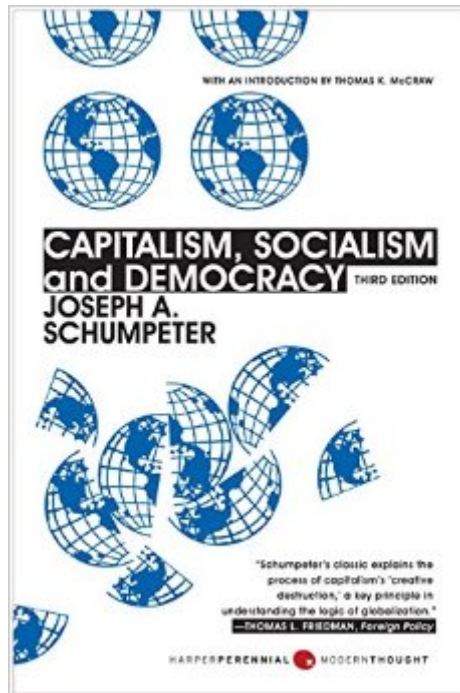


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# Capitalism, Socialism, And Democracy: Third Edition



## Synopsis

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

## Book Information

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## Customer Reviews

*Capitalism, Socialism, and Democracy* is divided up into five main sections. The first section on Marx and the last section on the history of the socialist parties in Europe can be safely skipped by most readers. The three central sections on capitalism, socialism, and democracy are definitely the heart of the book and of the three central sections the section on capitalism is by far the most interesting. In the section on capitalism Schumpeter really tries to do two things. First, he attempts to provide a defense for capitalism based on its dynamic nature. Schumpeter is critical of the defenses of capitalism which base themselves on the notion that under perfect competition "the profit interest of the producer tends to maximize production" (pg77). In two footnotes Schumpeter explains the problems he has with this standard defense of capitalism. In the first he writes, "The principle, as far as it can be proved at all, applies to a state of static equilibrium. Capitalist reality is first and last a process of change. In appraising performance of competitive enterprise, the question whether it would or would not tend to maximize production in a perfectly equilibrated stationary condition of the

economic process is hence almost, though not quite, irrelevant" (pg77). The standard defense relies on the notion that under perfect competition (a state in which prices are parameters and not variables) production will take place up until the point that marginal cost just equals price. It is further argued that this is precisely "as much as it is in general 'socially desirable' to produce" (pg78). But as Schumpeter points out in his footnote this only takes place when the economy is in a state of static equilibrium.

This is a theme which gives Schumpeter the opportunity to appear at his best. He approaches questions of institutions and economic tendencies from the standpoint of a lively and wide interest in human nature. The book starts with a critical examination of Marxian doctrine -- Marx the Prophet succeeded in "weaving together those extra-rational cravings which receding religion had left running about like masterless dogs, and the rationalistic and materialistic tendencies of the time" (p. 6). Marx the Sociologist "linked the fate of the class phenomenon with the fate of capitalism" (p. 19). Marx the Economist was a follower of Ricardo (p. 22), but not merely a follower. His one truly great achievement was "to see and to teach systematically how economic theory may be turned into historical analysis, and how the historical narrative may be turned into *histoire raisonnée*", instead of assigning the facts of economic history "to a separate compartment" (p. 44). There follows Part II, "Can Capitalism Survive?" Schumpeter has his own individual view of the working of capitalism. The Marxian theory of exploitation, depending on the effect of a perpetual reserve of labor in keeping wages down to the subsistence level, is disproved by experience (pp. 34-7). He himself belongs to the school of thought which treats profit as an excrescence of the economic system, so that in the stationary state neither profit nor interest would exist. Profit in his view is derived from "innovations", and he uses the term "entrepreneur" for one who initiates an innovation.

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