From Creative Action to the Social Rationalization of the Economy: Joseph A. Schumpeter’s Social Theory*

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Schumpeter’s writings on the transition from capitalism to socialism, on innovative entrepreneurship, on business cycles, and on the modern corporation have attracted much attention among social scientists. Although Schumpeter’s theoretical and sociological writings resemble the works of Marx, Durkheim, and Weber in that they further our understanding of the rise and nature of modern society, his contribution to social theory has yet to be assessed systematically. Arguing that Schumpeter’s perspective, if understood in social theoretical terms, provides a promising starting point for the sociological analysis of the changing relationship between economy and society, I concentrate on two elements of his work that are of value to theoretical sociology today: the distinction between creative action and rational action that is fundamental to his theory of the entrepreneur, and his thesis that the success of the capitalist system leads to its demise.

Joseph Schumpeter’s work is widely received as paradoxical and contradictory. He was the conservative champion of innovative entrepreneurship whose lifework culminated in the thesis that the success of the capitalist economy leads to the downfall of the capitalist social order. For decades, readers of his works have tried unsuccessfully to reconcile the tension between his attitudes toward, and his analyses of, capitalism and socialism. Schumpeter’s diverse writings are read most often by economists whose familiarity with the history of the social sciences is too narrow to encompass his work. When read from a social theoretical perspective, however, his work gains greater coherence as a compelling interpretation of the social and economic transformations of capitalism in the twentieth century.

Schumpeter was one of this century’s most complex economists. His view of economics was unconventional, as shown by this quote from the History of Economic Analysis:

[Science as a whole has never attained a logically consistent architecture; it is a tropical forest, not a building erected according to blueprint . . . the frontiers of the individual sciences or of most of them are incessantly shifting and . . . there is no point in trying to define them either by subject or by method. This applies particularly to economics, which is not a science in the sense in which acoustics is one, but is rather an agglomeration of ill-co-ordinated and overlapping fields of research in the same sense as “medicine” (Schumpeter 1954:10).

It is impossible to categorize Schumpeter neatly in the social-scientific division of labor. Following Max Weber, Schumpeter contended that in order to attain the status of a true science, economics must embrace economic theory, economic history, economic sociology, and economic statistics, under the heading of Sozialökonomik, or socioeconomics (see

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1 See, for instance, the essays in Heertje (1981) by Tom Bottomore, Robert Heilbroner, Paul Samuelson, and others.
Swedberg 1991:84–89). Schumpeter regarded himself as a social economist in this sense, although he maintained that neoclassical economics had to provide the foundation of socioeconomics.

Sociologists’ rereading of some of Schumpeter’s writings during the 1980s gave important impulses to the emergence of the “new economic sociology.” His overall perspective on the economy and its study is highly compatible with the key concept in new economic sociology, namely that economic action and institutions are socioculturally “embedded” (see Granovetter 1985, 1990). His writings also inspired innovations within mainstream economics itself: “evolutionary economics” aims at understanding how capitalist economies change within the overall framework of neoclassical economics (Hanusch 1988; Nelson and Winter 1982). Since the early 1980s, the number of publications on Schumpeter has grown steadily. Yet although his work has become increasingly useful in framing new research in the social sciences, its potential for broadening the terrain of social theory remains unexplored.

To identify Schumpeter’s theoretical contribution to sociology, one must distinguish between social theory and sociological theory. Social theory and sociological theory are often used interchangeably, although they signify different types of discourses and different types of projects. Most important, they display a distinctively different bearing on sociology as a social science. Historically, social theories typically have attempted to understand, explain, or clarify large-scale social changes, such as the rise of the capitalist economy and the establishment of parliamentary democracy in western Europe and North America. By contrast, sociological theories comprise more recent undertakings to set up a framework for the systematic organization of the results of empirical research into a coherent and all-encompassing understanding of modern society.

Steven Seidman (1991:131–32) has pointed out that social theorists “relate stories of origin and development, tales of crisis, decline, or progress,” which are “closely connected to contemporary social conflicts and public debates.” They “aim not only to clarify an event or a social configuration but also to shape its outcome.” In contrast, sociological theorists attempt “to uncover a logic of society . . . [and] to discover the one true vocabulary that mirrors the social universe”; they “aim to abstract from current social conflicts to reflect on the conditions of society everywhere, to articulate the language of social action, conflict, and change in general” and “seek to find a universal language, a conceptual casuistry that can assess the truth of all social languages.” Social theorists endeavor to understand the logic of social and/or political historical transformations; sociological theorists strive to set up a suprahistorical frame of reference for theoretical and empirical research that achieves the degree of linguistic and methodological compatibility needed for application to all societies and cultures. To be sure, the two are not mutually exclusive.

In terms of Seidman’s distinction between these two types of theory—which I employ
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for illustration purposes—Schumpeter certainly qualifies as a social theorist: he did “relate stories of origin and development, tales of crisis, decline, or progress” that were closely connected to social conflicts and public debates of his time, especially concerning the transition from capitalism to socialism. He attempted to clarify the “social configuration” of modern capitalism, although apparently he was too closely constrained epistemologically by the positivistic and determinist aspects of his work to conceive of, or concede, the possibility that social actors (or theorists) could “shape” outcomes of historical transformations (see Winterberger 1983).

Given that Schumpeter considered himself an economist, he did not aspire to develop a sociological theory as delineated by Seidman. Yet do elements of his work contribute to sociological theory? In his recent work on the “creativity of action,” Hans Joas (1992) outlined a sociologically viable theory of creative action. Although one chapter addresses “economic and social action,” Joas does not mention Schumpeter. Yet Schumpeter’s theory of the innovative entrepreneur rests on the distinction between creative and rational economic action. This distinction is basic to all of Schumpeter’s historical and theoretical writings, and especially to his depiction of the decline of the entrepreneur and the concurrent transition from capitalism to socialism.

Drawing primarily on texts which are not available in English, and which have been neglected in discussions of Schumpeter’s work, I will endeavor to show how his economics contains elements that are relevant to theoretical sociology. I will limit my discussion to his distinction between creative and rational economic action as a contribution to sociological theory, and to his perspective on the rise of socialism as a contribution to social theory. I will argue that his underlying sociohistorical perspective represents the beginnings of a social theory that is valuable for current debates about the prospects for capitalism, the relationship between economy and society, and the direction of socioeconomic change in the most advanced industrial societies of the West.

TOWARD A THEORY OF CREATIVE ACTION

In his first major work, Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie (The Nature and Essence of Theoretical Economics, 1908), Schumpeter depicted the economic process as described in neoclassical economic theory as a “circular flow.” Neoclassical theory is a framework set up to analyze an economy without development that is in a state of permanent equilibrium. Because economics must explain and predict specific economic processes and their outcomes, which always occur under the same clearly defined circumstances, its reduction of the economy to an unchanging process or a condition, is justified and necessary.

Schumpeter claimed that neoclassical economic theory could not fulfill its task of analyzing the laws of the economic production and distribution process without one precisely defined concept of action, that of rational individual action. Schumpeter called this action-theoretical foundation “methodological individualism,” a concept that he later distinguished from “sociological individualism.” The image of the capitalist economy is

4 In *History of Economic Analysis*, Schumpeter formulated this distinction as follows:

By *Sociological Individualism* we mean the view, widely held in the seventeenth and eighteenth centuries, that the self-governing individual constitutes the ultimate unit of the social sciences; and that all social phenomena resolve themselves into decisions and actions of individuals that need not or cannot be further analyzed in terms of superindividual factors. *This view is, of course, untenable so far as it implies a theory of the social process.* From this, however, it does not follow that, for the special purposes of a particular set of investigations, it is never admissible to start from the given behavior of individuals without going into the factors that formed the behavior. . . . An attempt to do so may be suggested by considerations of division of labor between different social disciplines and need not imply any theory about the theme of Society and Individual. In this case we speak of *Methodological Individualism* (1954:888–89; emphases added).
abstract not only insofar as it excludes all action in society that cannot be understood in singularly individualistic terms, but also in its treatment of the economy as static. The claim by neoclassical theorists that their representation of the economic process adequately reflects the reality of the capitalist economy entailed that the economy functioned as a vast machine that fulfills its function of supplying society with the means of its material production and reproduction, regardless of its particular environment.

Although this image of the “circular flow” economy may seem quite unrealistic, Schumpeter claimed that it is not entirely fictitious: it properly reflects the condition of economic life, action, and institutions in any social order with a differentiated market except capitalism. Neoclassical economics provides the appropriate framework for analyzing the laws that govern the economic subsystem of society in a state of equilibrium. For merely analytical purposes, and as long as the economic system changes only in response to exogenous developments such as natural catastrophes, population growth, or wars, which require adaptation to a changing environment, the self-limitations of neoclassical economics do not pose any problem. If economists sought to understand the actual economic process, however, they would need to consider that the capitalist economy, by definition, changes and develops. Although Schumpeter disagreed with those elements of Marx’s critique of political economy which were intended to explain the inevitable decline of capitalist society (e.g., his theory of immiseration, his labor theory of value, his theory of classes and of revolution), he considered Marx’s emphasis on development decisive: the capitalist economy typically is dynamic (i.e., dynamic as a system, not merely dynamic within an essentially unchanging form).

Claiming that neoclassical economics constituted the most refined theoretical framework for studying the economy in equilibrium, Schumpeter argued that it should strive for an equally complex understanding of the process of economic development. He worked to supplement the static framework with a dynamic theory that allowed for the explanation of qualitative economic development that characterizes capitalism, and for a response to the question “Why does the capitalist economy change?” Convinced that the question could be answered in “purely economic” terms, Schumpeter set out to identify the “endogenous” forces operating within the economy, independent of the above-mentioned “exogenous” factors such as political upheavals, social changes, wars, and natural catastrophes. This approach guided him in formulating his theory of the entrepreneur and the concept of the entrepreneurial function.

As this theory unfolds in his next major work, *Theorie der wirtschaftlichen Entwicklung* (The *Theory of Economic Development*, 1912), Schumpeter chose a more sociohistorical approach that barely concealed sociological and psychological elements behind the veil of economic analysis. In elaborating his theory of economic development, he differentiated between two types of actors that correspond to two types of action, and between two types of economic analysis. The primary difference between static analysis and the dynamic framework proposed by Schumpeter becomes most evident in their respective action-theoretic foundations: the former is based on rational individual economic action, or “methodological individualism,” which Schumpeter described as static-hedonistic action, whereas the latter is based on a type of action that he introduced to explain the overall phenomenon of economic development: that of dynamic-energetic, or creative, action. The manager is the embodiment of rational economic action; the entrepreneur is Schumpeter’s ideal-typical incarnation of creative action in the economic sphere.

5 Schumpeter omitted this distinction from the second edition of *Theorie der wirtschaftlichen Entwicklung*, on which the English translation (1934) is based. The second edition (1926) differs in several respects from the first, dated 1912. Most important in the context of this paper is the fact that Schumpeter omitted from the first edition those elements which were most obviously sociological, including the concluding chapter, “The Overall Picture of the Economy” (pp. 463–548). The following quotations from the first edition are my translations.
According to Schumpeter, static-hedonistic action is the rule in social and economic life, and creative action is the exception. He identifies human social and psychological makeup as two factors that explain why people tend to remain in an inert economic mode. The social environment has a strong tendency to stagnate, causing greater resistance to change in economies that are organized more according to social norms and values than to purely economic standards. Even more prevalent is psychological resistance to economic change as a response to actual or perceived threats to individual security. Even during the most dynamic phases of capitalist expansion, development occurred in a largely unchanging social environment.

True economic development comprises “those changes of the circular flow of economic life that the economy generates from within itself; only changes that are eventuated in an economy that is ‘left alone’ and not driven by an external force” (1912:103). Change in general, and development in particular, are not self-evident phenomena in society. Historically speaking, the production process in precapitalist economies tended to be inert. Even modern enterprises try to resist the imperative to change for as long as it is economically feasible. According to Schumpeter, the segment of history in which “we live” is both short and exceptional; therefore it “appears much larger and more important to us than it actually is . . . we have become so accustomed to development because we always see things as if they could not be different anywhere and anytime” (p. 108). Yet it is during this brief period called “capitalism” that the creative type asserts itself against the hedonistic type:

Modern industry was created by “real men”; they were not wretched figures constantly asking themselves fearfully whether every effort to which they had to submit, would promise enough of a surplus of pleasure. They were barely concerned with the hedonistic fruits of their actions. . . . Such men create, because they cannot help themselves. Their activity is the greatest, most splendid moment that economic life presents to the observer, and the static-hedonistic explanation appears quite pitiful next to it (1912:137).

Although the motives of these “men of action” may be contradictory, vacillating, nonsensical, and “entirely irrational from the point of view of hedonistic action” (1912:141), they follow the principle of economic efficiency, and adhere to the same rules of decision making as do the static-hedonistic actors. Their actions, however, are not bound by these rules; instead they are used toward “greater” ends. These men’s actions can be understood more easily and more adequately in terms of the “joy” derived from occupying a “social position of power” (soziale Machtstellung) and from engaging in creative expression (1912:138) than in terms of the profit motive. As an incentive for economic action, their craving for positions of power is guided by a noneconomic purpose. In their effort to acquire the means of production, accumulation serves as an indicator for success and for victories won.

Economic action motivated by the joy of creative expression and the impulse to be active is an end in itself. Economic creativity resembles the creative activity of artists, thinkers, or politicians. The creative will manifests itself above all in the realization of “new combinations”: initially the new is possible only in the form of new ways of using existing means of production. The “man of action” extracts a fraction of the product in the very same way as the rational actor in the static economy; by applying it differently, however, he realizes new combinations, thus fulfilling the “entrepreneurial function.” Schumpeter identifies five types of new combinations: 1) the production of a new good, 2) the introduction of a new quality of a good, or the new use of a product that already exists, 3) a new method of production, 4) the opening up of a new market, or 5) a change in the economic organization, as in the creation of a trust or the establishment of a corporation. The ideal-typical introduction of a new combination is the establishment of a new enterprise (1912:159). Schumpeter’s depiction of the entrepreneurial function as the introduction of
new combinations is a clear instance of economic rationalization as “action that aims at improving something, e.g. an industrial concern, to make it conform to standards of which consulting specialists approve” (1954:34).

No existing combination of the means of production is ever final and optimal. There are always better and more efficient ways of producing, of organizing the production process, and of distributing the product on the market. The new combinations are the form and content of economic development; the activity of the “leader” is its driving force. Any given society has a minority of individuals who possess the “sharpness of mind” and the “flexibility of imagination” that enables them to envision new combinations, but the number of those who are able to enact those combinations is even smaller.

Because creative action is the basic principle of economic development and the entrepreneur is its cause, according to Schumpeter, the question arises: How does creative action exercise its force in economy and society? Given that the “mass” of people is hedonistic and static, the first step—introducing a new idea—is the most difficult. New enterprises represent new dangers: they may threaten the livelihood of all involved. They require changes in the well-established orientation toward production and consumption that has become second nature to many. How, then, does progress occur?

Schumpeter’s answer leaves no ambiguities: “The majority that is predisposed in the static-hedonistic mode cannot be convinced to cooperate. . . . They are forced to cooperate” (1912:184). Throughout history, the most forceful men occupied positions of authority; they had slaves and other dependents. In modern society, however, entrepreneurs have no means of forcing the static-hedonistic types to cooperate in their endeavors other than the capital that they borrow from bankers who are willing to take a financial risk in the venture. Capital is the medium of power in modern society.

THE SOCIAL RATIONALIZATION OF THE ECONOMY

The theory of the entrepreneur in competitive capitalism, which Schumpeter presented in The Theory of Economic Development (1912), provided his frame of reference for analyzing fundamental changes in the organization of economic activity and innovation during the first half of the twentieth century. The death of the “robber barons” triggered what James Burnham (1941) called the “managerial revolution”: during the 1890s, differentiated management hierarchies were introduced, especially in the United States, to replace the potentate-oriented leadership structure of vast economic organizations that had been personally founded, owned, and operated by individuals such as Rockefeller and Carnegie. To analyze the socioeconomic implications of this managerial revolution that made the rise of corporate capitalism possible, Schumpeter reformulated his early theory of the entrepreneur as a thesis of entrepreneurial decline. The shift from entrepreneurial to managerial capitalism entailed nothing less than the prospect of a new organization of economy and society in which the entrepreneur was no longer needed—that is, “socialism.”

Schumpeter abhorred the ideology of Marxism; yet he had a keen understanding of the...
analytical value of Marx's work. To Schumpeter, Marx was above all a social scientist who rejected utopian socialism because he wanted to analyze the "necessary outcome of the observed social process" by scientific means (Schumpeter [1940]1991:334). In Schumpeter's work, the decline of the social and economic role of entrepreneurs and the rise of socialism are a necessary outcome of two parallel processes of rationalization: economic and social. Though Schumpeter regarded the process of social rationalization as undesirable from the viewpoint of economic efficiency, his scientific observation of the social evolution of capitalism led to the conclusion that this process is unavoidable.

Schumpeter's analysis of these processes of rationalization is founded on three different concepts of action: rational individual economic (or static) action, creative (or dynamic) action, and the implicit concept of social action. Strong tensions existed between these three types of action, which derived from diverging methodological and theoretical implications that Schumpeter never reconciled fully; even so, these types enabled him to develop a complex vision of the nexus between economy and society. To identify the function of the entrepreneur in the capitalist economy, Schumpeter introduced creative action into the general theoretical framework of neoclassical economics based on rational economic action. He then placed the phenomenon of capitalist economic development in its historical context to show that creative economic action is useful as a paradigm to analyze economic action only as long as it affects the direction of societal change—that is, as long as "society" allows creative actors to assert their interests over those of the rational economic actors.

As Schumpeter presented his argument, "society" denoted a vague orientation toward social equality and economic stability. He touched on the idea of social action as early as 1909 in an essay on the concept of social value, defining "social" wants as those "which are consciously asserted by the whole community. The means of satisfying such wants are valued not by individuals who merely interact, but by all individuals acting as a community consciously and jointly" (Schumpeter 1909:216). "Social" can be understood both on a purely formal level, signifying the "mutual interaction of individuals and the manifold social influences under which all of them live and work" (p. 5), and on a substantive level, denoting a set of norms and values that express a solidaristic attitude toward other members of society. Although Schumpeter never explicitly used the concept of "social action" (and a corresponding concept of social rationality), I employ it here to distinguish the three action-theoretic reference frames he used in his attempt to identify the forces determining the direction of social change.

In his essay "Sozialistische Moglichkeiten von heute" ("Contemporary Possibilities of Socialism," 1920/21), Schumpeter discussed the problem of "socialization" as a process of rationalization that is socially directed. His discussion of socialization refers to "socialization in the sense of the transformation of an economy based upon private property and private initiative into a socialist economy . . . in which a central body disposes of all means of production [and] elaborates and carries out an economic plan for society" (p. 308). Socialization thus can be understood either as a slow historical process or as a conscious political act. Following Marx, Schumpeter stresses that such a political act can be successful only if a historical, "automatic" process of socialization already has set in—that is, if social development already points the way toward "socialism." Can a tendency toward socialism be recognized "independently from the wishes and political tendencies in the economic and social affairs of our time?" (1920/21:312). Schumpeter's response is categorical: "This question can only be answered with a straight 'yes.'"

Socialization and socialism can work for several reasons. First, modern economies tend

8 This translation is cited from Bottomore (1992:36). The following quotations from this essay are my translations. The essay is rarely mentioned in discussions of Schumpeter's relationship to Marx. John E. Elliott (1980), for instance, pointed out "striking and neglected similarities" between Marx and Schumpeter, but without referring to this essay; the same is true of John Bellamy Foster's (1983) critical response to Elliott.
to concentrate in larger and ever larger units of production. Schumpeter sympathizes with Marx’s notion that “at the end of the capitalist process only a few giant enterprises will remain, whose management will be overtaken by society” (1920/21:312). This trend is the economic avenue toward socialization as imagined by Marx. Schumpeter asserts, however, that this trend has limits. Once a certain degree of differentiation and concentration has been reached, costs begin to increase again, resulting in losses and diminishing organizational transparency in the economy. The giant corporations that already existed when Schumpeter wrote were the result of purely economic processes as well as of nationalist and political efforts. In an economy that is dominated by large corporations, the possibility that “society” (or the state) will capture control over these organizational units is far greater than in an economy made up of smaller independent enterprises. In addition, “the ‘leading circles’ of the modern economy represent a negligibly small minority which are unequally less popular than a broad stratum of entrepreneurs would be” (1920/21:313–14).

Schumpeter regarded the rise of capitalism as a process of economic rationalization of society, establishing not only new production techniques but also a set of norms and values that enabled the rising entrepreneurial class to shape and influence society in their interest. The breakthrough to free competition and entrepreneurial activity came with the industrial revolution; so did the drive toward ever-increasing efficiency characteristic of the capitalist economy. Unlike Marx or Weber, however, Schumpeter was not concerned with the causes of this change:

We cannot and need not concern ourselves with the causes of this process here. It suffices to say that the peacefulness [of precapitalist times] was disturbed and the security of existence destroyed. . . . The economic types of entrepreneur, capitalist and worker thus created, and as a result of their influence all other groups as well, found themselves pushed out into an economic world of struggle and loss of tradition, in which everyone had to search constantly for new ways [of surviving], and in which everybody was forced into the necessity of rational decision making by the stings of enticing profit and threatening downfall. The economy of free competition punished economic inexpediency with economic death, and forged a process of uninterrupted selection and reorganization of the forms of enterprise as well as the methods of production and commercial combinations. Specialization and mechanization of production are merely special forms of a process of rationalization that reaches much further and embraces all things and people (1920/21:314–15).

This process of rationalization, which is intrinsic to the competitive economy, prepares the smooth transition to socialism. “Once this development has gone far enough . . . the effectiveness that is materialized . . . in economic affairs and economic habits of thinking can continue . . . [and] its completion may even require the existence of a central power . . . for the replacement of the automatic process of rationalization by a conscious one” (1920/21:316–17). Technological progress becomes a matter of systematically conducted science. Entrepreneurial function and management become principles that can be clearly identified and taught. Economic progress grows ever more impersonal. Although this development was just beginning when Schumpeter wrote, he ascertained that “we will reach a condition where the economy itself will be a single vast machine with automatic development” (1920/21:318).

Leadership and directed labor, superiority and subordination, wrote Schumpeter, will continue to exist. Creative activity will continue to be necessary, but it no longer will be embodied in leading personalities. Instead it will become a particularly qualified form of systematized office work. The importance of entrepreneurs and capitalist associations will
decline, just as the aristocracy declined along with the cavalry. The very foundation of economic positions of authority will erode.

The development of our psyches runs parallel to these socioeconomic and political developments. The instinctive masters and servants of old are being replaced by cripples called professionals, small specialized wheels in machines who have no sense of the richness of existence in earlier times, and whose total personality dries up along with their human relations. In today’s sociology, the analysis of this process has become a stereotypical theme under the heading “rationalization of life”...the process of subordinating human beings under machines and technology...a process accompanied by democratization, levelling, and...great insecurity for all positions of authority (1920/21:318).

Decisions are no longer made by the clearly identifiable proprietor of an inherited factory, but by management in a bureaucratic ivory tower. The typical industrial tycoon of Schumpeter’s time is the president or general director of a stock company, whose position is essentially temporary. The desire for leadership disappears as its social acceptability diminishes. People become mechanized and shallow.

Two decades later, in *Capitalism, Socialism, and Democracy* (1942), Schumpeter asked whether capitalism could survive and whether socialism could work. He answered “no” to the first question but “yes” to the second. Capitalism will be transformed because its productive machine works so well, not because it does not work well enough:

[T]he actual and prospective performance of the capitalist system is such as to negate the idea of its breaking down under the weight of economic failure, but...its very success undermines the social institutions which protect it, and “inevitably” creates conditions in which it will not be able to live and which strongly point to Socialism as the heir apparent (1942:61).

Economic rationalization causes both economic productivity and the human capacity to think rationally to such an extent that rationality turns against its own economic foundation. The capitalist mode of production loses its control over the way in which most people in industrial societies conduct their lives, and over the norms and values that determine their view of the world. This loss of control results in conscious attempts to rationalize the economic process and bring it under the control of “society.” The entrepreneurial function of bringing about “creative destruction” (1942:81–86) is transferred to “managerial teams,” which rationalize and routinize the entrepreneurial function of introducing new combinations.

Economically and sociologically, directly and indirectly, the bourgeoisie...depends on the entrepreneur and, as a class, lives and will die with him, though a more or less prolonged transitional stage—eventually a stage in which it may feel equally unable to die and to live—is quite likely to occur, as in fact it did occur in the case of feudal civilization (1942:134).

The perfectly bureaucratized giant industrial corporation dethrones the entrepreneur. The “true pacemakers of socialism were not the intellectuals or agitators who preached it but the Vanderbilts, Carnegies and Rockefellers” (1942:134). The disappearance of the entrepreneur is only one element in a more complex social, political, and cultural shift that accompanies and facilitates the transition from capitalism to socialism.

The socioeconomic importance of the dynamic type will decline when a sizable fraction
of the population in capitalist societies begins to perceive economic stability as a given. In societies with modern, developed capitalist economies, stabilization and rationalization of the economic process become realistic possibilities. Schumpeter's analyses of entrepreneurship and the rise of socialism are thus highly integrated components of one framework: the “fall” of capitalism and “rise” of socialism do not constitute a systemic change from one social order to another, but an integrated process of organizational and social rationalization. In a condition of increasing economic stability, individuals and groups can “afford” to supplant “capitalist” economic norms and values by more socially and culturally sensitive, solidaristic ones. Although Schumpeter identified characteristics of the socialist order, the weight of his argument and its usefulness to social theory do not rest with the systemic distinction, but with his depiction of the process of transition. To him, the “rise of socialism” was a set of processes of continuous organizational, political, and sociocultural transformations and adaptations in the social system of norms and values.

CONCLUSION

Peter Berger expressed the conventional wisdom concerning Schumpeter when he wrote that Schumpeter’s “profoundly astute analysis of the relations between capitalism, socialism and democracy constituted a sort of intellectual excursion, never intended to result in something to be called a theory of capitalism in sociopolitical or sociocultural terms” (Berger 1986:6). Berger is correct in the literal sense. The term social theory did not carry any precise meaning to Schumpeter, and he certainly would not have considered himself a social theorist. (Marx and Weber, who represented the most clearly sociological influences on Schumpeter, also did not view most of their works as explicit contributions to social theory.) In Schumpeter’s own eyes, Capitalism, Socialism, and Democracy (1942) was a casual attempt to pull together several arguments that he was not able to develop fully in his magnum opus, Business Cycles (1939); the subtitle of that work, “A Theoretical, Historical and Statistical Analysis of the Capitalist Process,” describes its content and purpose more accurately. Schumpeter the economist regarded Capitalism, Socialism, and Democracy as his least rigorous, most journalistic book. Its analysis did not conform to the rigorous foundation on rational individual economic action, the high level of internal consistency, and the narrow confinement to economic issues that are the defining features of neoclassical economic theory. Yet as a “broad social narrative . . . that relate[s] stories of origin and development, tales of crisis, decline, or progress” (Seidman 1991:131), Capitalism, Socialism, and Democracy is a compelling interpretation of the evolution of economy and society in Western capitalism, which constitutes the beginnings of a social theory that takes into consideration the “inner logic” of the economic system.

Because Schumpeter’s work comprises an economic theory that takes the “social” into consideration and a social theory that takes seriously the imperatives of the economic process, it may enable us to reconsider the balance between economic imperatives and social preferences. His long-term perspective provides a general framework for interpreting developments in the organization of the economy and the relationship between economy and society. Schumpeter was sharply aware that patterns of economic development and action, and the nature of economic institutions, vary from society to society. In this sense he recognized that economic action and institutions, including entrepreneurship, are socially embedded.

Accordingly a universal model for the transition from capitalism to socialism cannot exist; nor does Schumpeter’s analysis lead to a strategy of reorganizing the relationship between economy and society. Rather, it represents a framework for interpreting actual developments that can inform and enlighten sociologists, and social scientists in general,
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who pursue a variety of research interests. His work can help us to reassess the potential long-term significance of the role of “new social movements”9 that pertain to the relationship between economic, sociocultural, and political values. Inglehart’s (1977) analysis of the “silent revolution,” for instance—the shift during the 1970s from materialist to postmaterialist values—identifies value changes in Western societies that are entirely compatible with Schumpeter’s work. Viewed in this context, Schumpeter’s work comprises a model for interpreting and analyzing sociohistorical developments. It cannot fully replace other theories—after all, his writings are not without methodological, theoretical, and epistemological flaws—but it can supplement and clarify aspects of many theories.

Although Schumpeter’s social theory never can be seen as a whole because parts of it remain hidden, as behind wisps of fog, the crucial outlines of the structure are clear. Modern capitalism evolved in the form of three distinct processes of rationalization that can occur simultaneously over long periods: 1) the rise of competitive, or entrepreneurial, capitalism as an economic rationalization of society; 2) the rise of corporate, or managerial, capitalism as a subsequent process of organizational rationalization resulting from the vast growth of “scale and scope”; and 3) the rise of socialism as a process of social rationalization of the economy in an increasingly secularized “society” that asserts itself over, but not necessarily against, the economy.

Despite the conspicuous similarities between Weber’s theory of rationalization and Schumpeter’s description of the rise of managerial capitalism, the compatibility of Schumpeter’s writings with Weber’s theory of rationalization remains largely unrecognized in the related literature.10 Moreover, the main difference between Weber’s and Schumpeter’s use of the concept of rationalization can be illustrated by reference to their respective treatments of socialism. As capitalism evolves and becomes more and more successful (i.e., efficient and stable), the economy emerges as a distinct system with a specific logic of evolution and corresponding types of action. The further the capitalist economy develops, the easier it is to employ economic and organizational skills and know-how as standard techniques. At this point, the similarity between Weber and Schumpeter ends: the latter claims that at a certain point of development, a transitional process sets in, which reflects the fact that society no longer needs to be organized according to the capitalist mode of production which continues to structure the economy. Once this point is reached, Schumpeter suggests, the economy provides society with its means of material production and reproduction, regardless of the specific social organization (democratic, autocratic, socialist, or religious); that great rationalizer of the economy, the creative-innovative entrepreneur, is no longer needed. The capitalist economic process comprises the most efficient and most productive allocation of labor, the organizational techniques and material means of production, and natural resources. There is no need to abolish the capitalist economy because society is no longer a “function” of the capitalist economy.

Because the rise of socialism is a process, one can envision an infinite number of possible conditions of social and economic life between capitalism and socialism. The process of the social rationalization of the economy, which underlies Schumpeter’s vision of economic and social development in capitalism, is the rapidly unfolding tendency to place the economy “under society’s control,” to make the economy “work” in the interest of society and according to what society regards as desirable and acceptable.

Schumpeter resisted the temptation to retreat into the coziness of a well-ordered theoretical edifice. His ventures into uncharted territory of economic life in society express his

10 The most notable exception is Tom Bottomore (1992); also see Collins (1986), Osterhammel (1987), and Swedberg (1992). For a discussion of the similarities and differences between Weber’s and Schumpeter’s writings on entrepreneurship, and its relation to processes of rationalization, see Dahms (1993).
resistance to the identification of theoretical frameworks with reality. His great escapes from neoclassical economics may appear to have failed, or to be erroneous in their selective observation and emphasis. Even so, his drive to capture some truths about Western capitalism should serve to remind not only those engaged in “Schumpeter scholarship,” but also theoretically minded social scientists in general, that theories are worthwhile only if they further social-scientific understanding by refining our senses and intellect. In this sense, Schumpeter may well be a theorist for the twenty-first century.

REFERENCES


JOSEPH SCHUMPETER’S SOCIAL THEORY


