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CAPITALISM, SOCIALISM, AND IRONY: UNDERSTANDING SCHUMPETER IN CONTEXT

ABSTRACT: *The significance of the major claims of Joseph Schumpeter's best-known work,* Capitalism, Socialism and Democracy, *have often been misunderstood by readers unattuned to its ironic mode of presentation. The book reaffirms two themes that were central to Schumpeter's thought from its very beginning, namely the significance of creative and extraordinary individuals in social processes, and the resentment created by the innovations they introduce. The thesis that socialism would replace capitalism, but that it would bring about few of the advantages imagined by socialists and many disadvantages with which they had not reckoned, was an ironic proposition, which Schumpeter put forth in a manner designed to overcome intellectuals' dogmatic resistance to capitalism.*

Within recent years, three book-length biographical studies of Joseph Schumpeter have appeared.[1] A four-volume collection of secondary essays on Schumpeter's work has recently been published (Wood 1991) and a recent bibliographical volume lists over 1,900 secondary works on one or another aspect of his thought (Augello 1990). Several volumes of his previously uncollected essays have been published in the last decade, and more are on the way. Under these circumstances, to suggest that Schumpeter is "misunderstood" must seem

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counterintuitive, if not perverse. Yet when one examines these works one discovers the difficulties of appreciating and evaluating Schumpeter's *oeuvre*. Many of the secondary works on Schumpeter are skewed by the political and disciplinary commitments of his commentators. Two of the recent Schumpeter biographies treat him primarily as an economist; a third as a sociologist. Some secondary works on Schumpeter treat him as a herald of socialism, thereby distorting his intentions and message.[2]

It is as an analyst of the process of economic development in established capitalist societies that Schumpeter is best known, and it is among economists that he has had the largest audience. W. W. Rostow, himself a distinguished student of economic development, recently declared, "on balance, I regard Schumpeter as one of the most creative economists of the twentieth century and still underrated by mainstream economists" (Rostow 1990, 627n84). Yet a theory that emphasizes the intangibles of psychological types and cultural processes has proven unassimilable to a discipline that has been increasingly mathematized, and that takes as its dictum, "If you can't count it, it don't count."[3] Even worse, as Robert Heilbroner has noted, "the cutting edge of [Schumpeter's] insight was gained at the expense of the strict economic logic that gave such power to the visions of the classical [economists]" (Heilbroner 1986, 306.) It is Schumpeter's departure from "strict economic logic" in the explanation of economic and political phenomena that makes his work so stimulating, even as it renders him an outsider to the disciplines of economics and political science.[4]

Schumpeter's *Capitalism, Socialism and Democracy* was first published in 1942. At the time Schumpeter was a professor of economics at Harvard, where he had been a permanent member of the faculty for ten years. Schumpeter had been at work on the book since about 1935, but it includes many of the key ideas he had developed during the previous three decades. Writing in the midst of the deepest economic depression the United States had ever known, he argued that capitalism had been a great source of economic betterment for the mass of the population, and that despite the current downturn there were excellent reasons to believe that it was capable of continuing to alleviate material want. Although Schumpeter explicitly agrees with Marx's prediction that capitalism will be superseded by socialism, this is not because capitalism is economically inadequate, but because it creates social and cultural forces that lead to its demise. Thus, as

Schumpeter informs us in the original preface, "I have tried to show that a socialist form of society will inevitably emerge from an equally inevitable decomposition of capitalist society"—a proposition that, he notes, "is rapidly becoming the general opinion, even among conservatives." But he quickly goes on to note his "paradoxical conclusion: capitalism is being killed by its achievements" (Schumpeter 1942, ix–x).

The book's significance is complicated by the fact that much of it is written in the ironic mode, so that its "message" is at odds with its explicit thesis.[5] Though this will be obvious to most careful readers, it is a fact that has been missed by many, including a fair number of commentators who have classified Schumpeter as a socialist.[6] Tom Bottomore's introduction to the edition currently in print gives the reader no indication of the ironic quality of the work being introduced.

Why would anyone, especially a social scientist, write a book in the ironic mode? I hope to cast some light on the intended messages of the book by examining some of the ongoing motifs in Schumpeter's work, and the experiences that led him toward a strategic use of irony.[7]

Elites: Economic, Intellectual, and Political

Schumpeter was born in Moravia in 1883 in what was then the Austro-Hungarian empire, the scion of several generations of entrepreneurs. After the death of his father, his mother moved to Vienna, married an aristocratic army officer, and sent her only son to the prestigious *Theresianum*, where he rubbed shoulders with the cream of the empire's aristocracy and upper bourgeoisie. At the universities of Vienna and in Berlin, he studied history, sociology, economics, and law. In 1905–1906 he participated in a now-famous seminar on Marx's economics led by Eugen von Böhm-Bawerk; other participants included Ludwig von Mises, Otto Bauer, and Rudolf Hilferding. In 1906 Schumpeter studied with the great German economic historian, Gustav Schmoller, in Berlin. Then he made his way to the London School of Economics, where he encountered the ethnologist Alfred Cort Haddon; an interest in the work of the British eugenicists Francis Galton and Karl Pearson appears to stem from the same period. After graduating with a law degree from the University of

Vienna, Schumpeter moved to Cairo, where he became an associate of an Italian law firm, managed the money of an Egyptian princess, and made himself a fortune. In his spare time, he wrote a book on the nature of economic theory, which qualified him to teach in an Austrian university. In 1911, at the age of 28, he was appointed to a professorship in Czernowitz, in Bukovina, on the outer fringes of the Habsburg empire.

Two of the most pervasive themes of Schumpeter's *oeuvre* are Nietzschean. The first is the role of the superior few as a source of creativity; the second, the *ressentiment* of the many against the claims of the creative, and the stultifying effects of the resulting egalitarianism. These motifs run through Schumpeter's writings, from his earliest works through his posthumously published *History of Economic Analysis*.

A renewed emphasis on the role of elites was one of the most prominent features of European thought in the last decade of the nineteenth century and the first decades of the twentieth. The importance of elites had, of course, been a central theme of liberalism in the first half of the nineteenth century, leading to efforts to create legal conditions under which those of superior ability or creativity could rise and exert greater influence. But the spread of male suffrage in the last decades of the century and the new styles of mass politics to which it led; the growing electoral success of socialist parties; and the transformation of liberalism in a more egalitarian and collectivist direction produced, in response, a new focus on the need for elites and extraordinary individuals.

Nietzsche might be assigned the role of godfather to the new wave of elite theorists, not least because they borrowed so heavily from his analysis of the psychology of *ressentiment* in explaining contemporary socialism. In his *Genealogy of Morals* and elsewhere, Nietzsche had argued that modern liberal society was condemned to mediocrity because it had inherited the Christian ethic of meekness and humility. That ethic, he argued, was best understood as a doctrine that allowed the weak and inferior to devalue the strong, the creative, and the superior. Behind Nietzsche stood Carlyle, whose emphasis on the heroic personality Schumpeter (1954, 409–11) regarded as closer to his own economic sociology than utilitarian approaches to economics.

The theme of creative elites is adumbrated in explicitly Nietzschean terms in Schumpeter's first book, *Das Wesen und Hauptinhalte*

der Nationalökonomie, published in 1908. After 600 pages devoted to explicating the static functioning of capitalism, Schumpeter emphasizes the need to study its dynamic elements, including entrepreneurial profit; and the need to treat in a scientific fashion what is often referred to as "effort"—*Wille zur Macht* or *Herrenwillen* (Schumpeter 1908, 615, 618). The role of creative elites in the process of economic evolution was the subject of his second major work, the *Theory of Economic Development*, published in 1911, in which Schumpeter laid out his theory of entrepreneurship. He argued that the laws of supply and demand, which had been the focus of economics since the time of Adam Smith, missed the fundamental dynamic of capitalism, as did the more recent attention paid to static equilibrium by Léon Walras. Capitalism needed to be understood in terms of its dynamic transformation, Schumpeter argued, and the source of that dynamism lay in the entrepreneur, a figure who had been rather neglected in nineteenth-century economic thought (though less so in the German tradition of *Nationalökonomie)*.[8]

Schumpeter distinguished the entrepreneur from the owner of capital, from the inventor, and from the manager. The function of the entrepreneur, in Schumpeter's theory, is to introduce economic innovation. Innovation can mean introducing new commodities or qualitatively better versions of existing ones; finding new markets, new methods of production and distribution, or new sources of production for existing commodities; or introducing new forms of economic organization.[9] The role of the entrepreneur was to break out of the routine of habitual economic life, and this required a rare mental creativity and energy (Schumpeter 1912, 86). It required *der Schöpferkraft und Herrschgewalt des Führers* (ibid., 304), a phrase that appears in the English translation of 1934 as "the creative power of a leader" (Schumpeter 1934, 147). Among the entrepreneurial innovations Schumpeter emphasized was the creation of large firms in industries that had never known such organization, leading to a more efficient utilization of the factors of production. This, he noted, was a difficult task requiring special talents, since considerable social and political resistance had to be overcome (Schumpeter 1912, 133).

For Schumpeter, the entrepreneur not only fulfilled an economic function, he represented a psychological type. This type could not be explained with reference to any hedonic calculus: it included "the dream to found a private kingdom," often a transgenerational dynasty; the will to prove oneself superior to others, for which fi-

nancial gain is "mainly valued as an index of success and as a symptom of victory"; and "the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity."[10] It is precisely the nonutilitarian elements of capitalist activity that Schumpeter sought to capture. As he later put it, in explaining the dynamics of capitalist development "utilitarianism can only be described as a complete failure since its rationalistic conception of individual behavior and of social institutions is obviously and radically wrong" (Schumpeter 1954, 409). Schumpeter also thought Adam Smith had been misled by egalitarian assumptions into underestimating the role of superior individuals.[11]

Even today, the radicalism of Schumpeter's analysis is startling The real—and only—long-term source of profit in the capitalist economy, he asserts, is the entrepreneur. Scientific discovery, often treated as an independent source of economic growth, is in fact a product of the process of economic growth, and it contributes to economic growth only through the activity of entrepreneurs.[12] It is the entrepreneur who is central to the organization of production, and his function is based on his personality (Schumpeter 1912, 529). As for the relative role of material factors and capital accumulation, Schumpeter asserted that even if all but the natural means of production vanished—as in the case of a lost war or a disaster—the economy would quickly be revived if its organization survived, together with the hierarchy that allowed those with the entrepreneurial traits of psychic energy and disposition to action to remain in control (ibid., 530–31).

Schumpeter (1912, 542–45) maintained that the process of innovation he had described could be applied to other areas of life as well. The distinction between leaders and led—between those who essentially continue in the given way of doing things, and those who see the new and change the inherited frameworks of activity—held for every area of life, not just the economy. Indeed, it could form the basis of an empirical philosophy of history (ibid., 548). The significance of differences in individual talent and energy would remain a *Leitmotif* of his subsequent work.[13] Time and again he returned to the theme of leadership, in the sense of "practical initiative," as essential to understanding not only economic development, but development in the arts, sciences, and politics.[14]

Indeed, in a lecture of 1910, Schumpeter emphasized the need for social scientists to be able to empathize with those above them on the

social scale—a process, he noted, that was more difficult than empathizing with those below one's own station. Most social scientists, who tended to be of middle-class status, had few problems sympathizing and empathizing with the working class. But when it came to the study of economic elites, they were more prone to engage in moralistic condemnation than in empathetic comprehension (Schumpeter 1915, 21–22). Schumpeter clearly saw his work as an antidote to this propensity.

From the beginning, then, Schumpeter considered the role of a creative elite in social evolution to be a general problem, the implications of which he would explore in economics and then elsewhere.[15] In the prewar years he lectured on social class at Czernowitz, and then again as a visiting professor at Columbia University in 1913–1914. The upshot of this inquiry was published in 1927 as "Social Classes in an Ethnically Homogeneous Environment." Here Schumpeter insisted on the importance of "aptitude"—both aptitude that is inherited genetically, and that acquired from existing familial class position—in explaining social stratification (Schumpeter 1927, 273–77).

Schumpeter would emphasize once again the centrality of elites in the section on "Democracy" in *Capitalism, Socialism and Democracy*, where he argued that the rationalist and egalitarian prejudices of democratic political theory cloud the social-scientific explanation of how democracies actually function. Just as he argued that economic theory misconstrues reality when it treats the entrepreneur as reacting to consumer demand, rather than as *creating* wants previously unknown to consumers through advertising and the marketing of new products, so, he argued, political theory is fallacious when it portrays political decisions as welling up from rational and well-informed voters. The problem with this explanation, he thought, is not the absence of information available to voters: it was the lack of incentive for most voters to acquire the necessary facts, the unlikelihood that most of them would have the skills needed to evaluate the policy ramifications of the available information, the low personal cost of allowing voting to be guided by irrational sentiments rather than well-considered judgments, and the absence of readily interpretable feedback to determine which policies accomplished their ends and which did not. It is far more realistic, he argued, to conceive of democracy as a competition for votes among elites, who set the terms of debate and make the ultimate decisions.[16]

The Revolt of the Masses

The second Nietzschean theme running through Schumpeter's work is that of *ressentiment*, the psychological antipathy of the inferior many toward the superior few, which leads the masses to seek devalue the achievements of the creative and successful.[17] This theme appears in Schumpeter's work at least as early as his *Theory of Economic Development* of 1911, in which he launches his claim that anti-entrepreneurial sentiment is inherent in capitalist society. The dynamism injected into capitalist society by the entrepreneur makes him a perennial object of abuse, Schumpeter argued. The rise of new entrepreneurs, and with them, new means of production and organization, necessarily means the relative decline of the economic position of those ensconced in the status quo, from farmers and artisans to the beneficiaries of earlier stages of capitalist innovation, who disdain the innovative entrepreneur as a *parvenu*. The process of downward relative social mobility, Schumpeter stressed, was an inevitable counterpart of the dynamic side of capitalism, which he would later call "creative destruction" (Schumpeter 1912, 534ff.). Very early, then, Schumpeter began to agree with Marxist theses, though for quite un-Marxist reasons. Like Marx, Schumpeter argued that capitalism creates its own opposition. But this opposition arises not because of material impoverishment, but because of the psychological resentment created by entrepreneurial dynamism.[18]

Similar processes explain, for Schumpeter, the appeal of socialism. Two decades ago, Carl Schorske (1980) confined his analysis of irrationalism in late nineteenth-century European politics to nationalism, Zionism, and anti-Semitism, all of which he grouped under the rubric of "politics in a new key." Schorske's thesis reflects his assumption that Marxism was a rationalistic legacy of the Enlightenment, and that the failure of socialism can be explained by the irrational appeal of opposing movements.[19] Yet the view of the major social theorists of the early twentieth century was quite different. To Vilfredo Pareto and Gustave Le Bon, for instance, the central mass irrationalist movement of the day was not so much radical nationalism as socialism. Himself a distinguished liberal economist, Pareto regarded socialism as economically irrational, so he sought to explain why it was nonetheless attractive to both the working-class masses and bourgeois intellectuals.

Pareto, whose work Schumpeter much admired, was perhaps the

best-known turn-of-the-century elite theorist.[20] Pareto's essay of 1901 on "The Rise and Fall of Elites" conveys two themes to which Schumpeter would return time and again: the inexorability of elites, and the importance of nonrational and nonlogical drives in the explanation of social action. Like Schumpeter too, Pareto suggested that the victory of socialism was "most probable and almost inevitable." As in the case of Christianity, however, the doctrine would triumph, while the reality of elites would not change (Pareto 1991, 39–40). It was almost impossible to convince socialists of the fallacy of their doctrine, Pareto suggested, since they were enthusiasts of a substitute religion. In such circumstances, he contended, arguments are invented to justify actions which have been arrived at a priori (Pareto 1991, 50). The refutation of Marxist theory had not harmed socialist faith at all, since "it was not the book by Marx which has created the socialists; it is the socialists who have made Marx's book famous" (Pareto 1991, 100).

For Schumpeter, explaining the appeal of socialism was a life-long subject of interest.[21] Paraphrasing Hobbes, who (referring to the fact that his mother gave birth to him prematurely, out of shock at the approach of the Spanish Armada) famously said that he and fear were born twins, one might say that socialism and Schumpeter were born twins. He began his intellectual life at a time when the socialist parties of Austria and Germany were on the rise. As we will see, it was the threat of imminent socialization of the economy that led him to develop his ironic strategy of persuasion, and it was the fear of socialism that led him to pen his most lasting work, *Capitalism, Socialism and Democracy*. Very early on in his intellectual career he was in close contact with the most distinguished socialist intellectuals of the age, and he maintained such contacts throughout his life (one of his last fights at Harvard was to get tenure for Paul Sweezy). He was, therefore, well aware of the attraction of socialism to the best and the brightest. This explains, too, why he was an early and careful reader of Marx.

World War I and Schumpeter's Ironism

The years of the First World War and its immediate aftermath were personally engrossing for Schumpeter and a disaster for the institutions dearest to him.

It was during this period that, for the first and last time in his life, Schumpeter was drawn directly into government and politics—in keeping with the tradition of Viennese professors of economics, who frequently served in high governmental posts.[22] From about 1916 he began to travel with increasing frequency from his university post in Graz to Vienna, and to send memoranda on economic and political affairs to the monarch and to highly placed members of the aristocracy. Schumpeter opposed a customs union with the German Reich, recommended a more forceful pursuit of peace, and favored a more assertive monarchy that would create a consensual basis for the empire through a more federative structure and an end to favoritism toward Germans and Hungarians.[23]

With the collapse of the Hohenzollern and Habsburg empires, and with communist revolutions in progress in Russia, Budapest, and Munich, Schumpeter served on the German government's coal socialization commission in late 1918 and early 1919. In March of 1919 he was asked by the new Austrian government of Karl Renner, which was composed of Socialists and Christian Socials, to serve as Minister of Finance. This he did for six tumultuous months, until he was forced out for reasons having to do with economic policy (he opposed the Socialist position on nationalization of industry), foreign policy (he opposed *Anschluss* with the German Reich at a time when it was favored by both major parties), and accusations that he worked behind the scenes to prevent the socialization of the Alpine-Montan Corporation, the largest iron producer in Austria and the linchpin of the government's socialization program.[24]

For Schumpeter, the collapse of the monarchy was a shock, as it was for the class of German-speaking *Bürger* and *Bildungsbürger* to which he belonged. They tended toward secularism and commitment to economic liberalism and the rule of law. Their cosmopolitanism took the form of attachment to a monarchy that served to integrate a polyglot empire. At odds with the anticapitalist inclinations of the aristocracy, of the lower-middle-class Christian Socials, and of the Social Democrats, as well as with the nationalist ambitions of the Slavic minorities, this most economically and culturally modern sector of Habsburg society paradoxically looked to the seemingly archaic imperial house to protect its position and its modernizing project.[25] For Schumpeter (and for others from this milieu), the collapse of the Habsburg empire meant the end of the world from which they drew their cultural breath. To most of them it seemed that the Empire,

though "indefensible" in terms of the modern doctrines of nationalism and of democratic self-determination, was in fact the most "rational" political structure for the region in being best suited to the economic and cultural development of all the peoples within it. Indeed, the Empire was useful above all, they would tacitly add, to the non-German minorities most in need of economic and cultural development, which only the empire could bring, and which was woefully lacking in most of the successor states.[26]

The lasting impact of the collapse of the Empire on Schumpeter's work was a recourse to irony in two distinct senses. The first was a distanced perspective from which to view history. The observer (Schumpeter) could stand over and above the action, reflecting on the gap between the actors' understanding of their actions and reality. The beneficent intentions of the actors would lead to unintended negative consequences that the actors did not anticipate, but that the wiser and ironic social-scientific observer could demonstrate. Second, the observer, having demonstrated the gap between the intentions of the actors and the likely outcome of their actions, insists that his rational demonstration of the unanticipated negative consequences of the actions he described would not prevent the actors (his readers) from trying to carry through their plans, since those actors were motivated by nonrational motives.

Why adopt such a rhetorical strategy, which might appear to insult the reader? The intention is to induce self-recognition in the reader, and thus encourage him to open his mind to an otherwise unpalatable argument (Berger 1997, 41).

Schumpeter's Critique of Socialism

Schumpeter applied his ironic strategy not, however, to questions of nation and empire as much as to economic issues. The most distinguished economic minds of German and Austrian socialism, such as Otto Bauer and Rudolf Hilferding, had given little thought to the actual workings of a socialist economy. But the radicalization of the working class in the closing year of the war led them to turn toward practical suggestions for a post-capitalist economy. In the meantime, revolutionaries in Russia, Hungary, and Munich were attempting to implement socialism, with uniformly negative results.[27] Vienna, like many major German cities, was dominated by workers' and soldiers'

councils. These were regarded with suspicion by the leaders of the Socialist parties, who feared they would lead to a Bolshevik-style takeover. Radical workers, believing that socialization would improve their economic situation, protested the inaction of the Socialists by rioting. In April and June of 1919, Communist attempts to seize buildings in Vienna were put down by police action. Throughout 1919 and 1920 workers in Vienna, often at the initiative of the councils, engaged in violent protests, including looting shops and wrecking cafés in the *Innenstadt*. In the words of one recent historian of the period, "It should surprise no one that the Viennese middle class and its political spokesmen viewed these violent outbursts as the end of civilization and the prelude to Armageddon" (Gruber 1991, 18–20; cf. Jelavich 1987, 164–65, and Gerlich 1980, 99).

As political attempts to actualize socialist ideals by either democratic or revolutionary means came to seem possible, liberal social scientists such as Max Weber turned to the intellectual refutation of socialism.[28] Some of Schumpeter's Viennese contemporaries, such as Ludwig von Mises and, later, Friedrich von Hayek, set out to prove by rational demonstration that socialism was economically unfeasible, which led to the famous "socialist calculation debate."[29] Beginning with his essay of 1918 on "The Crisis of the Tax State" and continuing throughout the 1920s and beyond, Schumpeter, too, remained a staunch, though flexible and undogmatic, advocate of market-oriented economic policies. As a contemporary analyst of the economic problems of the Weimar republic after his move to the University of Bonn in 1925, he advised against excessive government intervention. He emphasized the problem of low capital formation, which he attributed to excessive wage demands by unions, as the major barrier to economic growth.[30] The difference between Schumpeter on one hand and Mises and Hayek on the other lay less in their fundamental economic policy recommendations than in the rhetorical manner in which they sought to stave off socialism.

In postwar Austria and Germany (and then, later, in New-Deal America), Schumpeter seemed to feel that a frontal onslaught against socialism would make little headway among intellectuals. Instead he offered a series of arguments about why socialism was not desirable under present circumstances. The time for socialism, he consistently maintained, was in the future: the time for capitalism was now. And, he added, socialism would bring about few of the goals and expectations of the socialists themselves. Its viability could be purchased

largely at the expense of its desirability. The notion that what seems rational to "enlightened" opinion might be profoundly mistaken was central to the Schumpeter's subsequent work. As he put it in *Capitalism, Socialism and Democracy*, "The rationalist attitude may go to work with information and technique so inadequate that actions—and especially a general surgical propensity—induced by it may, to an observer of a later period, appear to be, even from a purely intellectual standpoint, inferior to the actions and anti-surgical propensities associated with attitudes that at the time most people felt inclined to attribute to a low I.Q." (Schumpeter 1942, 122).[31]

Many of the key themes of *Capitalism, Socialism and Democracy* were adumbrated in Schumpeter's first highly ironic work: a long essay of 1920, "*Sozialistische Möglichkeiten von heute*."[32] Given the public's minimal understanding of how capitalism actually works, he began, there was a need to restate certain obvious truths. The socialization of the means of production and conscious economic planning would not bring an end to "the anarchy of free competition," since the competitive market economy is in no sense anarchic. On the contrary, he argued, "the combined effect of individual egoisms of economic subjects results in a whole, which from the point of view of the outside observer must give the impression of a conscious plan as much as does the economy of a socialist society guided by a central organ." Nor did the distinction between a socialist and a capitalist organization of the economy lay in the fact that one serves the public while the other serves only individual interests, he asserted, for the profit motive that drives the production process in a competitive economy serves the interests of all as much as a planned economy would (Schumpeter 1921, 310–11).

What most of the mass supporters of socialist parties had in mind when they spoke of socialism was the confiscation and redistribution of consumer goods. But the result of such measures would be to bring economic life to a halt and to destroy "cultured private life" (Schumpeter 1921, 336). "Socialization with a pleasant life and plentiful income—that childish ideal of enrichment through appropriation of existing wealth—is politically attractive, but it is nonsense," he wrote (ibid., 308). Responsible socialists, Schumpeter charged, exhibited a failure of courage in refusing to acknowledge "the fact that socialization would have as its effect the unavoidable regression of production, and a worsening of the already dire economic circumstances of all strata," as well as the fact that "for socialization to be successful

would require the imposition of an unprecedentedly strict level of discipline upon the working masses."

Nevertheless, Schumpeter continued, a number of social processes that were a product of capitalist economic development would, in the long run, lead in the direction of socialism. The competitive capitalist market destroys traditional, uneconomical forms of production, thus rationalizing the economy. This process of rationalization performs the "necessary preliminary work for socialism." When the process has proceeded far enough, he suggested, it would be possible to replace the "automatic" rationalization brought about by capitalism with a more conscious policy. Over the long run, Schumpeter added, the classic functions of the entrepreneur would become less necessary and might be systematized into teachable methods. Then one would see a decline of the social significance of the entrepreneur and of the capitalist: as their functions became less essential they would slowly go the way of the aristocracy after the decline of knighthood. In addition, as familial ownership and operation of enterprises gives way to shareholding, in which actual operation is in the hands of paid managers, there is a loosening of attachment to private property. Thus, according to Schumpeter (1921, 312–19), capitalism, in rationalizing the economy, also digs its own grave.

Socialists ought to welcome ongoing capitalist development for other reasons as well, Schumpeter suggested. The goal of socialism was to end the need for economic activity as the prime task of life. But that would only become possible after the buildup of tremendous capital, especially since the problem of renewing capital through saving was a central conundrum for socialists. It was best, then, to begin socialism from a high level of economic production, which capitalism was more likely to bring. Because of its difficulty in creating savings and investment, socialism required demographic stagnancy. But even here capitalism was preparing the way, Schumpeter (1921, 323) contended, suppressing irrational impulses and thereby bringing down the birth rate.

Socialism will slow down economic development, Schumpeter explained, but this is consonant with its purpose of freeing human energies from economic concerns. That remained a future prospect. For the present, though, socialization of the means of production would be disastrous, alienating the most productive citizens and thus leading to a decline in the standard of living and to social conflict. Therefore the current policy of any rational socialist must be to encourage the development of capitalism (Schumpeter 1921, 343–46). After having

presented his arguments in favor of continued capitalist development, Schumpeter (1921, 348–49) added that "of course these arguments have no impact on the convinced socialist," who has "a mystical, religious, or substitute-religious non-rational faith in socialism, which cannot be overcome by any argument, proof, or fact." Against socialists, one might say, only irony might work.

Schumpeter returned to these themes occasionally in his writings of the later 1920s. In "*Unternehmerfunktion und Arbeiterinteresse*," published in 1927, he reiterated his belief in the economic inefficiency of socialism relative to capitalism. In his 1928 article, "The Instability of Capitalism," published in the *Economic Journal*, he asserted that "capitalism, whilst economically stable, and even gaining in stability, creates, by rationalizing the human mind, a mentality and style of life incompatible with its own fundamental conditions, motives and social institutions, and will be changed, although not by economic necessity and probably even at some sacrifice of economic welfare, into an order of things which it will be merely a matter of taste and terminology to call Socialism or not" ([1928b] 1989, 386).

The Depression and Intellectuals' Interpretation of It

Many of the key points in the famous section of *Capitalism, Socialism and Democracy* entitled "Can Capitalism Survive?" appear in nonironic form in Schumpeter's 1938 book, *Business Cycles*. In this volume, Schumpeter sought to show that cyclical booms and busts were an inevitable part of the history and process of capitalist development, though the swings of the business cycle could be moderated by corporate and governmental understanding of the process. Toward the end of this mammoth work, Schumpeter offered his own analysis of the current depression and the chances for escaping from it.

At a time when many Marxists believed that the drastic and protracted downturn of the economy vindicated Marx's prediction of the ultimate crisis of capitalism, Schumpeter offered a far less apocalyptic diagnosis. Schumpeter contended that in the United States, the Great Depression originated in a confluence of long- and short-term cyclical factors, but that recovery had been slowed down and weakened by government policies. Through legislation such as the National Industrial Recovery Act of 1933, government policy had sought to stabilize the economic climate for existing businesses, rather

than allowing economically obsolete firms to decline (Schumpeter 1939, 992–93). Moreover, government attempts to raise wages in the midst of the Depression had an adverse effect on business expansion and on employment levels (ibid., 994–95). What recovery did occur was due more to the "natural" effects of the business cycle than to government policy, the net effect of which was to get in the way (ibid., 995–96, 1026). (At the peak of the expansion of the U.S. economy that took place between 1933 and 1937, 14 percent of the labor force remained unemployed.)[33] It was government policy, Schumpeter believed, that had turned a "mere depression" into a "catastrophe."[34]

The Keynesian analysis of the Depression held that contemporary capitalism suffered from a shrinking of opportunities for investment. Schumpeter concurred, but not for the reasons offered by Keynesians. The problem, in his analysis, was that hostility to economic elites had led to a situation in which those who ought to have made the most significant innovative investments were discouraged from doing so. Steep income taxes and estate taxes on the highest-earning taxpayers, a special surtax on undistributed corporate profits, and a general perception that those implementing policy in the New Deal were antipathetic to capitalism all struck hard at the largest firms and the wealthiest individuals, reducing investment and innovation (Schumpeter 1939, 1039–41). "Since economic 'progress' in this country is largely the result of work done within a number of concerns at no time much greater than 300 or 400, any serious threat to the functioning of these will spread paralysis in the economic organism," Schumpeter wrote—a problem exacerbated by the decline of available capital, thanks to the high taxes on the 30,000–40,000 taxpayers with the highest incomes (ibid., 1044, 1039).

Schumpeter's defense of large corporations was part of his life-long support of the creatively superior. He thought that the attack on "monopoly" during the New Deal was motivated by egalitarian resentment of the successful.[35] Critics of monopoly in the name of free competition failed to understand that it was in the very nature of dynamic capitalism to produce the high, "monopoly" profits that accrued to those who successfully introduced innovations. Since their initial superiority had to be defended against further innovations, however, large firms that did not continue to innovate would decline. Those businesses that were often attacked as monopolies, Schumpeter wrote, "increase the sphere of influence of the better, and decrease the sphere of influence of the inferior, brains."[36]

In short, Schumpeter believed that in America, too, anti-elitist *ressentiment* was killing the capitalist goose, creating "a situation in which neither capitalism nor its possible alternatives are workable." This was a result of the process by which "capitalism produces by its mere working a social atmosphere—a moral code, if the reader prefer—that is hostile to it, and this atmosphere, in turn, produces policies which do not allow it to function" (Schumpeter 1939, 1038, and ch. XIV, secs. B and C). This hostility was due not least to the influence of those who shaped public opinion—the intellectuals. In the early 1930s, the shock of economic collapse, and the dominant interpretation of the Depression by intellectuals, had led to a "radicalization of the public mind" in the United States, which in turn had resulted in the policies that had left capitalism in shackles. Feeling itself under attack, the "industrial bourgeoisie" responded by slowing down investment and innovation, creating a far weaker cyclical recovery than would otherwise have occurred (ibid., 1046–50).

In *Capitalism, Socialism and Democracy,* Schumpeter reiterated some of the ideas that had already been presented in declarative and analytic form in *Business Cycles*.[37] But now he put them in a highly ironic framework, since he had reason to believe that a frontal attack on socialism would meet with deaf ears on the part of younger intellectuals. At Harvard, Schumpeter faced an audience of graduate students that, as one of them recalls, was "super-saturated with Keynes, Marx, and Veblen." Although they were reflexively hostile to his message, he nevertheless "slyly 'got across' one point after another" (Wright 1950, 36). In *Capitalism, Socialism and Democracy*, he used the same technique. Irony served as a battering ram with which to open minds. That the days of capitalism were numbered, and that the capitalist era must now give way to socialism—these were assumptions widely shared by intellectuals on both sides of the Atlantic.[38] Schumpeter's ostensible concurrence served as bait, leading leftist intellectuals who would never nibble on (let alone take seriously) the work of a Hayek, to bite into *Capitalism, Socialism and Democracy*. Once Schumpeter had them hooked, he could get them to reconsider their assumptions.

Attacking Capitalism to Defend It

It is against this background that Schumpeter's best-known book must be read. In the ironic mode the stated may be the opposite of

the intended. To understand an ironic work by accepting its stated conclusions at face value, in other words, is to invert its message. The explicit thesis of *Capitalism, Socialism and Democracy* is that, as Marx predicted, capitalism will and should be superseded by socialism. Along the way Schumpeter provided one of the most stimulating works of twentieth-century social thought, crammed with theses, analyses, and insights that led to the opposite conclusion.

Schumpeter began by writing that Marxism, which condemns religion as the opium of the masses, is itself best understood as a religion, since it provides a plan of salvation and a vision of earthly paradise. Marx's success lay in "formulating with unsurpassed force that feeling of being thwarted and ill treated which is the auto-therapeutic attitude of the unsuccessful many" (Schumpeter 1942, 6). Marx sneered at the "bourgeois nursery tale that some people rather than others became, and are still becoming every day, capitalists by superior intelligence and energy in working and saving." He was well advised to do so, Schumpeter wrote, "for to call for a guffaw is no doubt an excellent method of disposing of an uncomfortable truth, as every politician knows to his profit." In fact, Schumpeter suggested (alluding to his earlier work), "supernormal intelligence and energy account for industrial success and in particular for the *founding* of industrial positions in nine cases out of ten" (ibid., 16).

The further attraction of Marxism lay in its claim to explain everything according to a few principles. Marxists often explained imperialism by reference to the influence of big business or high finance on foreign policy. In fact, Schumpeter maintained,

> the attitudes of capitalist groups toward the policy of their nations are predominantly adaptive rather than causative, today more than ever. Also, they hinge to an astonishing degree on short-run considerations equally remote from any deeply laid plans and from any definite 'objective' class interests. At this point Marxism degenerates into the formulation of popular superstitions.

The Marxist's interpretation of imperialism was on the same level as those who explain modern history "on the hypothesis that there is somewhere a committee of supremely wise and malevolent Jews who behind the scenes control international or perhaps all politics" (1942, 55).

Despite Marx's conceptual shortcomings—which were dissected

amidst frequent praise of Marx for asking the right questions—Schumpeter agreed with Marx that capitalist evolution would destroy capitalist society. But this was not, as Marx had contended, because capitalism led to the immiseration of the working masses. On the contrary, Schumpeter argued, the record of capitalism was one of unprecedented economic growth that had profited the working classes the most. "The capitalist achievement," he wrote, "does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort" (1942, 67). Moreover, left to its own devices, capitalism would continue to bring about economic growth and a rising standard of living. In short order he disposed of then-popular arguments that capitalist growth was permanently stalled due to vanishing investment opportunities, depleted natural resources, or innovation squelched by monopolies and oligopolies.

But capitalism would *not* be left to its own devices, Schumpeter asserted. It would be hobbled, and in the long run replaced—despite its economic success, and despite the fact, Schumpeter argued, that it was responsible for the growth of pacifism, the emancipation of women, and most of the other good things valued by right-thinking people. Capitalism would meet its doom because of the unintended effects of capitalist development, which sapped the social and cultural sources of its support. The commitment to private property once prevalent in a society of small enterprises was in decline because of the rise of the modern corporation, which concentrated the size and reduced the number of enterprises, replacing owner-managers with managerial employees who felt no strong attachment to property as such.[39] The cultural effects of capitalism also work against its preservation. The rationalistic mindset engendered by capitalism, the belief that each individual ought to submit institutions to a cost-benefit analysis, "rubs off all the glamour of super-empirical sanction from every species of classwise rights" and turns against the political and economic institutions of capitalist society.[40] Although, as Schumpeter (1942, 157–62) indicated, this "rationalism" often turns out to be wrongheaded, the harm it does to the authority of institutions is real enough, destroying some of the precapitalist institutions (such as the bourgeois family) on which capitalism has rested.

Furthermore, Schumpeter suggested, the merits of capitalism were too difficult for most people to grasp—an argument that creates in the reader a psychological incentive to understand them. In any case,

the benefits of capitalism were general and long term, giving it little appeal to the unemployed who are inevitably thrown forth by the process of "creative destruction" that renders obsolete the existing means of production—and those employed in them.

The gravediggers created by capitalism also include the intellectuals, who exercise inevitable influence through their roles in education, in the formation of public opinion, and in the state bureaucracy. Schumpeter traced the hostility of intellectuals toward capitalism to their sense that the system does not reward them adequately, a feeling encouraged by its cyclical overproduction of the well educated. The resulting hostility toward capitalism made most intellectuals virtually impervious to rational argument.

> Capitalism stands its trial before judges who have the sentence of death in their pockets. They are going to pass it, whatever the defense they may hear; the only success victorious defense can possibly produce is a change in the indictment. Utilitarian reason is in any case weak as a prime mover of group action. In no case is it a match for the extra-rational determinants of conduct. (1942, 144)

In any case, he added, "socialist bread may well taste sweeter" to anti-capitalist ideologues "than capitalist bread simply because it is socialist bread, and it would do so even if they found mice in it"—just the sort of observation that warns the reader to attend to the mice.

Schumpeter concluded his examination of capitalism with an exquisitely ironic paragraph:

> I am not going to sum up as the reader presumably expects me to. That is to say, I am not going to invite him, before he decides to put his trust in an untried alternative advocated by untried men, to look once more at the impressive economic and still more impressive cultural achievement of the capitalist order and at the immense promise held out by both. I am not going to argue that that achievement and that promise are in themselves sufficient to support an argument for allowing the capitalist process to work on and, as it might easily be put, to lift poverty from the shoulders of mankind. (1942, 144)

Then Schumpeter turned to socialism. He began by arguing that a socialist economy is indeed economically plausible (1942, 172). This contention—which was bound to raise the hackles of more orthodox (or less ironic) defenders of capitalism, such as Hayek—should be read as a rhetorical strategy intended to keep the socialistically in-

clined reader interested. Schumpeter also contended that socialism, depending on how it was defined, is compatible with a range of political forms, including democracy. But socialism is economically superior only to the fettered capitalism created by anticapitalist resentment, which diverts rivers of intellectual talent into unproductive activities, such as tax law, through which those with capital try to fend off the depredations of the state (ibid., 201, 198). And socialism would achieve economic growth only to the extent that it coopted those of superior intellectual ability and rewarded them with differential prestige. Thus, the economic success of socialism would be purchased at the cost of its egalitarian aspirations. Moreover, socialism was likely to bring about the increasing use of political force against workers, as the restraints on government were loosened with the elimination of private ownership of the means of production.

> There is little reason to believe that this socialism will mean the advent of the civilization of which orthodox socialists dream. It is much more likely to present fascist features. That would be a strange answer to Marx's prayer. But history sometimes indulges in jokes of questionable taste. (Ibid., 375)

The Reception of Capitalism, Socialism and Democracy

Herbert Zassenhaus (1981, 170), who studied economics at Harvard in Schumpeter's day, has noted that when *Capitalism, Socialism and Democracy* first appeared, "it resisted the attempt to identify it with any familiar orthodoxy. It seemed to be on both sides of too many issues; it refused, irritatingly, neat rubrication." D. M. Wright (1950, 195–96), another of Schumpeter's students and later his colleague at Harvard, wrote:

> I am often asked in America: "Did Schumpeter really take his pessimistic conclusions regarding the future seriously or is *CSD* a clever propaganda device?" No definite answer can be given. I doubt if he knew himself. . . . Schumpeter, I suggest, in a sense dared not publish a frontal defense of capitalism—perhaps he merely thought it futile. . . . To some extent *CSD* is an example of what I have called the Mark Antony technique. By coming first to "bury Caesar not to praise him" (capitalism is doomed) he was able to get people to read him who would otherwise not have sat still for a moment under his teaching.

> "Brutus" moreover is "an honorable man" (socialism is workable). Having conceded that much he was then able to insinuate one of the most able defenses of capitalism ever published. How much he hoped to accomplish I cannot say.

In the preface to the second edition of the book (one deleted from the edition currently in print), Schumpeter spelled out his true motives less coyly and more explicitly. Rejecting the charge by proponents of capitalism that his book was "defeatist," he declares: "I deny entirely that this term is applicable to a piece of analysis. . . . The report that a certain ship is sinking, is not defeatist. Only the spirit in which the report is received can be defeatist. The crew can sit down and drink. But it can also rush to the pumps."[41] His book, he explains, was intended "to serve the reader" by providing an analysis that would "make him think" (Schumpeter 1947, xi). And so it did—and continues to do. The book's effectiveness in stimulating readers to a reassessment of their preconceptions is due not only to Schumpeter's learning or to his thoughtful ambivalence. It is attributable in no small part to the author's deliberate rhetorical strategy.

NOTES

1. Allen 1991; Swedberg 1991; Stolper 1994. März 1991 is a useful collection of essays on Schumpeter's thought and career.
2. These include the characterization of one of Schumpeter's major essays on socialism, "*Sozialistische Möglichkeiten von heute*" (1921), in März 1991, 109–111. Swedberg 1991, 46 quite rightly writes that Schumpeter "always detested socialism" and that his behavior as minister of finance only makes sense on this assumption. But Swedberg's subsequent discussion of *Capitalism, Socialism and Democracy* leaves out the ironic nature of Schumpeter's argument.
3. This skepticism was already foreshadowed in the initial reception of Schumpeter's *Business Cycles* in the review by Simon Kuznets (1940).
4. Jürgen Osterhammel (1987, 45) has made a similar point about the violence done to Schumpeter's thought when it is fitted into the rationalist assumptions of contemporary economics and of some forms of political science.
5. On the whole, those reviewers who shared Schumpeter's background caught the book's ironic drift. Fritz Machlup, reviewing the book in *The American Economic Review*, termed its style "humorous-ironic rococo." In his extensive summary, he hit upon virtually every major point of the book, and noted "the firm impression that Schumpeter dislikes socialism, nay, despises it. I

read this between the lines only" (Machlup 1943, 302.) Similarly see Haberler 1950.

6. Including Edgar Salin, who wrote the preface to the 1946 German translation of the book.
7. Some have suggested that Schumpeter couldn't help himself: irony was forced upon him, so to speak. They point to his origins in Viennese high society and assume that his book simply reflected this cultural atmosphere. But most of Schumpeter's books were *not* ironic; they were rather straightforward in their mode of exposition, from his first major work on economic theory through his *Business Cycles* (1939). Other commentators treat Schumpeter's irony in *Capitalism, Socialism and Democracy* as a byproduct of his attempt to write for a larger, nonspecialized audience. But Schumpeter had lectured to and written for popular audiences since the beginning of his career, from his sparkling published lecture on "How to Study Social Science" of 1910 through a volume's worth of journalistic commentary on contemporary economic issues during the Weimar Republic—and few of these works were ironic. (They have been collected in Schumpeter 1985.) Other scholars have conflated the ironic tone of *Capitalism, Socialism and Democracy* with melancholy, which they attribute to Schumpeter's personal circumstances or his political isolation during the years when it was written. (See for example the recent biographical studies by Richard Swedberg and Robert Loring Allen). But while Schumpeter had had personal reasons for melancholia since the death in childbirth of his new bride and newborn son in 1926, during the intervening years he wrote many an unmelancholy and unironic work. In fact, Schumpeter began to employ ironic strategies of argument well before the death of his young wife.
8. On the neglect of the entrepreneur in economic theory, see Redlich 1955; and for more recent literature on the subject, Kirzner 1985, ch. 1. On the attention devoted to entrepreneurs and their functions among German-language economic theorists in the nineteenth century, see Streissler 1994, esp. 15–22 and 34–35. For a useful overview see Blaug 1997.
9. See Schumpeter 1934.
10. Schumpeter 1934, 92–93. Schumpeter's emphasis on the degree to which rationalist economic models cannot account for the behavior of the entrepreneur is discussed in Rosenberg 1994.
11. For the negative effects on economic analysis of ignoring elites, see Schumpeter's comments on Adam Smith in Schumpeter 1954, 186:

> A judiciously diluted Rousseauism is also evident in the equalitarian tendency of his economic sociology. Human beings seemed to him to be much alike by nature, all reacting in the same simple ways to very simple stimuli, differences being due mainly to different training and different environments. This is very important considering A. Smith's influence upon nineteenth-century economics. His work was the channel through which eighteenth-century ideas about human nature reached economists.

12. Schumpeter 1912, 479–80. "*Ohne Leute, die zur Führerrole taugen, wären solchen Erfindungen tot*."
13. In a little-known article on Schumpeter, M. Gottlieb acutely concluded that "Schumpeter provided a valuable working out in economic theory of the neglected elitist side of the case: the need for inequality, the contribution of direction by elites, the role of leadership, the need for sponsoring the conditions in which creative leadership can function, the need for industrial discipline and the role of coercion and fraud in society. Just as these elitist insights have their place, so Schumpeter's application of them to crucial economic processes developed a point of view which the dominant trend of radical-democratic ideology tended to submerge: the constructive contribution of big business, the dynamic contribution of many monopolist firms, the need for a certain amount of instability in a dynamic and progressive society, the real danger of fiscal radicalism in its insidious long-run warping of incentives and of resource patterns." Gottlieb 1959, 298.
14. Schumpeter 1928, 482. "*Auf allen gebieten des sozialen Lebens beobachten wir die Scheidung zwischen Führen und Geführten, die letzlich . . . auf Unterschieden der individuellen Befähigungen beruht, wobei das Gewicht erst in zweiter Linie auf intellektuellen Eigenschaften (Weite des Gesichtskreises, "Aufgewecktheit" usw.), in erster Linie jedoch auf Willenseigenschaften liegt. . . . Das Wesen der Führerschaft ist Initiative . . . im Sinn von praktischer Initiative*."
15. Moreover, as his essay on social classes makes clear, Schumpeter appears to have paid attention to British developments in ethnology, eugenics, and the study of the family, all of which he thought useful but in need of critical assimilation by those "who know the relevance of what these disciplines have to offer." Schumpeter 1927; translation, 231–32.
16. Schumpeter 1942, Part IV; the quintessence of Schumpeter's argument is excerpted in Muller 1997, 277–84.
17. A frequent theme in Nietzsche's work, the locus classicus being *On the Genealogy of Morality.*
18. Schumpeters later work includes many suggestive passages that applied this analysis to the history of capitalism, going back at least to the sixteenth century. See for example Schumpeter 1946.
19. According to Schorske, "The Social Democrats . . . offered few conundrums to the liberal mind. . . . To the liberal mind, the Social Democrat was unreasonable, but not irrational." Schorske 1980, 118–19.
20. See Schumpeter's essay on Pareto in Schumpeter 1951.
21. By contrast, he seems to have found fascism fundamentally uninteresting, or at least not in need of his attention, perhaps because he thought it a passing phenomenon.
22. Johnston 1972, 48, 70, and ch. 4.
23. See the letters of Schumpeter to Graf Otto Harrach, a member of the Austrian House of Lords, written from1916 to 1918, in Schumpeter 1992, 359–76.

24. Seidl 1994, 69. Haberler 1950, 93 quite rightly notes that as Minister of Finance, Schumpeter worked against socialization and other radical economic measures.
25. See Jelavich 1987, 144–45; Silverman 1984, Introduction and ch. 1; and Hacohen 1993, 77–90. For an evocation of this milieu see the autobiographical reflections of Friedrich Hayek in Hayek 1994, 37ff.
26. For a recent reaffirmation of this analysis, see Mason 1997, ch. 4.
27. In the minds of leading German-speaking Social Democrats, such as Kautsky and Bauer, the Bolsheviks' attempt to bring about socialism in a backward economy was foolhardy, and their political methods barbaric. I do not know of an extended study of the German and Austrian socialist leadership's response to the Bolshevik Revolution, but their utter revulsion set the stage for the conflicts of the interwar left. For a brief description of Kautsky's response see Nolte 1987, 110.
28. See for example Weber 1918 and Weber 1978.
29. Many of the major documents are collected in Hayek 1935. For a discussion of the debate, see Steele 1992.
30. See the articles collected in Schumpeter 1985, and 36–43 of the introduction. More recent historians of the Weimar economy, such as Knut Borchardt and Harold James, have reached similar conclusions.
31. As Schumpeter notes, this insight goes back at least as far as the conservative critique of the Enlightenment.
32. Schumpeter 1921. Schumpeter's recurrent argument that while the time for socialism was in the future, the time for capitalism was now, first appears even earlier, in his "Crisis of the Tax State" of 1918 (in Schumpeter 1991).
33. For a recent analyis that essentially concurs with this element of Schumpeter's analysis, see Selgin 1999.
34. On Schumpeter's analysis of the Depression see also Rosenof 1997, 95–104.
35. Schumpeter 1939, 1044. He reiterated in the preface to the Second Edition of *CSD* (1947, x) that he believed that "*most* of the current talk about monopoly . . . is nothing but radical ideology and has no foundation in fact."
36. Schumpeter 1942, 101. As Neil McInnes has noted, Schumpeter destroyed the logical foundations of antitrust doctrine, but it refused to fall over. McInnes 1995, 94; this is a very intelligent recent review of the reception of *CSD* in the decades since its publication.
37. Most of the major themes of the book are mentioned by Schumpeter (1987, 196–219, esp. 207) in his review of Sombart, as key themes in the era of high capitalism that deserve comprehensive discussion, but are not systematically explored by Sombart.
38. As Schumpeter noted in the preface to Schumpeter 1942, ix–x.
39. An argument Schumpeter had put forth in Schumpeter 1928.
40. By "rationalism," Schumpeter means much the same as what Michael Oakeshott was to call "rationalism in politics" and F. A. Hayek "constructivism."
41. Preface to Schumpeter 1947, xi–xii. Similarly, Schumpeter ended his lectures

at the Lowell Institute in Boston, delivered in March 1941, with a gloomy set of prognoses, only to add that

> the economic society either of 1914 or later was not in itself played out. The theory is this. The capitalist process produces in various ways which we have seen a social atmosphere hostile to itself, but that doesn't mean that the economic process itself is necessarily obsolete and unable to carry the strata it used to. Hence, fighting for capitalist civilization is not a hopeless task. The objective data for the temporary success of such a fight are still present; the strata themselves are still present. This being so, much then depends, as it always does in such situations, on good management by well-informed and cold rationality. (Schumpeter 1991, 398–99)

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