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Joseph A. Schumpeter and The Theory of Democracy *

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Joseph A. Schumpeter and The Theory of Democracy

Joseph A. Schumpeter is recognized, along with John Maynard Keynes, as one of the giants of economic thought of the first half of the twentieth century. But, like such pillars of economic thinking as David Ricardo, James and John Stuart Mill, and Karl Marx before him, Schumpeter also contributed significantly to political theory, for example on such topics as imperialism, social classes, and democracy. Indeed, on the last of these subjects, political scientists identify Schumpeter as a seminal thinker and profoundly influential figure. Political philosopher C. B. Macpherson, for instance, characterizes Schumpeter, in his classic work first published in 1942, *Capitalism, Socialism and Democracy*, as the founder and first systematic formulator of a "pluralist elitist equilibrium model" of democracy which, as subsequently elaborated, became predominant in much of the political theory of the second half of the twentieth century (1977, p. 77).[1] Because of the compelling importance of democracy for social economics, Schumpeter's theory of democratic politics, relatively neglected by economists (See Coe and Wilber, 1985), deserves our attention in a volume devoted to Schumpeter as a social economist. This paper examines Schumpeter's democratic theory, notably as presented in his 1942 classic,[2] and (briefly) compares Schumpeter's

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[1]Alford and Friedland (1985) distinguish three major contemporary theories of "capitalism, the state, and democracy" as pluralist, elitist, and class-based. Schumpeter's conceptualizations are relevant to each of these three perspectives, especially the first two.

[2]Subsequent editions (1947, 1950) of *Capitalism, Socialism and Democracy* incorporated some additional material toward the end of the book, but otherwise left the text, indeed the language itself, as it was written in the late 1930s.

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contributions to this subject with those of selected predecessors and successors.

Intellectual and Historical Context

Schumpeter examines democracy in the context of socialism, and socialism in the context of capitalism — hence the title of his famous work (hereinafter CSD). Thus, Schumpeter begins the Preface to the first edition of CSD with the observation that the book constitutes an endeavor to distill the essential elements of his views, cumulated over his intellectual lifetime, "on the subject of socialism." Democracy "forced its way" into a significant position in the overall argument because "it proved impossible to state my views on the relation between the socialist order of society and the democratic method of government without a rather extensive analysis of the latter" (Schumpeter, 1950, p. xiii). Or, as he put it later in CSD, in order to construct "a more realistic theory of the relation that may exist between socialism and democracy . . . we must first inquire into the nature of democracy" (1950, p. 236).

For Schumpeter, democracy, in turn, like socialism itself, is intimately connected with capitalism. Although traces of democratic theory and practice may be found in ancient and medieval societies, "modern" democracy — Schumpeter's concern — is essentially a capitalist phenomenon. The "bourgeois origin" of the "classical" democratic theories of Rousseau and Bentham, for example, is suggested by the "rationalist scheme of human action" and "values of life" embodied in those theories and is confirmed by history. "Historically, the modern democracy rose along with capitalism and in causal connection with it." Historical correlation is clear enough. But what is the "causal connection"? Schumpeter's answer is that modern democratic practice "presided over the process of political and institutional change by which the bourgeoisie reshaped, and from its own point of view rationalized, the social and political structure that preceded its ascendancy: the democratic method was the political tool of that reconstruction." In short, democratic theory and practice are both "products of the capitalist process" and "outgrowth[s] of the structure and the issues of the bourgeois world" (Schumpeter, 1950, pp.

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125, 296-97, 300-01).[3] Capitalism and its bourgeoisie fostered democracy, Schumpeter tells us, because democracy, at least in a relatively limited form, was consonant with its values and objective needs and instrumentally efficacious in the struggles for ascendancy of its leading class with the ruling class of the preceding feudal, landholding era.

No society, Schumpeter notes, "however democratic," extends the right to vote to individuals below a specified age. In principle, a society could also discriminate against categories of people, however much we as observers might disapprove, by denying the franchise on the basis of "property, religion, sex, race and so on," and still logically be characterized as "democratic."[4] In practice, however, the scope of the franchise and the right to political participation in general has progressively widened since the early nineteenth century in capitalist societies. According to Schumpeter, this has been the plausible result of accommodation from above and the natural course of capitalist evolution as well as pressure from below. Indeed, Schumpeter claims, "all the features and achievements of modern civilization," including

[3]Schumpeter does not suggest that capitalism invariably causes democracy. First, he argues that democracy requires requisite conditions which are not universal oralways secure. In some instances, he states, democracy has "surrendered to dictatorship" with "apparent ease," as in Nazi Germany and Fascist Italy (1950, p. 298). In others, for example many developing capitalist countries, dictatorship has persisted for long periods of time. Second, for Schumpeter, democracy is not an "absolute ideal in its own right" or an "end in itself." Socialists, for example like "any others . . . simply espouse democracy if, as, and when it serves their ideals and interests and not otherwise." Presumably, "any others" includes capitalists and their intellectual supporters (1950, pp. 240-41).

[4]Carried to a logical extreme, the scope of participation in public life by the *demos*, in Schumpeter's conceptualization, theoretically could be very narrow indeed, as in ancient Athenian democracy, which excluded slaves and other non-citizens constituting 90 percent or more of the population, or, closer to the contemporary scene, late eighteenth century Great Britain or the American colonies, both of which restricted the franchise by some combination of property, sex, race, and religion. On Schumpeter's principle that we must "leave it to every populus to define itself," even "rule of the Bolshevik Party" and de facto exclusion from election of Bolshevik leadership by non-Bolsheviks "would not per se. entitle us to call the Soviet Republic undemocratic. We are entitled to call it so only if the Bolshevik Party itself is managed in an undemocratic manner — as obviously it is" (1950, pp. 245, 245n).

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modern democracy and egalitarian democratic reform, are, directly or indirectly, the products of the capitalist process." No preceding society, he argues, has extended so much personal freedom "for all," has been so ready to "bear with and even finance the mortal enemies of the leading class," to sympathize so actively with lower class sufferings, or to accept such "burdens" as modern capitalist society. Moreover, social legislation "for the benefit of the masses" has not simply been forced on capitalist societies by an "ineluctable necessity to alleviate the ever-deepening misery of the poor. . . ." Instead, capitalism, because of its tendency to substitute rationalized attitudes and behavior for "mystic and romantic ideas," refocuses our "inherited sense of duty" on utilitarian schemes for efficiency, service, and the "betterment of mankind" and erases "the glamour of super-empirical sanction from every species of classwise rights." Capitalism thus breeds not only the means, but the "will" for democratic social reform "within the bourgeoisie itself. Feminism, an essentially capitalist phenomenon, illustrates the point still more clearly" than social legislation (1950, pp. 125-27).

Schumpeter's Critique of Classical Democracy

If "the people" or *demos* is one element in the classical notion of democracy,[5] *kratein* or the process of "rule" is the other. Etymologically, *democracy* classically connotes "rule by the people." In communities that are small in number, concentrated in location, simple in structure, primitive in civilization, and characterized by minimal disagreements, "it is conceivable that all the individuals who form the people as defined by the constitution actually participate in all the duties of legislation and administration." Where these (atypical) conditions of "direct" participation in rule are impracticable, classical democratic theory would substitute "government approved by the people" for "government by the people" — that is, rule by "an assembly or parliament whose members will be elected by popular vote." In either mode of governance, the "people as a whole," as contrasted to individual citizens, "partake in the business of ruling or influence or control those who actually do the ruling." Thus, politicians and administrators, despite their "special aptitudes and techniques,"

[5]Schumpeter cites Jean Jacques Rousseau, Bentham, and the two Mills as exemplars of "classical democratic theory."

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"simply act to carry out the will of the people" — that is, to "voice, reflect, or represent the will of the electorate...." This implies, according to Schumpeter, substantial political unity or consensus among the citizenry. Specifically, "there exists a Common Good" or "Common Will of the people (= will of all reasonable individuals) that is exactly coterminous with the common good or interest or welfare or happiness." It also implies that individual wills and volitions are independently formulated and rational and that, as a corollary, "one man's opinion [is] roughly as good as every other man's." In Benthamite terms, "the people" are "the best judges of their own individual interests," and "these must necessarily coincide with the interests of all the people taken together" (Schumpeter, 1950, pp. 246-48, 250-51, 254-260n). In short, democratic political society is characterized by popular sovereignty, substantial unity, individual rationality, and political equality. Schumpeter criticizes each of these presuppositions.

Democracy as Rule By the People.

Democracy should not be identified with "rule by the people," Schumpeter contends, for two main reasons. First, popular participation in governance, either directly or through influence over political leaders, has not been restricted to "democracies." Historically, autocracies, monarchies, and oligarchies have "normally commanded the unquestioned, often fervent, allegiance of an overwhelming majority of all classes of their people,"[6] and, in the context of the circumstances of their rule, "did very well in securing what ... the democratic method should secure" (1950, p. 246).[7]

Second, "rule by the people," for example indirectly, through election of the membership of a legislative body, presupposes that the "people as such" delegate their powers to a legislature "that is to

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[6]Thus, Medvedev has argued that "Stalin was supported by the majority of the Soviet people both because he was clever enough to deceive them and because they were backward enough to be deceived." (1989, p. 712). Analogous kinds of comments have often been made about political support for Adolph Hitler in Nazi Germany.

[7]Schumpeter argues that claims concerning democratic (and anti-democratic) modes of rule "are meaningless without reference to given times, places, and situations ... In particular, it is not true that democracy will always safeguard freedom of conscience better than autocracy" (1950, pp. 243, 243n).

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represent them. But only a (physical or moral) person can legally delegate or be represented.... A people as such has no legal personality: to say that it delegates power to, or is represented by, a parliament is to say something completely void of legal meaning" (1950, p. 248). A legislature is simply an "organ of the state," just as a court of law is.[8] Thus, just as popular rule need not necessarily require democracy, democracy, strictly speaking, does not necessarily constitute "rule by the people."

Political Unity and the Common Good.

The classical theory of representative government, as an approximation to rule by the people, postulates, Schumpeter states, that the "democratic method . . . realizes the common good through the election of individuals who are to assemble in order to carry out its will." This implies that there is a "common good" and political unity on what it contains (1950, p. 250). These postulates, Schumpeter agrees, do roughly approximate actual social experiences in certain (atypical) instances, for example, small and primitive societies. Non-primitive societies may also correspond reasonably well to the classical conceptualizations, "provided they are not too differentiated and do not harbor any serious problems." A society of small peasant proprietors, for example, as envisioned in Rousseau's *Social Contract* or as exemplified by Switzerland in the late 1930s, lacks "great capitalist industry" and the tensions which capitalism generates. Public policy issues in such a society are "so simple and so stable that an overwhelming majority can be expected to understand them and agree about them." Classically democratic ideas approximately fit the social patterns in this kind of socio-economic context because "there are no great decisions to be made." The classical theory "appears to fit facts," even in a large, "highly differentiated," society with "great issues to decide," such as the United States prior to World War I, provided the "sting" is removed from policy debate by "favorable conditions," for example, "exploiting the economic possibilities of the environment" (1950, pp. 267-68).

[8]"Thus the American colonies or states that sent delegates to the continental congresses" in 1774 and after "were in fact represented by these delegates. But the people of those colonies or states were not," because "the people" is not a legal person (1950, p. 248).

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Typically, however, modern industrial capitalist societies are too differentiated and complex, and engender too much social conflict, to provide even a rough approximation of the conditions necessary for classical democracy. In such societies, Schumpeter insists, there is "no uniquely determined common good that all people could agree on or be made to agree on by the force of rational argument." Differences of opinion on public issues are often so great as to be rooted in contending "ultimate values" — that is, conflicting views about the good life and society that "are beyond the range of mere logic." Under these conditions, "the common good is bound to mean different things" to "different individuals and groups." Even if "sufficiently definite" views on the common good do exist at the level of broad principles, their application to particular public issues need not be "equally definite." Public agreement on the need for health care reform, for example, does not imply consensus on the specific content of a reform program. Similarly, consensus may emerge on quantitative issues, for instance, how much money should be spent on "unemployment relief provided everybody favors some expenditure for that purpose," but remain elusive on qualitative matters, such as whether or not to enter into a war (1950, pp. 251-52).

Schumpeter draws two consequences from these arguments. First, the classical concept of the "will of the people" or "general will" "presupposes the existence of a uniquely determined common good discernible to all." Utilitarian theory, for example, not only posits a general will, derivative from the sum of individual wills through rational discussion, but designates the "common good" as the "object of that will . . . sanctioned by utilitarian reason." In the absence of the common good as the "center," toward which "all individual wills gravitate" in the long run, the concept of the general will or will of the people evaporates (1950, p. 252).

Second, when individual wills are "much divided," democratic decision processes may well prove to be "equally distasteful to all the people," or at least may cause "deadlock or interminable struggle." If satisfactory results to the "people at large are made the test of government *for* the people, then government *by* the people, as conceived by the classical doctrine of democracy, would often fail to

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meet it," and "a non-democratic agency might prove much more acceptable . . ." (1950, pp. 255-56).[9]

In fact, according to Schumpeter, individual wills *are* "much divided" in modern capitalist societies. Indeed, he claims, the political environment of capitalism is characterized by "increasing hostility" and by "legislative, administrative and judicial practice born of that hostility. . . . " Capitalist "evolution produces a labor movement" which, especially when infiltrated and goaded by radical intellectuals, is bound to generate proposals for public policy and social reform divergent from traditional pro-business perspectives. Capitalism also creates a "New Middle Class" of clerical and white collar workers who, along with farmers and small businessmen, hold and express attitudes and interests quite different from both those of the working class, narrowly conceived, and "the bigger and big bourgeoisie" (Schumpeter, 1939, Vol. I, pp. 697-99). As the social conditions of capitalism's emergence fade through social change and historical transformation, the "typical bourgeois is rapidly losing faith in his own creed" and beginning to absorb the "slogans of current radicalism," heightening the cacophony of contending voices and views in public debate. Finally, the rationale for capitalism rests essentially on its long run economic performance — that is, its economic growth, developmental innovativeness, rising living standards, and proclivities toward democratization and egalitarian social reform. But the "long run interests of society are so entirely lodged with the upper strata of bourgeois society that it is perfectly natural for people to look upon them as the interests of that class only. For the masses, it is the short run that counts." And in the short run, it is (temporary) monopolies, depressions, unemployment, economic insecurities, inequalities, "profits and inefficiencies that dominate the picture" (1950, p. 145). In brief, the substantial divisions and tensions of capitalist society render the notion of a "common good" for all individuals, groups, and classes elusive and impracticable.

[9]Schumpeter describes Napoleon, for instance, as that kind of autocrat who, aside from foreign policy and dynastic interests, "simply strove to do what he conceived the people wanted or needed." He was often able to circumvent the struggles of democratic politics and settle disputes "reasonably" because the groups which "could not yield their points of their own accord were at the same time able and willing to accept the arrangement if imposed" (1950, pp. 256, 256n).

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Political Independence and Rationality.

Influenced by rationalist modes of thinking in general and classical democratic theory in particular, says Schumpeter, we tend to attribute to the "will of the individual an independence and a rational quality that are altogether unrealistic." "[D]efiniteness and rationality in thought and action" are substantially less than is presupposed in received political (and economic) theory. "Relatively definite" volitions sometimes occur, both in personal and national affairs, when issues concern individuals and groups "directly and unmistakably." When issues of public discourse "lack a direct and unmistakable link" with personal or business affairs, however, "individual volition, command of facts and method of inference soon cease to fulfill the requirements of the classical doctrine." Consequently, the "sense of reality" is often "completely lost." Departures from classical notions of rationality are accompanied by a "reduced sense of responsibility" stimulated by the tendency toward "crowd psychology" under conditions of group decision making.[10] Because of the reduced "sense of reality" and its consequent reduction in responsibility and volition, the "ordinary citizen" is often ignorant and lacks good judgment on major policy issues. Even "if there were no political groups trying to influence him, the typical citizen would in political matters tend to yield to extra-rational or irrational prejudice and impulse" (1950, pp. 257, 259, 261-62).

In fact, of course, groups representing contending political and economic interests do try to influence citizens' attitudes and opinions. In the economic arena, consumers' wants are "so amenable to the influence of advertising and other methods of persuasion that producers often seem to dictate to them instead of being directed by them." Simple assertion, repetition, and "direct attack on the subconscious" through the evocation of extra-rational association dominate in want creation and manipulation through commercial advertising. In political life, "groups with an ax to grind" similarly "are able to fashion, and within very wide limits, even to create the will of the people." The

[10]"Every parliament, every committee, every council of war composed of a dozen generals in their sixties, displays, in however mild a form, some of those features that stand out so glaringly in the case of a rabble, in particular a reduced sense of responsibility, a lower level of energy of thought and greater sensitiveness to non-logical influence" (1950, p. 257).

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"popular will" on policy issues is "manufactured," not "genuine." It is "the product and not the motive power of the political process." The arts of political persuasion are "exactly analogous to the ways of commercial advertising." Indeed, the arts of want manipulation and creation "have infinitely more scope in the sphere of public affairs than they have in the sphere of private and professional life." Many government policy decisions cannot be experimented with by the public "at moderate cost" and have consequences which are harder to interpret. "Effective information is almost always adulterated or selective," and "effective political argument almost inevitably" twists "existing volitional premises into a particular shape" rather than merely attempting "to implement them or to help the citizen to make up his mind." Political persuasion, like commercial advertising, has its long run limits. But if "all the people" can be fooled into "something they do not really want" (upon long run, *ex post*, reflection) in each of a series of successive short run circumstances, "then no amount of retrospective common sense will alter the fact that in reality they neither raise nor decide issues but that the issues that shape their fate are normally raised and decided for them" (1950, pp. 257-58, 263-64).[11] Citizen sovereignty, like consumers' sovereignty, is largely a fiction.

Political Inequality.

As a corollary to preceding discussion of Schumpeter's critique of what he calls the classical theory of democracy, the latter's presupposition of political equality is also rejected. The classical democratic principle of political equality, that "each man's vote [carries] the same weight in the decision of issues," he states, requires a "potential equality of performance in matters of political behavior . . . ." In fact, this requirement is not met. The massive size and extensive powers of government impose great burdens and regulations on individual citizens and enterprises. The political arena is exceptionally susceptible to manipulation by the arts of persuasion, as already noted, especially by economic and political groups. Consequently, professional politicians and administrators and "exponents of [organized]

[11]"It is no doubt possible to argue," Schumpeter states, "that given time the collective psyche will evolve opinions that not infrequently strike us as highly reasonable and even shrewd. History, however, consists of a succession of short-run situations that may alter the course of events for good" (1950, p. 264). Thus, the "long run" may never arrive, to reparaphrase Keynes (1924), *even after* we are all dead.

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economic [and political] interest," for example, political parties, corporations, and labor unions, wield substantially greater power and exert dramatically more influence upon institutional change and public policy than the "ordinary citizen" (1950, pp. 254n, 263).[12] A realistic theory of democracy, Schumpeter concludes, must be rooted in recognition that relationships between citizens and political leaders, like those between individual consumers or workers and economic leaders, are fundamentally inegalitarian.

Schumpeter's Conceptualization of Democracy

In classical democratic theory, Schumpeter observes, the election of representatives of the citizenry is secondary; what is primary to democracy is vesting "the power of deciding political issues in the electorate." Suppose, says Schumpeter, the order of these two elements is reversed, that is, that the deciding of issues by the electorate is made secondary and the election of political leaders (those "who are to do the deciding") is made primary. In this alternative theory of democracy, the role of the citizenry is to "produce a government or else an intermediate body [or parliament] which in turn will produce a national executive or government." Democracy is thus that "method" or "institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the

[12]Schumpeter also recognizes differential wealth (and the use of wealth to influence political decisions) as a basis for differential political power, as implied earlier. But in his vision of capitalism's historical evolution, the class power of capitalist interests in politics (relative to labor interests) erodes, partly through the process of democratization, as will be elaborated below.

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people's vote" (1950, p. 269).

In this conceptualization, therefore, democracy is not a "way of life,"[13] "kind of society," or "set of moral ends,"[14] as some of its (to Schumpeter, idealistic) nineteenth and early twentieth century exponents claimed, but simply a "mechanism for choosing and authorizing governments." It thus "empties out the moral content" which some earlier theories had invested in the concept of democracy (Macpherson, 1977, p. 78). Moreover, Schumpeter focuses on parliamentary democracy and, as a corollary, sets aside the application of democratic methods to industry and economy. Indeed, as discussed in the succeeding section of this paper, he (tacitly) regards industrial democracy as incompatible with efficient business management. From other (for example, radical democratic and Marxian) perspectives, by contrast, even if full parliamentary democracy exists, "and every individual is accorded the right to participate in political life, the main concerns of the individual's daily life are subject to economic forms of coercion and, for the vast majority of people, are not subject to democratic control. Moreover, because of its economic leverage, a wealthy minority has inordinate means for manipulating the political process in its own interests" (Lawler, 1993-1994, p. 476).

Defining democracy as "competition for political leadership," however, does carry several important connotations and implications. On the one hand, Schumpeter's theory of democracy has been characterized as "elitist in that it assigns the main role in the political process to self-chosen groups of leaders" (Macpherson, 1977, p. 77). As Schumpeter argues, "collectives act almost exclusively by

[13]John Dewey, for instance, states that "the keynote of democracy as a way of life [is] the necessity for the participation of every mature human being in formation of the values that regulate the living of men together: which is necessary from the standpoint of both the general social welfare and the full development of human beings as individuals" (1972, p. 587).

[14]John Stuart Mill, for example, perceived representative government as a means for personal self-development and moral improvement. A democratic political system, he claimed, makes the best use of the "moral, intellectual and active worth already existing, so as to operate with the greatest effect on public affairs" and fosters the "advancement of community . . . in intellect, in virtue, and in practical activity and efficiency" more fully than any other political system. (1977, p. 392; See also the reference to John Dewey in footnote 13).

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accepting leadership." Leadership is the "dominant mechanism" of "practically any collective action that is more than a reflex."[15] We have already noted Schumpeter's claim that political leaders exert substantial control over the "ordinary citizen" by the manipulation and creation of citizens' wants through political persuasion. Schumpeter provides two additional examples of political leadership. One illustration is that, insofar as "genuine group-wise volitions" do exist "at all," they do not typically "assert themselves directly," even if "strong and definite." Instead, by "organizing these volitions, by working them up" and including elements of them as components "of his competitive offering," the political leader (or his agents) calls them to life from latency.[16] Thus, voters "do not decide issues"; politicians (and leaders of political and economic interests) do. A second example of the importance of political leadership is that voters do not typically pick their representatives "from the eligible population with a perfectly open mind. In all normal cases, the initiative lies with the candidate who makes a bid for the office . . . and such local leadership as that may imply. Voters confine themselves to accepting this bid in preference to others or in refusing to accept it." Even in instances in which candidates appear to have been *genuinely* drafted" by the electorate, leadership usually plays a paramount role behind the scenes. "Electoral initiative" is "further restricted by the existence of [political] parties." A political party is simply a "group whose members propose to act in concert in the

[15]Schumpeter does not define "leadership" explicitly. Dahl and Lindblom essentially adopt Schumpeter's conceptualization of democracy as competition for political leadership, but give their discussion a somewhat less elitist, and more pluralist, cast. As a "first approximation," they define a leader as one who has "'significantly' greater control" than non-leaders and "control" as a process wherein "B is controlled by A to the extent that B's responses are dependent on A's acts in an immediate and direct functional relationship" (1953, pp. 94, 228).

[16]Although Schumpeter does not make the point expressly, one is tempted to note the parallel between political and economic entrepreneurship. The economic entrepreneur, for Schumpeter (in 1911 [1983]), does not necessarily "invent" something new, such as a new product, process, method of production, source of supply, and so forth, but introduces a new commercial application or "innovative reorganization and political application of citizens' volitions" which may have been "latent, often for decades" (1950, p. 270). Of course, many political leaders are bureaucratic and non-entrepreneurial just as are many economic leaders.

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competitive struggle for political power." Its leaders respond "to the fact that the electoral mass is incapable of action other than a stampede, and they constitute an attempt to regulate political competition exactly similar to the corresponding practices of a trade association" (1950, pp. 270, 282-83).

On the other hand, Schumpeter's theory is "pluralist in that it starts from the assumption that the society that a modern democratic political system must fit is a plural society, that is, a society consisting of individuals each of whom is pulled in many directions by his many interests, now in the company of one group of his fellows, now with another" (Macpherson, 1977, p. 77). It is pluralist also in its postulation of a competitive struggle by political leaders for the citizens' votes. This competition may be imperfect, indeed (although Schumpeter does not expressly use the term) oligipolistic, but it serves the important function nonetheless of constraining the power of any individual politician relative to another one and of political leaders in the aggregate relative to the electorate as a whole. Democracy is not political monopoly; it is not autocracy, dictatorship, or even non-elective, but "constitutional," monarchy.[17] Through "free competition for a free vote," the electorate provides the function of producing a government. By controlling access to elected public office and by evicting from office those political leaders whom they reject, voters both install and, in a limited but significant sense, "control" governments.[18] Finally, although "democracy" is by no means definitionally coterminous with or even invariably conducive to individual "freedom," there is "still a relation between the two." Under democracy, in principle, everyone is juridically "free to compete for political leadership by presenting himself to the electorate." In most instances, this will engender "a considerable amount of free discussion

[17]Because the "parliamentary monarch" is "practically constrained to appoint to cabinet office the same people as parliament would elect," a government structure like that of the United Kingdom fits Schumpeter's definitional conditions of democracy. But "constitutional monarchy," wherein ministers are substantively, not merely nominally, "servants of the monarch," and electorates and parliaments lack the power to install their choices for leadership posts, does not (1950, p. 270).

[18]This control is limited because "electorates normally do not control their political leaders except by refusing to reelect them or the parliamentary majorities that support them" (1950, p. 272).

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for all. In particular it will normally mean a considerable amount of freedom of the press" (1950, pp. 271-72).[19]

Democracy and The Transformation and Decomposition of Capitalism

Schumpeter begins the Prologue to Part II of CSD with the following arresting declaration: "Can capitalism survive? No. I do not think it can" (1950, p. 61). Schumpeter's analysis of the facts and arguments pertaining to this claim is multi-faceted; democracy is only one element in it. An explication of Schumpeter's perspective on democracy, however, is incomplete without at least brief discussion of the democracy-capitalism connection.

Schumpeter in effect divides the historical evolution of the relationships among capitalism, democracy, and social classes into four broad stages: transition from feudalism into capitalism; competitive, laissez-faire capitalism; big business, corporate, oligopoly capitalism; laborist, welfarist capitalism leading to capitalism's decomposition and transformation into socialism. In the first of these stages, as noted earlier, Schumpeter posits not only a historical correlation between capitalism and democracy, but a causal relationship: The democratic method is an integral and efficacious part of the bourgeoisie's political instrumentarium as it struggles with monarchy and landholding aristocracy to mold social institutions, public policies, and economic relations in a manner more in accord with its evolving interests.

In the stage of competitive, laissez-faire capitalism, which prevailed throughout much of the nineteenth century in the United Kingdom and the United States, the scope of democratization spread, at least somewhat, as the franchise was extended to a larger proportion of the (adult male) working class. But the troublesome and disruptive implications which robust democracy potentially augured for capitalist institutions and propertied interests were held in check, by several factors. First, in its small-scale, competitive stage, capitalism left significant, albeit declining, room for such pre-capitalist elements and

[19]Some of Schumpeter's predecessors and several of his successors in the "democracy as competition for political leadership" tradition provide a much richer explication of the pluralist and libertarian dimensions or implications of democray. See Ricardo (1824a, 1824b), Milgate and Stimson (1991), and Mayo (1960).

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interests as peasantry, artisans, and small business proprietors. Next, because the economic role of central governments was relatively modest, the tax and regulatory burdens on business were small. In the classic case of England, the economic foundations of power of the landed aristocracy were substantially weakened by industrialization and free trade, but landed interests continued to be vigorously represented in "super-structural" dimensions of English society, namely, parliament, the civil service, the church, education, the army, and foreign and colonial affairs. Aristocrats, who had the "mystic glamour" and "lordly attitude" which "counts in the ruling of men," represented "bourgeois interests and fought the battles of the bourgeoisie," thereby serving as a "partner" in and protector of capitalism. In the United States, exploitation of a virgin natural environment, as noted earlier, took the "sting" out of conflicting economic interests, and the continued importance of small-scale farm and business proprietary economy reduced the sense of class polarization. In both North America and Europe, the labor movement was in its infancy, dispersed among many small, competing, and often patriarchal economic units, and typically focused on "bourgeois" trade union interests, that is, higher pay, shorter hours, and better working conditions. Democratic politics and democratic political parties, then as now, were essentially elitist institutions, and tended to foster a clustering of social attitudes and public policy options around the center of the political spectrum (Schumpeter, 1950, pp. 136-37).

In the third stage, roughly encompassed by the very late nineteenth-early twentieth centuries, the industrializing capitalist economy, under the auspices of an entrepreneurial elite, engaged in dramatic technological, organizational, and marketing innovations. These changes elicited an increasing transformation from small-scale to large-scale production, from competition to oligopoly, and from proprietorships to corporations. These transformations did not mark a reduction in capitalism's dynamic long term economic performance; indeed, quantitatively and (especially) qualitatively, economic achievements probably improved during this period. But focus on economic performance "misses the salient point," namely, the adverse social and "political consequences" of the impelling economic and institutional changes of this third stage in capitalist evolution (1950, p. 140).

One by one, Schumpeter argues, social classes and groups which had been supportive of capitalism and bourgeois interests become indifferent, disenchanted, or openly hostile. First, the entrepreneurial

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stratum of the bourgeoisie: Historically, the bourgeois class "absorbed" successful entrepreneurs, thereby "recruiting and revitalizing itself." The bourgeoisie "therefore depends on the entrepreneur and, as a class, lives and will die with him." The depersonalization and "atomization" of economic progress, however, no less than a stationary state, undermines the revolutionary processes of entrepreneurial innovation. The large capitalist enterprise, with its organized research departments, "by its very achievements, tends to automatize progress." Therefore, "the perfectly bureaucratized giant industrial unit . . . ousts the entrepreneur and expropriates the bourgeoisie as a class which in the process stands to lose not only its income but also what is more important, its function." Second, the landholding aristocracy: The very success of capitalist evolution in eliminating precapitalist institutions and privileges thereby erodes the economic and political positions of nonbourgeois groups, without whose "protection" the bourgeoisie "is politically helpless and unable to take care of its particular class interest." Third, small farm and business proprietors: The increased concentration of economic wealth and power of the giant corporations profoundly alters political structures by eliminating "a host of small and medium-sized firms." Their owner-managers, families, and entourages, including foremen, "count quantitatively at the polls" and thus constitute a serious political disaffection with large business capitalist interests. Fourth, the bourgeois strata "within the precincts of the big units," that is, salaried managers, large stockholders, and small stockholders: Managers tend to acquire an "employee attitude and rarely if ever identify [themselves] with the stockholding interest" even when they identify with the "interests of the concern as such." Big stockholders are one step removed from "both the functions and attitudes" of ownership. Small stockholders typically care and bother little with "their" corporations, and "almost regularly drift" into hostile attitudes toward "big business in general and, particularly when things look bad, to the capitalist order as such." The capitalist process, through the corporatization of business, causes the "evaporation" of the "material substance of property" and thereby detrimentally affects the social and political attitudes of workers and the general public as well as stockholders (1950, pp. 134, 138, 140-42).

> Dematerialized, defunctionalized and absentee owner-ship does not impress and call forth moral allegiance as the vital form of property did. Eventually there will be nobody left who really cares to stand for [corporate capitalist

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> property] — nobody within and nobody without the precincts of the big concerns ... Thus the modern corporation, although the product of the capitalist process, socialized the bourgeois mind; it relentlessly narrows the scope of capitalist motivation [and] will eventually kill its roots (1950, pp. 142, 156).

With the decomposition of capitalist property and psychology and the intellectual and general hostility toward bourgeois interests mentioned earlier, "the bourgeois fortress thus becomes politically defenseless." This is reinforced by the expanding size and scope of collective bargaining, itself engendered by growth of the large corporation, and the "rise of the labor interest to a position of political power and sometimes of responsibility." In the absence of a Veblenesque reversion to authoritarian systems of rule, it is plausible to suppose that political democracy would and will be used increasingly to foster "legislative, administrative, and judicial practice" incompatible with old-style, socially unregulated capitalism, and to give birth to public "policies which do not allow [laissez-faire capitalism] to function." This is precisely what happens during the fourth stage in capitalist evolution, Schumpeter argues, especially from the Great Depression and New Deal onward. As examples, Schumpeter cites burdensome taxation, "incompatible" labor legislation, public utility regulation, and antimonopoly policy (1950, pp. 143; 1939, Vol. II, p. 1038).

According to Schumpeter's broad-ranging vision of institutional and social change during the third and fourth phases of capitalism's historical evolution, the forces generating such dramatic change

> make not only for the destruction of the capitalist but for the emergence of a socialist civilization ... The capitalist process not only destroys its own institutional framework but it also creates the conditions for another.... The [capitalist] economic process tend to socialize *itself* — and also the human soul; [that is, as capitalism evolves,] the technological, organizational, commercial, administrative, and psychological prerequisites of socialism tend to be fulfilled more and more. ... [Capitalism's] very success undermines the social institutions which protect it, and "inevitably" creates

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> conditions in which it will not be able to live and which strongly point to socialism as the heir apparent (1950, pp. 61, 162, 219).[20]

This "tendency toward another civilization," however, "slowly works deep down below." In the "short run," capitalism survives and even prospers, socially and politically as well as economically.[21] Still, the "administered" capitalism of the New Deal and beyond, regulated to "run in the labor interest," is radically different from the old-style, laissez-faire capitalism of the nineteenth and early twentieth centuries. First, whereas bourgeois interests were paramount in an earlier variant of capitalism, contemporary capitalism, with its alliance between labor unions and democratic politicians, accords a privileged position to workers' interests. An authentic capitalism, for Schumpeter, does not mean merely freedom of individual choice by consumers, workers, and managers. "It means a scheme of values, an attitude toward life, a civilization — a civilization of inequality and the family fortune. This civilization is rapidly passing away," under the impact of "crushing financial burdens" and govenment regulatory practice. Labor's privileged position under contemporary administered capitalism is reinforced by high levels of employment (whether or not created by expansionary employment policies) and attendant proclivities toward wage and price inflation,[22] on the one hand, and by "labor legislation incompatible with the effective management of industry on the other."[23]

[20]Schumpeter's analysis of the role of democracy in the transition to socialism and the relationships between democracy and a prospective socialist society, including conditions for democracy's sustenance under socialism, will be discussed in another paper.

[21]In this context, Schumpeter observes, "a century is a 'short run'" (1950, p. 163).

[22]"The situations of trade union leadership and of [democratic] government being what they are, there is nothing to stop this mechanism," which weakens the "social framework of society" and strengthens "subversive tendencies" (1950, p. 422).

[23]The "efficient working of the institutionalized leadership of the producing plant" makes "essential" certain "loyalties" and "habits of super - and subordination" (1950, p. 417) or, as put alternatively, intra-enterprise "despotism" (Marx, 1967, Vol. 1) and labor "submissiveness" (Keynes, 1920). "Capitalist activity, being essentially 'rational', tends to spread rational habits of mind and to destroy" traditional habits and loyalties, through the extension of free contract to labor-management relations under the protection of democratic labor legislation (1950, p. 417).

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Of course, reversion to right-wing, authoritarian governments, as in fascism and Naziism, is always conceivable. But, in the context of the post-World War II European and North American economies, Schumpeter claims, "the power of labor is almost strong enough in itself — and amply so in alliance with the other groups that have in fact, if not in words, renounced allegiance to the scheme of values of the private-profit economy — to prevent any reversal which goes beyond an occasional scaling off of rough edges" (1950, pp. 161, 163, 419-20).

The corollary to substantial departure from (an earlier variant of) capitalism is a fairly close approximation to certain features of socialism (or at least "reformist" social democracy). Stabilization policies, redistributive taxation, regulatory and anti-monopoly measures, labor legislation, selective but significant public enterprise, and social security legislation all indicate the substantial extent to which "capitalist interests can in fact be expropriated without bringing the economic engine to a standstill and the extent to which this engine may be made to run in the labor interest." It is not clear, however, that a "laborist capitalism," no longer "unfettered" as in the past, will continue to deliver a socially acceptable economic performance. "If the private enterprise system is *permanently* burdened and 'regulated' beyond its powers of endurance," it may not do so. "In this case, an outright socialist solution may impose itself even on the enemies of socialism as the lesser evil" (1950, p. 419). Even if administered or laborist capitalism were to continue more or less indefinitely, however, old-style, unfettered capitalism not only tends to disappear, a victim of its own success, but has already done so.

Concluding Comments

Schumpeter defended his austere theory of democracy in terms of its "realism" and his bold theory of democracy's relations to capitalist evolution in terms of its "vision." No doubt, he was at least partly right (but also open to critique) on both counts. His elitist interpretation of democracy and its ultimate incompatibility with capitalism challenges both pluralist and radical perspective in social and political economy.

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