930s, recounted above, Hansen and Schumpeter had stepped outside of the conventional realm of economic theory to deal with this much wider historical question of investment demand over the long-run. Hansen’s explanation of stagnation, which Schumpeter labelled “the theory of vanishing investment opportunities,” argued that the basic Keynesian dilemma was made much worse by a state of industrial maturity (the shift from a capital-poor to a capital-rich society), though this part of his analysis remained undeveloped and he rested his case very heavily on such factors as the declining rate of population growth, the closing of the frontier, and the tendency to develop innovations of a less capital-absorbing nature. Schumpeter himself contended that stagnation was a product of anti-business politics in the context of a downturn in the “Kondratieff” (or the presumed 50-60-year technological cycle) — with the fading away of the entrepreneur somewhere in the background.

What Hansen was to classify as a third major approach to the question of stagnation (standing beside his own and Schumpeter’s) appeared in the form of Josef Steindl’s *Maturity and Stagnation in American Capitalism* (1952), a study grounded in Kalecki’s version of “the general theory.” Steindl tries to construct a largely “endogenous” theory of long-run investment (to some extent going
beyond Kalecki in this respect) in terms of the laws of motion of monopoly capital.\textsuperscript{83} It was possible to account for the problem of maturity and stagnation, he suggested, without being forced (like Hansen and Schumpeter) to take “the explanation . . . back to certain events like technological change which remain unexplained.”\textsuperscript{84} Not only Hansen, but Paul Sweezy as well, questioned this aspect of Steindl’s argument, contending that there were, in Sweezy’s words, “many factors that escaped his analytical net,” as a result of his attempt to exclude many of the so-called “exogenous” matters. The most important of these missing considerations, in Sweezy’s view, was the relative impact attributable to “new industries as outlets for accumulation,” as the system evolved from one phase to another. For Sweezy, the challenge was to see “the logic of the economic system” in terms that would incorporate all of the crucial historical data “shaping the trend of accumulation.”\textsuperscript{85}

Standing Schumpeter on his head, Steindl had argued that “innovations . . . affect only the form which net investment takes. Technological innovations accompany the process of investment like a shadow, they do not act on it as a propelling force.”\textsuperscript{86} In \textit{Political Economy of Growth}, Baran came out strongly in favour of this formulation. Although acknowledging that Kalecki might well be right in suggesting that scientific management had an effect in decreasing the rate of heavy investment, and that Sweezy certainly had a point (in his review of Steindl’s book) in stressing “the extraordinary importance of railroads in providing an outlet for investment in the second half of the nineteenth century,” all of this tended “to put the cart before the horse.”\textsuperscript{87} But Baran was unsatisfied with his own argument here, later indicating that

although I still believe in the soundness of Steindl’s contention, to which I subscribed, that technological progress and innovation are a function of investment rather than vice versa, I have devoted insufficient space to the undeniable dialectical interaction of the two processes.\textsuperscript{88}

The same could not be said of \textit{Monopoly Capital}, where Baran and Sweezy laboured at some length to deal with the problem of innovations as an “exogenous” investment outlet. They did this (once again with an eye to Schumpeter) by dividing the issue into two parts. The first dealt with “what may be called ‘normal’ technological innovations, the kind of new methods and new products . . . which have been forthcoming in a steady stream throughout the capitalist period.”\textsuperscript{89} Hence it could be rightly said, in conformity with Steindl’s argument, that the implementation of new innovations was slowed down and controlled by monopoly capital in such a way that the basic
contradiction of overaccumulation was only intensified.

In contrast, what Baran and Sweezy were to refer to as "epoch-making innovations" — that is, "those innovations which shake up the entire pattern of the economy and hence create vast investment outlets in addition to the capital which they directly absorb" — were introduced (along with wars and their aftermaths) as countervailing factors to "the depressive effects" of monopoly capital. Arguing in a manner that closely resembles much of Schumpeter's own discussion of major technological waves in *Business Cycles* (though shorn of his three-cycle schema), they focused on the role of the steam engine, the railroad and the automobile as epoch-making innovations in their sense. Involving massive shifts in the composition of output, the location of economic activity and the absorption of the surplus, these innovations clearly stood "in a class by themselves." 90 Convinced by the arguments of Baran, Sweezy and Kalecki in this regard, Steindl was to concede that a theory of "the secular decline of accumulation" under monopoly capitalism had to incorporate explicitly the question of long technological waves as a secondary historical factor. 91

Since the appearance of *Four Lectures on Marxism* by Paul Sweezy in 1981, the editors of the *Monthly Review* have shifted the emphasis of the neo-Marxian theory of secular stagnation toward many of the wider historical issues raised by Hansen and Schumpeter. Thus Paul Sweezy and Harry Magdoff have recently reformulated the question of "industrial maturity" in Marxian terms, giving a more rigorous expression to the long-run concerns of Keynes and Hansen, and situating the issue of monopolistic accumulation within the larger "climacteric" separating the youthful days of capitalism from its middle ages. 92 This has necessarily gone hand in hand with a reappraisal of Schumpeter's long-cycle perspective, which, with the re-emergence of stagnation, has attracted attention from economists of all persuasions. Although there is no doubt about the empirical existence of the long-wave phenomenon in general (in the sense of uneven trends of capitalist development), there is, according to Sweezy, no analytical "proof" of a *cyclical* mechanism of the kind that can be deduced for Schumpeter's Kitchin and Juglar cycles. While the forces inducing any long-wave upturn (epoch-making in innovations, wars, etc.) will necessarily exhaust themselves over time, there is no basis for assuming that a long-wave downturn will in itself "generate any 'forces of reversal'." Moreover,

if and when such factors do emerge, they originate not in the internal logic of the economy but in the larger historical context within which
the economy functions. It was the Second World War that brought the stagnation of the 1930s to an end. We still do not know what will bring the stagnation of the 1970s and 1980s to an end — or what kind of end it will be.93

Within the theoretical limitations imposed by such observations, Sweezy and Magdoff, like numerous other theorists on the left, have focused on the broad issue of long waves as a means of understanding the post-World War II era. According to this outlook, the fairly vigorous expansion during the twenty-five or so years after 1945 was the result of a number of concrete, historical contingencies: (1) the European recovery from the devastation inflicted by World War II, and the satisfaction of demand deferred during the war; (2) U.S. hegemony and the global role of the dollar; (3) a second great wave of automobilization (including the building of highways and growth in the glass, rubber and steel industries); (4) the building-up of basic productive capacity for a peace-time arms industry; (5) the Korean and Vietnamese wars; and (6) a vast expansion of the credit/debt structure, backed up by the inflationary financing of the state. All of these factors powering the long expansion were, however, essentially self-limiting in nature; and as they diminished in force, stagnation once again came to the fore — with no end yet in sight.94 Here the argument leads to the likelihood of another U.S. war — of one kind or another.

Conclusions

Of course the fact that long-wave analysis has gained a certain degree of respectability of late has nothing to do with this kind of argument and has everything to do with the imperatives of liberal ideology in a period of enduring economic stagnation. In this regard, it is the technologically based long cycle of Schumpeterian economics that is important. Out of their longing for a coherent anti-Keynesian ideology, conservative and middle-of-the-road economists have been increasingly drawn, in recent years, to Schumpeter. There they find much with which they can identify: his antipathy toward Keynesian “anti-savings ideology”; his abiding concern for capitalist initiative; his supply-side emphasis; his economic defence of monopolies; his criticism of government spending as a cure-all; his worries (unusual for the time) about the inflationary consequences of political capitalism; his insistence on the peaceful nature of capitalism; his interest in thoroughgoing corporatism as a conceivable (if temporary) solution to capitalism’s ills; along with his persistent belief in a long, reoccurring technological cycle as the fundamental explanation of
trends in capitalist development.\textsuperscript{95}

But Schumpeter is a double-edged sword — one more easily wielded, it seems, by the Left than the Right. Although it is clear that “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,” mainstream theorists still generally prefer to evade these questions whenever possible.\textsuperscript{96} By raising the issue of capitalism’s origins, development and decline, Schumpeter went beyond the self-imposed limitations of liberal discourse, ensuring, at the same time, that his analysis would be of little use overall for those who, as defenders of the status quo, must put ideology before science. Ironically, it is the Left that in the past has demonstrated the greatest willingness to come to terms with the Schumpeterian system as a whole.

Notes

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1. Joan Robinson and John Eatwell, \textit{An Introduction to Modern Economics} (London 1973), 46

2. Much of what is said in the second part of this paper about the significance of Schumpeter’s thought for dependency theory and Canadian political economy was directly inspired by Leo Panitch’s article, “Dependency and Class in Canadian Political Economy,” \textit{Studies in Political Economy} 6 (Autumn 1981), 7-33

3. Schumpeter introduced a useful distinction between “economic sociology” and “economics proper.” The former was concerned with the institutional framework of an economy; the latter with the “economic mechanisms” “within any given state of those institutions.” Schumpeter particularly admired the way in which Marx blended the two together into an “indivisible whole.” See Joseph A. Schumpeter, “The Communist Manifesto in Sociology and Economics,” \textit{Journal of Political Economy} 57:3 (June 1949), 203-4; idem, \textit{History of Economic Analysis} (New York 1954), 20-1; and John E. Elliott, “Introduction to the Transaction Edition,” in Joseph A. Schumpeter, \textit{The Theory of Economic Development} (New Brunswick, New Jersey 1983), xxx-xxxi. It is noteworthy that certain well-defined economic traditions, such as institutional economics in the American and Canadian political economies, have been concerned almost entirely with “economic sociology” in Schumpeter’s sense, devoting comparatively little attention to “economics proper” (or to the

4. Paul M. Sweezy, "Schumpeter on 'Imperialism and Social Classes'," in Schumpeter: Social Scientist, ed. Seymour Edwin Harris (Cambridge, Mass. 1957), 120. This essay was the original editor's introduction to the English translation of Imperialism and Social Classes.


6. Sweezy, The Present as History, 277. (See n. 5 above.)


8. Foster, "Theories of Capitalist Transformation," 328 (see n. 5 above); Khan, Schumpeter's Theory of Capitalist Development, 73-5, 97-9. As Khan indicates in these pages, Schumpeter's notion of entrepreneurial profits was equivalent to Marx's concept of "exceptional" profits — or short-term innovator's profits. Karl Marx, Capital (New York 1967), 1:407 (chap. 15, sec. 3). See also David Laibman, "Capitalism and Immanent Crisis: Broad Strokes for a Theoretical Method," Social Research 50:2 (Summer 1983), 361-9

9. See Joseph A. Schumpeter, Capitalism, Socialism and Democracy (New York 1950), 81-6. Schumpeter's use of the concept of "creative destruction" in this work was primarily "grist for the mill" in defending "monopolistic practices."

10. Schumpeter, Theory of Economic Development, 74-94. (See n. 7 above.)


12. Schumpeter, Theory of Economic Development, 132

13. Schumpeter, Essays, 170. (See n. 11 above.)

14. Ibid. See also his Capitalism, Socialism and Democracy, 167 (See n. 9 above).

15. Schumpeter, Theory of Economic Development, 74. In Schumpeter's theory, as with those of Marx, Hilferding, Veblen and Keynes, there is no trace of the separation of "real" and "monetary" realms of the
16. Sweezy, "Schumpeter on 'Imperialism and Social Classes'," 120. (See n. 4 above.)

17. It has seemed advisable to retain Schumpeter's terminology with respect to stratification. It should be noted, however, that there is very little to his theory that cannot be subsumed under the tools of analysis of elite theory as it has developed. His stratification theory does not associate "class" with the economic structure of society (much less with relations of production), as do most class theories. Nevertheless, it has been found convenient to retain Schumpeter's use of the term "class" in much of what follows because (1) it indicates that Schumpeter's conception related to a fairly cohesive social entity in which intermarriage among members and cultural autonomy flourished; and (2) it serves to distinguish his notion of class from the functional elite arising out of the division of labour and ability. This functional elite was the basis of the Schumpeterian class entity, but the latter was conceived as a "living organism," and unlike the warrior and the entrepreneur could not be understood simply in functional terms.


19. Ibid., 107

20. Ibid., 108

21. Ibid., 137. For Schumpeter's comments on Pareto's stratification theory see Joseph E. Schumpeter, Ten Great Economists: From Marx to Keynes (New York 1951), 137

22. Schumpeter, Ten Great Economists, 137

23. Schumpeter, Imperialism and Social Classes, 112. (See n. 18 above.)

24. Ibid., 142

25. Ibid., 150

26. From Schumpeter's standpoint, the former probably applies to the latifundian landowners of the Roman Empire. In relation to the latter case, Schumpeter clearly had the entrepreneur in mind.

27. Schumpeter, Capitalism, Socialism and Democracy, 147

28. Ibid., 127

29. Schumpeter, Theory of Economic Development, 85
30. Schumpeter, *Capitalism, Socialism and Democracy*, 219

31. Ibid., 134

32. Ibid., 139

33. Ibid., 237-8

34. Ibid., 145-50

35. Ibid., 157-60

36. Ibid., 142

37. Ibid., 141


39. Many have been puzzled by the fact that Schumpeter, a conservative, seemed fairly calm about the socialist prospect. One common explanation is the contention that his real allegiance was to a departed aristocratic order. Whatever the truth of that, it is important to recognize that he was quite willing to admit that socialism *could be* democratic, as long as it conformed to the principles of political entrepreneurship and preserved traditional democratic freedoms, which he thought unlikely under thoroughgoing, centrally planned, socialism. On the contemporary significance of Schumpeter’s democratic theory, see C.B. Macpherson, *The Life and Times of Liberal Democracy* (Oxford 1977), 77-92; see also Schumpeter, *Capitalism, Socialism and Democracy*, 284-302


41. Ibid., 298

42. Ibid.

43. Schumpeter, *Capitalism, Socialism and Democracy*, 419


46. See Anne Mayhew, "Schumpeterian Capitalism versus the 'Schumpeterian Thesis'," *Journal of Economic Issues* 14:2 (June 1980), 583-92

47. Schumpeter, *Ten Great Economists*, 283

48. Ibid. According to Kalecki, *The General Theory of Employment, Interest and Money* "can be roughly divided into two fundamental parts: (1) the determination of short period equilibrium with a given production apparatus, once the level of investment (per unit of time) is given; (2) the determination of the volume of investment." Needless to say, Keynes was far more successful with respect to the former than the latter. The long-run theory of investment remains the weak link in economic analysis, since it raises wider historical issues than economics in the ordinary sense is equipped to handle. Michal Kalecki, "Some Remarks on Keynes' Theory," *Australian Economic Papers* 21:39 (December 1982), 245, 251-3

49. See Schumpeter, *Ten Great Economists*, 283


51. Schumpeter, *Ten Great Economists*, 283-4


53. One of the implications of Schumpeter's three-cycle schema was that a particularly deep and protracted downturn, like the Great Depression, could be attributed to a coincidence in the phases of the various cycles. For a famous critique of "Schumpeter's Business Cycles" see Simon Kuznets, *Economic Change* (New York 1953), 105-24


55. See Paul M. Sweezy, *Modern Capitalism* (New York 1972), 31-2, 140-1

56. Schumpeter's essay, "The Sociology of Imperialism," was intended as a reply to Marxists like Otto Bauer and Rudolf Hilferding, and was meant to demonstrate that imperialism was essentially non-economic and non-capitalist in character. The whole argument followed logically from a very restrictive definition of imperialism as "the objectless disposition on the part of a state to unlimited forcible expansion." According to this definition, British colonialism was not a form of imperialism. Thus Schumpeter deftly avoided the issue of economic exploitation of the Third World. See Schumpeter, *Imperialism and Social Classes*, 6

57. The development literature that poured out from the late 1940s on was itself a product of historical imperatives. With the upsurge of national
liberation struggles in the aftermath of World War II, on the one hand, and the expansionary tendencies of the United States of America, on the other, it was only to be expected that U.S. economists would suddenly begin to create a new sub-discipline, designed to impart the dominant wisdom on the subject of economic development.

58. Oliver Cox, *Capitalism as a System* (New York 1964), 222

59. Baran, *Political Economy of Growth*, 234. (See n. 44 above.)

60. Ibid., 236

61. Ibid., 237n.

62. Ibid., 226-48

63. This argument is presented with considerable force in Victor D. Lippit, "The Concept of Surplus in Economic Development," Working Paper Series no. 65 (Department of Economics, University of California/Riverside, January 1983). It should be added that the versions of dependency theory that have evolved more recently within the *Monthly Review* tradition are generally of a higher order (closer to Baran's original position), and cannot be justifiably criticized on the grounds considered here. For a sense of how the theory has matured, see Richard Fagen, "Theories of Development: The Question of Class," *Monthly Review* 35:4 (September 1983), 13-24


65. Panitch, "Dependency and Class in Canadian Political Economy," 12. (See n. 2 above.)


68. Of course the contradictions of a rich dependency go beyond this, as Glen Williams, utilizing the insights of both Samir Amin (representing the more
sophisticated version of neo-Marxian dependency theory, and faithful to the essentials of Baran's analysis) and those of Arghiri Emmanuel, has partly demonstrated. See his article, "Canada: The Case of the Wealthiest Colony," *This Magazine* 10:1 (February-March 1976), 28-32. A full assessment of the Canadian impasse, however, would have to take account of the fact that Canada is also imperiled by the kind of contradictions besetting the United States; and while there is a clear understanding of the latter problem in the writings of Mel Watkins, Lukin Robinson, Cy Gonick and others, few attempts have been made to see the Canadian dilemma as a dialectical whole. It is somewhat ironical — though nonetheless understandable — that while the crisis that began in the 1970s has reinforced a tradition of neo-Marxian economics in the United States, concerned above all with the contradictions of overaccumulation, in Canada the radical political economy that grew up during the same years has remained almost exclusively within the dependency perspective, as if Canadian capital was not caught up in "the fate of Midas" as well!

69. Sweezy, *The Present as History*, 282

70. This is suggested by Schumpeter's various remarks on the breadth and unity of Marx's vision. See, for example, his *Capitalism, Socialism and Democracy*, 20; and his "The Communist Manifesto in Sociology and Economics," 203-4 (see n. 3 above).

71. Foster, "Theories of Capitalist Transformation," 328n.


73. Panitch, "Dependency and Class in Canadian Political Economy," 28

74. The friendship between Schumpeter and Sweezy has taken on an almost legendary quality in reminiscences from the period. John Kenneth Galbraith writes: "At Harvard Schumpeter was sought out principally by students who wished to dispute his views. His assistant in those years and his most admiring friend was Paul M. Sweezy, who was later to be the best-known of American Marxist scholars and, I might add, my own friend of a lifetime." In *A Life in Our Times* (Boston 1981), 50, Paul Samuelson recounts, as "one of the great happenings in my own lifetime," a debate between Schumpeter and Sweezy on the subject of secular stagnation — "the young Sir Galahad" versus "the foxy Merlin." See Paul A. Samuelson, "Schumpeter's Capitalism, Socialism and Democracy," in *Schumpeter's Vision*, ed. Arnold Heertje, 7-8. Heilbroner refers to Sweezy as "the protégé of the great Joseph Schumpeter," in his *Between Capitalism and Socialism* (New York 1970), 238. See also Sweezy, "Schumpeter on 'Imperialism and Social Classes'."

75. Elliott, "Introduction to the Transaction Edition," xl-xli, (See n. 3 above.)

76. Schumpeter knew Rudolf Hilferding and Otto Bauer from their student days together under Böhm-Bawerk. He later served as Austrian finance minister while Bauer was foreign minister in 1919. A concern with the
question of trusts, in connection with the writings of Hilferding and Bauer, can be seen as early as 1918 in Schumpeter's essay on imperialism. See Erich Schneider, *Joseph A. Schumpeter* (Lincoln, Nebraska 1975), 1-2, 26; Schumpeter, *Imperialism and Social Classes*, 79. There is ample reason to believe, therefore, that the fact that Schumpeter was the first orthodox economist to attempt seriously to incorporate the issue of trusts into his analysis (see his 1928 article, "The Instability of Capitalism," in *Essays*, 55-7) was partly due to his close acquaintance with Austro-Marxism.


79. Schumpeter, *Capitalism, Socialism and Democracy*, 84-5; as quoted in Baran and Sweezy, *Monopoly Capital*, 73 (see n. 78 above.)

80. Baran and Sweezy, *Monopoly Capital*, 73-4


83. Kalecki tended initially to see much of the problem in terms of a slowdown in innovations, as Paul Sweezy notes in *Modern Capitalism*, 84, 90 (see n. 55 above); see also Michal Kalecki, *Theories of Economic Dynamics* (New York 1965), 157-61


86. Steindl, *Maturity and Stagnation* 133, 235n. (see n. 84 above); as quoted in Baran, *Political Economy of Growth*, 70


88. Ibid., xxiv-xxv

89. Baran and Sweezy, *Monopoly Capital*, 91

90. Ibid., 222

91. Steindl, *Maturity and Stagnation*, xv-xvi

93. Sweezy, “Why Stagnation?” 9-10. In a letter to the author concerning the article cited here (dated June 1982), Paul Sweezy wrote: “Perhaps the importance of the distinction should have been spelled out more carefully: no one should complacently expect to be delivered from the trough of a long wave by the automatic mechanism of a non-existant long cycle.”


96. Foster, “Theories of Capitalist Transformation,” 331