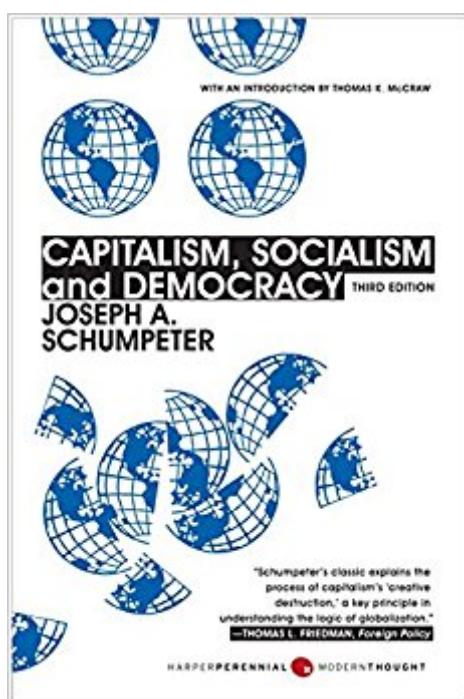


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# Capitalism, Socialism, And Democracy: Third Edition



## Synopsis

In this definitive third and final edition (1950) of his masterwork, Joseph A. Schumpeter introduced the world to the concept of "creative destruction," which forever altered how global economics is approached and perceived. Now featuring a new introduction by Schumpeter biographer Thomas K. McCraw, *Capitalism, Socialism and Democracy* is essential reading for anyone who seeks to understand where the world economy is headed.

## Book Information

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## Customer Reviews

"The 20th century's foremost economist." (Steve Forbes, *Forbes*) "The most influential economist of the 20th century." (Peter Drucker, *Fortune*) "The great economist Joseph Schumpeter highlighted the role of innovation in powering the rise of new industries, the creative destruction of existing ones, and the growth in prosperity of economies." (Richard Florida, *Atlantic*) "Schumpeter gave us stunning insights into how the world really works. We are now living, it is said, in the Age of Schumpeter. . . . Schumpeter was a powerful prophet, and he now offers dazzling insights into everything from the rise of Wal-Mart to prosperity's discontents." (Robert J. Samuelson, *Newsweek*) "The greatest defense of capitalist, European civilization ever penned. . . . Schumpeter did more than anyone to persuade American leaders to preserve the capitalist system." (American Conservative) "Schumpeter may well be the most important economist of the 21st century." (J. Bradford DeLong, *Chronicle of Higher*

Education)“Schumpeter was the most farsighted of twentieth-century economists. His focus on capitalism and creative destruction made him the prophet of globalization.” (The Nation)

Joseph A. Schumpeter (1883-1950) served as Austria’s first finance minister, made and lost a fortune as an investment banker, and taught economics for many years at Harvard. Capitalism, Socialism and Democracy is his best-known work.

The book was originally written during the Great Depression to offer a peek into the future as seen by a widely admired economist. It is heavy going, not light reading, but does provide an excellent analysis of the perils to democracy if capitalism and socialism fail to properly address economic problems. The author warns that government interference in the market place is not the correct answer. His most interesting thesis seems to me to be that unfettered capitalism will fail due to its very economic success because critics will fail to remember the basic tenets that led to that success. Schumpeter gives us a good look at recent U.S. economic history but critics will not like what he implies.

This book is a complex and systematic sociological discussion of the evolution of industrial economies in the pre-1945 era. It also includes a summary of Karl Marx’s theories, to help the reader follow the contrasts that Schumpeter draws between his observations and Marx’s. It concludes with a number of sections containing Schumpeter’s views on contemporary political economy from the perspective of the dates of the book’s three editions: 1942, 1947, and 1949. It’s written conversationally, with enough grace to draw the reader along in a complex argument sustained through a number of chapters. Nonetheless, the author’s self-indulgence also comes through: he pontificates and where he has nothing to say he says that a long book does not afford enough space to contain his argument. That’s okay, I wouldn’t have wanted it to be longer than it is. This style works when you’re right, and Schumpeter was magnificently right about one of those key facts that everyone can see instantly once attention is drawn to it: that the long-term growth that transforms living standards does not and cannot proceed by increasing the amounts of things produced, but instead must result from the introduction of new products and processes. Schumpeter connects product innovation with the efforts of individuals but concedes that it can be systematized also, which should have comforted him as he could see that the enterprise sector was becoming bureaucratized. Schumpeter’s second outstanding observation is surprisingly less often remarked: he laid out what later came to be called the “New Institutional Economics,” showing why taking into

account that private enterprise is essentially only semi-competitive, based on uniqueness of product innovation among other things, changes completely the normative evaluation of market structure and public policy. Mainstream economics taught Chamberlin-Robinson "monopolistic competition" as an oddity but otherwise ignored this point for decades, entertaining itself by re-doing outmoded Marshallian analysis using the mathematics of perfect gases. (I know this sounds strange, but you could look it up.) Schumpeter also has intriguing observations on democracy, although by not measuring his thoughts against his contemporaries' he doesn't help us see where he is contributing. He characterizes democracy as being essentially competitive rather than ethical, and in chapter XXIII he lays out five reasonable "Conditions for Success of the Democratic Method." One might wonder whether any of them obtain in the U.S. at present. It is on socialism where I and other readers feel he stumbles. His sarcasm about centralized, comprehensive socialist economic planning may be well founded in terms of feasibility, but it's unworthy rhetorically -- although the fact that economists went on trying to lay the bases of comprehensive planning (Lange-Lerner; Arrow-Debreu) may suggest that there was a reason for Schumpeter's frustration. Like his treatment of socialism, Schumpeter's supposed prediction of capitalism's demise is largely rhetorical. First, Schumpeter defines capitalism as what we might almost call "Robber Baron" capitalism, whose primordially entrepreneurial firms he indeed predicts (or post-dicts) will be socialized, but through the stock market rather than by Bolsheviks. Second, his argument about the end of private ownership in general is not a prediction but rather a provocation: a warning about what might happen if then-current trends persisted. With his concern about comprehensive public ownership, Schumpeter failed to take seriously the mixed economy. Since Schumpeter's time, technical economic analysis has helped identify the specific sectors, within a private-ownership economy, that may need "socializing" in some sense (think basic medical services), based on concepts like public goods and incentive compatibilities. Schumpeter missed that boat altogether.

Schumpeter is one of the better known economists in history. He is particularly famous for this book, *Capitalism, Socialism and Democracy*. Although he claims he does not advocate socialism or prophesize its inevitability (p. 416), he does make the case for why and how socialism may evolve from the current system according to its logic. The author mentions several times that laypeople do not have the "insight and power of analysis" (p. 144) necessary to understand the dynamics of institutional and economic processes. His audience is clearly one with a certain specialized knowledge. This book is not an easy read for everyone, though I do recommend skimming through the various sections at the very least if you have an interest in a very theoretical

critique of the relationship between capitalism, socialism and democracy, as the title suggests. I read this book for an education class on school finance, so I had that topic in mind when reading and would like to assess the book in the context of education and the potential implications of Schumpeter's ideas on the way we view education. One of the more interesting relevant points in the book is that in a capitalist society civilization "creates, educates and subsidizes a vested interest in social unrest" (p. 146). That education is thought of as necessary for a successful democratic society and for alleviating social unrest, I find it interesting that Schumpeter says society educates with a vested interest in social unrest.

Intellectuals are charged with the role of forming spearheads of class interests, so I am not clear how much of the unrest is intentional by key players like intellectuals, how much is endogenous to a capitalist system, and if the idea of education in a democratic society is overly romanticized when actually there is a greater force at play. Schumpeter covers class conflict a lot and the tensions between the bourgeoisie and the proletariat. I thought about the dynamics of this conflict in the context of education, trying to compare relationships within the education system to these societal relationships characteristic of the economic system. He talked about unions and guild socialism as one possibility in the U.S. As teachers unions have been among the most influential in U.S. history, I am curious if modern guild socialism is one possible future of education based on his logic and reasoning. He seems to suggest that capitalism will only remain stagnant with the help of the public sector. Schumpeter asserts capitalism will not continue earlier in his book (p. 61), but in the final section that was added later he clarifies it will only continue with intervention of the public sector. The author may have developed or changed his thinking from the first edition. However, I like the point he brings up about how bureaucratic apparatuses have always played a big role since feudal times, even if the form of bureaucracy looked different. People have proposed privatizing education or criticized the bureaucratic inefficiencies of school systems in the U.S.

Schumpeter's reasoning presents, if not defends, the logic behind bureaucracy in general. Schumpeter's book was an important contribution to economic and social theory from a certain perspective. Although it does not directly address education, I believe study of theory like this can contribute to education by giving readers a unique framework through which to view the evolution of education.

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