

## WILL CAPITALISM SURVIVE?

by Dr. Benjamin A. Rogge

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I am very pleased to be speaking here as a part of a series honoring Ludwig von Mises. I am very serious when I say that I think Mises will come to be recognized in the centuries ahead as probably the single most creative mind to have been at work in economics in this century—a recognition never fully accorded him during his life.

I think it appropriate as well that my own paper tonight is based upon the work of a fellow Viennese of Mises', another one that I think history will deal very kindly with, and that is Joseph Schumpeter. My topic is the question "Will Capitalism Survive?" and it might well be subtitled, "Joseph Schumpeter Revisited."

I want to begin with a paragraph from Schumpeter's best known work, *Capitalism, Socialism and Democracy*. Here are Schumpeter's words:

Can capitalism survive? No, I do not think it can. The thesis I shall endeavor to establish is that the actual and perspective performance of the capitalist system is such as to negative the idea of its breaking down under the weight of economic failure, but that 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.

This is Schumpeter's thesis and it is the one that I wish to explore tonight. I'm going to use the Schumpeter argument as the central framework on which to build my own analysis.

These words were written in 1942 by Schumpeter in his prophetic work, *Capitalism, Socialism and Democracy*, my own dog-eared copy of which you see here. Inasmuch as I intend to build my comment around this work, it might be appropriate for me to reinforce my own judgment of Schumpeter's competence with an evaluation of Schumpeter by the Nobel prize winning economist, Paul Samuelson. Paul Samuelson, no obsessive conservative, in one of his *Newsweek* columns in 1970, wrote as follows:

It is just 20 years since Joseph Schumpeter died. Although it is not my practice to tout profitable speculations, today I'd like to suggest

that Schumpeter's diagnosis of the probable decay of capitalism deserves a new reading in our own time. The general reader cannot do better than begin with his 1942, *Capitalism, Socialism and Democracy*. Nothing that has happened in recent years at Berkeley or Harvard would come as a surprise to those who have absorbed this work. If there are any good clubs in the great beyond, one can picture Schumpeter a spry 87-year-old by this time, martini glass in hand, reading the *New York Review of Books* and chuckling with clinical amusement. Only his Viennese veneer keeps him from saying, "I told you so."

On what does Schumpeter base his forecast and how does all this relate to the life and times of the American people in 1973? Bear with me. All will be revealed in due course. Now we begin with the analysis.

### Has Capitalism Worked?

The first question that Schumpeter seeks to answer is this: "Has capitalism proved to be a successful economic system, in the sense of producing over time continuing improvement in the economic well being of the masses of the people?" His answer to this is an unequivocal and resounding yes. In his words, "the capitalist process, not by coincidence, but by virtue of its mechanism, progressively raises the standard of life of the masses." Continuing with Schumpeter's words: "Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."

I direct your attention to his phrase, "not by coincidence." Critics of capitalism often argue that the economic performance under capitalism in England, the United States and elsewhere was not really the result of capitalism but of a combination of fortuitous circumstances and of wise governmental action to counteract capitalist excesses. Schumpeter attacks these arguments head-on. He takes on each of the fortuitous circumstances that have been ad-

vanced as an explanation of the success of capitalism. For example, here in America the argument is often made that the success of capitalism was really due not to capitalism but to the virgin land and other natural resources that were here to be exploited. Schumpeter notes that these were but objective possibilities waiting to be exploited under the agency of capitalism. I might add that some million or so Indians lived lives of severe economic privation on top of those same resources in an area where over two hundred million now live lives of Galbraithian affluence. In the same way, the technological revolution of the last two hundred years has not been an historic accident, but according to Schumpeter, a predictable concomitance of capitalism.

To the claim that capitalism's success was significantly produced by governmental corrections of capitalist excesses he makes two replies. The first is that the track record of capitalism was just as good in the period of minimal government intervention, that is from 1870 to 1914, as in later periods. And indeed it was. Look at the data on the improvement in the real wage of American workers. In that period it was just as rapid as it has been in recent decades of much more state intervention. The second is that most of the interventions according to Schumpeter (and according to Rogge) actually reduced the rate of improvement in economic well being.

In summary, Schumpeter takes such arguments as that it was the availability of natural resources or government intervention that produced the observed economic growth under capitalism and replies that the arguments simply aren't true. He concludes: "We have now established a reasonable case to the effect that the observed behavior of output per head of population during the period of full-fledged capitalism was not an accident but may be held to measure roughly capitalist performance." In other words, in cockney terms, "It was capitalism what did it."

#### Can Capitalism Continue To Work?

The next question: "Are there any purely economic factors on the horizon (in 1942) that would prejudice the chances of capitalism continuing with this kind of record in the future?" His answer here is no. Most of you are far too young to remember a great debate of the late 30's and early 40's. Some few in the audience (including Rogge) do indeed remember the debate over what was called "the stagnation thesis." This was the idea that the Western world, in particular, America and England, had reached a point of stagnation, particularly in terms of investment outlets. Why? Because of the disappearance of the frontier, the slowing down of population growth, and what they foresaw as the inevitable slowing down of the rate of technological change. In the light of what you know, can you imagine anyone believing that by the late 1930's almost everything had already been discovered that was to be discovered in the form of technology? Yet, this was seriously being advanced in the late 30's and early 40's. To this Schumpeter said, "No, that's nonsense!" (Much of this espousal of the stagnation thesis was associated with the name of John Maynard Keynes.)

This argument has now receded into the background. Why? Because the facts of experience have exploded the arguments. But Schumpeter in '42 was anticipating that experience—and very prophetically indeed.

#### Capitalism, Competition and Monopoly

His next question is one which some of you heard

me talk about when I was here a year or so ago.

His next question is this: "How can capitalism be so successful a system when capitalist reality has always been at such odds with the perfect competition requirement of the textbook models?"

Schumpeter noted that the real world of capitalism has never been like the perfect competition model of the textbooks and that the textbook authors have always insisted that, absent perfect competition, capitalism would be inefficient and would not work. Yet, it obviously has worked. What can the answer be? The answer, Schumpeter says, is that the traditional textbook model of competition (and monopoly) with its emphasis on perfect competition as the ideal and the target, is simply not relevant. As he put it, "If we economists were given less to wishful thinking and more to the observation of facts, doubts would immediately arise as to the realistic virtues of a theory that would have led us to expect a very different result." In other words, the text model would have led us to predict a very unsatisfactory



performance out of capitalism. Yet we have had precisely the opposite, in spite of the fact that we have not had perfect competition. Therefore, the textbook model must simply be wrong. It is not relevant.

He goes on to develop his own model of capitalist reality in which he stresses the role of innovation and the role of the entrepreneur. Innovation is the act of taking a new idea and putting it to use—not the act of coming up with a new idea, but the act of putting it to use. And Americans have been particularly gifted at this, not because of cultural characteristics or genetic endowments but because, says Schumpeter, of the nature of the capitalist environment. Invention is the first step, the coming up with the idea. We

Americans talk a great deal about how inventive we are, yet most of the world's great ideas did not originate on this continent. They really didn't. They're European, most of them. Or Chinese or Arabian or who knows what? What American businessmen have been good at has been not invention but innovation—putting an idea to use. And that derives from the capitalist environment.

Schumpeter stresses that the real nature of competition is the competition between the man who had the last idea and got way out ahead and the man who has come up with the new idea; in other words, competition is a never ending game of leapfrog. This is the real nature of competition and it makes no difference whether you have one firm, two firms, or six firms. It makes no difference how much money they're making at a given moment of time. Don't break up IBM. Don't break up U.S. Steel. Don't break up the New York Yankees. Time and tide will take care of everything—time and tide in the form of this leapfrogging process, of somebody coming up with a new idea and leapfrogging over the old.

I use the pharmaceutical industry as an example of this leapfrogging, with first one company, then another, then another, getting out ahead. And each time the textbook would say, that's bad. Each time Schumpeter would say, "No, it isn't. That isn't bad—that's good. That's good because their getting out ahead will be an example to everybody else. The others are going to keep trying and pretty soon they're going to come up with an even better idea. And that's the way capitalism works!" I think this is really one of the most important of Schumpeter's developments.

To summarize this section: To the textbook economist, both the size of the firm relative to the market and the high profits on individual products would be evidence of market imperfection calling for corrective action by the state, perhaps the breaking up of the larger firms. To Schumpeter, not only are size and profit not anti-competitive per se, both are the natural and desirable features of the competitive process, viewed as a dynamic process of leapfrogging through the course of time. As he puts it, "Long-run cases of pure monopoly must be of the rarest occurrence. The power to exploit at pleasure a given pattern of demand can, under the conditions of intact capitalism, hardly persist for a period long enough to matter *unless buttressed by public authority.*" My own conviction is that competition does not have to be created or protected. It adheres in the very nature of man.

We're about to celebrate—some of us—the 200th anniversary of the publication of *The Wealth of Nations*—again, I think, one of the great works of the human spirit and the human mind. Adam Smith said, "All systems of preference or restraint thus being swept away, the sweet and simple system of natural liberty comes into being of *its own accord.*" You don't even have to create it. It adheres in the very nature of man. I believe that to be true. All that a government need do to encourage competition is to not get in its way, not stop it.

#### Who Will Defend Capitalism?

The case for capitalism from Schumpeter's point of view is now complete and it is impressive indeed. Why does this not insure the public and political acceptance of this system? Assuming for the moment that Schumpeter is correct, that he has established here the basic case for capitalism as the system that will promote the long run economic well-being of the

masses of the people, isn't that all that need be done to insure its victory? Schumpeter says, no. He says, "It is an error to believe that political attack arises primarily from grievance and that it can be turned by justification. In no case is rational argument [of the kind he has been advancing] a match for the extra-rational determinants of conduct." In other words, capitalism is not being tried on the question of its rationality, of its success. It is being tried on a different set of criteria. "If capitalism is to survive," Schumpeter says, "it must defend itself in the arena of values and emotions." And here, its very success as an economic system reduces its chances of victory.

#### Who Will Defend Capitalism: The Masses?

Here, Schumpeter is very, very typically Marxian; this is a typically Marxian analysis, developed by a man with an almost romantic attachment to capitalism. Schumpeter begins by examining the impact of capitalism on each of the groups in society that might serve as a bulwark against the enemies of the system. Here he examines the impact of the continuing success of capitalism on three groups of people: the masses of the people, the businessmen and the intellectuals.

Take first the masses of the people: These, he says, are the principal beneficiaries of capitalism. I would have you note that he would argue (as I would) that the businessman is not the principal beneficiary of capitalism. People who have his kind of aggressiveness, his kind of desire to get ahead, his kind of ambition, his kind of capacity to get things done, are going to make it in almost any kind of economic system. Put him down in Russia and he'll end up running the factories. It is only under capitalism that all of this energy and aggressiveness is channeled into the service of the masses of people and they, the masses, are indeed the principal beneficiaries of the system. Now, why do the masses not defend the system? Well, says Schumpeter, because they do not connect their affluence with the capitalist system, because they don't know the source of it; because they are incapable of understanding any economic system as such! Because they are more aware of their daily frustrations and insecurities under the system, which are there, than they are of the long-run gains from the system. Finally, and very importantly, because they are taught by the intellectuals to resent the capitalist system and its central figure, the businessman.

#### Who Will Defend Capitalism: The Aristocracy?

There is another element that Schumpeter talks about that I did not identify. This is the old aristocratic element. It is largely based on land, on a particular inheritance system, and upon an acceptance of the concept of an aristocracy. It was extremely important in some ways in defending the businessman from attack in the nineteenth century in England and to some extent in this country. Now, what happens to this traditional aristocracy under capitalism? "Well," said Schumpeter, "capitalism tends to destroy, or it tends to be an unfriendly climate for this kind of tradition-based, religion-based aristocracy." Capitalism does indeed deal harshly with this element in society, with this sense of tradition and of custom and of transcendental wisdom. The businessman is always asking, how much? How can I do it better? This is not the kind of climate in which a traditional aristocracy is going to flourish. And it tends to disappear. Hence, it is no longer a defense against the masses and against the critics.

#### Who Will Defend Capitalism: The Businessman?

But why does any of this matter? Can't the

businessman protect himself? Why must he rely on others? Why, indeed? Well, says Schumpeter, the reason is that even if he were fully aware of the problem and determined to do something about it, the businessman lacks the capacity to capture the imagination of the society. Those who see the businessman as manipulating society and getting whatever they want are almost precisely 180 degrees wrong! Listen to what Schumpeter says, "A genius in the business office may be, and often is, utterly unable outside of it to say boo to a goose, both in the drawing room and on the platform." (And some of you may come from families run by just that sort of genius in the business office.) "Knowing this, he wants to be left alone and to leave politics alone. There is surely no trace of any mystic glamour about him, which is what counts in the ruling of men.



The stock exchange is a poor substitute for the Holy Grail." In effect, the businessman has no charisma and no sex appeal. Or, as Stendall put it, "Far be it from me to conclude that industrialists are not honorable. All I mean is that they are not heroic." As Samuel Johnson said, "A man is never more innocently involved than in the making of money."

And as I have often put it, to the best of my knowledge, neither Aristotle, nor Jesus Christ, nor Joan of Arc, nor Servetus, was put to death by a frustrated business rival. The businessman is not a hero. He is the man of rationality and the man who knows how to get things done. But he is not the hero. And it takes the hero to rule men. Schumpeter is saying that even if the businessman wanted to do something about the course of events, the very nature of what he *is* renders him incapable of doing it. But more than that, as capitalism matures, he says that the businessman will have less of a *will* to defend

capitalism. Most importantly, with the growth of the large organization, which is technologically very efficient in serving the masses of the people, the role of the individual businessman, the individual entrepreneur, is replaced by the work of the team and innovation itself is reduced to routine. Personality is blotted out. How many of you could name me the presidents of three major corporations in America today? Personality is blotted out, and with it, that gut sense of ownership of the means of production that characterizes the self-made man of early capitalism who said, "By God, this is mine! I created it. These workers are mine. You unions stay away. You governments stay away. This is *my* factory."

A case in point from some time ago: after my senior year in college I was employed, before going on to graduate school, by the local, privately owned gas distribution system to go around and persuade the citizens of Hastings, Nebraska that they should not vote for a city take-over of that gas system in the fall. So three or four of us from the senior class that year went around and we would knock on every door where people were using this gas system. We'd ask if they had any complaints; if we could get them into a discussion, we would talk to them of the evils of socialism and of the great desirability of private enterprise. Each Monday we would be called together by the manager of this distribution branch of the firm, and he would give us a pep talk on how terrible socialism was and how great private enterprise was. Well, we were so persuasive that at the end of the summer the citizens voted only four to one to take over the gas company. Three days after the city took it over, they announced the name of the new manager and guess who it was? Old God, how-I-love-free-enterprise-and-how-I-hate-socialism—himself!—the same man who had given us our pep talks each Monday. You see? The businessman (says Schumpeter) comes to the point where he is indifferent as to whether it is the citizen who is controlling him, the anonymous citizen, or the anonymous stockholder. Most of all he wants to be left alone to do his thing.

Well, says Schumpeter, the result of all of this is to make of capitalism a virtually undefended fortress. The masses aren't going to defend it because they don't understand it, and because they have been taught not to like it. The aristocracy will have been eliminated by the rationalist processes of capitalism. The businessman himself, even if he were of a mind to defend it, doesn't have the personal characteristics that make him effective in that kind of a defense. Secondly, the businessman may come to lose any real will to defend capitalism.

#### The Enemy: The Intellectuals

Now, he says, all of this alone would not mean the end of capitalism. What is needed is an enemy. And he says, this too, capitalism provides. In what form? In the form of the intellectuals. Who are the intellectuals? (And by the way, I am an intellectual by this definition.) It has nothing to do with whether you are bright. It's what you do and don't do, Schumpeter says. This is his precise definition:

Intellectuals are people who wield the power of the spoken and written word, and one of the touches that distinguishes them from other people who do the same is the absence of direct responsibility for practical affairs. The critical attitude arises no less from the intellectual's situation as an onlooker, in most cases also an outsider, than from the fact that his main

chance of asserting himself lies in his actual or potential nuisance value.

What does the growing affluence of capitalism mean in terms of intellectuals? Well, what it permits, says Schumpeter, is a continuing expansion in systems of higher education, and hence in the ranks of the intellectuals. Now mind you, in 1942 Schumpeter accurately foresaw the current surplus of intellectuals in America. What do we mean by surplus? Surplus in the sense of there being far more intellectuals than there are employment opportunities with income and prestige and duties appropriate to the self-evaluations of those of us who are intellectuals. There aren't enough jobs of the kind that we believe ourselves to have been created to fill, at incomes we believe appropriate to our true worth. True or false? True! Now, for this, says Schumpeter, the intellectuals will hold the capitalist system responsible, which will add fuel to their already burning critical fires. One of their favorite targets will be the businessman—the businessman, who makes absurd quantities of money and who so obviously is less intelligent, less well-read, less civilized than the man who spends his life with words. The intellectual finds it reassuring to say that the businessman gets his money by luck, or monopoly, or exploitation, or dishonesty, or what have you.

One group the intellectuals will seek to identify with and stimulate to greater anti-capitalist activities will be the trade unionists. Schumpeter describes the advances of the intellectuals to labor movement in words that would seem to be truly prophetic to anyone who had recently seen pictures of the adulatory groups around a Cesar Chavez. In this section, he talks about the intellectual having no genuine authority and feeling always in danger of being unceremoniously told to mind his own business by the workers. "He must flatter, promise and incite, nurse left-wings and scowling minorities, sponsor doubtful or sub-marginal cases, appeal to fringe ends, profess himself ready to obey."

A second group with which the intellectuals will feel a natural alliance will be the governmental bureaucrats, with whom they share a common educational background. In addition, the bureaucrats will be increasingly involved in administering anti-capitalist legislation. I might note that to the intellectuals, these anti-capitalist legislative creations will have a second happy feature—employment opportunities for themselves and their friends, carrying with them both decent pay and indecent amounts of power over others. The intellectual by creating these bureaucratic control mechanisms is not only controlling his enemy, the businessman, but he is providing jobs for himself and those like him—a very attractive combination.

Well, where does it end? The enemy and his allies are now at the gates of the capitalists' fortress. Is there any hope that the businessman will finally sense the danger to himself and the system of which he is a part and rise to meet the challenge? As Schumpeter sees it—quite the contrary! Here are his words:

Perhaps the most striking feature of the picture is the extent to which the bourgeois besides educating its own enemies allows itself in turn to be educated by them. It absorbs the slogans of current radicalism and seems quite willing to undergo a process of conversion to a creed hostile to its very existence. Haltingly and

grudgingly it concedes in part the implications of that creed. This would be most astonishing and, indeed, very hard to explain were it not for the fact that the typical bourgeois is rapidly losing faith in his own creed. This is verified by the characteristic manner in which particular capitalist interests and bourgeoisie as a whole behave when facing direct attack. They talk and plead or hire people to do it for them. They snatch at every chance of compromise. They are ever ready to give in. They never put up a fight under the flag of their own ideals and their interests.

### The Schumpeter Prediction: An Evaluation

Now we have Schumpeter's prediction—is it right or wrong? I take no pleasure in reporting to you my own conviction that the course of events is lending ever greater credibility to the Schumpeter thesis. I don't want to go into all of the factors that lead me to the conclusion. Just a few statements. Do we or do we not have a surplus of intellectuals? Are they or are they not critical of the businessman and of the American business system? Do these critics of capitalism largely control the world of the academy, the media, of the pulpit, of the stage? When did you last see a businessman treated sympathetically in a novel or play? He has two choices; he can be a knave or he can be a fool. Whose name is better known to the American people—Ralph Nader's or the president of General Motors? I would guess that most of you don't know the name of the president of General Motors—yet you go to college in Michigan. But I am certain that you know who Ralph Nader is!

Do we find in the masses the people with any real understanding of capitalism and any willingness to defend? As Ortega put it, in *Revolt of the Masses*, are they not really the spoiled beneficiaries of a process they neither understand nor appreciate? What about the businessman? The reaction of most of the businessmen to the encroachments on their authority in the past thirty or forty years has been similar, it seems to me, to what Schumpeter described and predicted; also, to what Conrad described so graphically in another sense. This was the reaction of the native girl to Lord Jim. Conrad describes this encounter between Lord Jim and the native girl by saying, "He would have ravished her but for her timely compliance." Her reaction is pretty much the response of the businessman to the encroachments of government.

Take a look at who endorsed the coming of wage price controls! Both the NAM and the United States Chamber of Commerce. The NAM is now repentant of its sins and is conducting a great advertising campaign against the very same wage and price controls. I would conclude that John Kenneth Galbraith and his friends have indeed taught the businessman well. And what they have taught him is to repeat the phrases that must eventually sound his own death knell. The capitalist fortress is, indeed, almost naked of defenders and is, indeed, encompassed round with a host of enemies.

Are there no signs pointing in the other direction? Of course, there are always signs pointing in the other direction. Life is never a simple movement, all in one direction. Must the Schumpeterian process work its way all the way through? No one knows. Is the Schumpeter message a defeatist message? Schumpeter, in the preface to the second edition,

responds to the charge of defeatism: "I deny entirely this term is applicable to a piece of analysis. Defeatism denotes a certain psychic state that has meaning only in reference to action. Facts in themselves and inferences from them can never be defeatist, or the opposite whatever they might be."

Schumpeter continues: "The report that a given ship is sinking is not defeatist, only the spirit in which this report is received can be defeatist. The crew can sit down and drink. But it can also rush to the pumps." As you would guess I am suggesting that as many as are inclined should rush to the pumps.

### Is There Any Hope?

Is the situation all that desperate, are there any hopeful signs? Of course, there are always some businessmen who are aware. Not all intellectuals are critics of capitalism. Much of the new empirical work in economics (Mises himself did not think much of empirical work) actually supports the market position. Among economists I see a growing respect for the market. (If you want to know where there is great admiration for the market place, go to the economists and intellectuals of Eastern Europe, where they have tried to do without markets!)

But nevertheless it seems to me that the flood tide is still what Schumpeter predicted. The outlook for capitalism at this moment is anything but reassuring.

My self-assigned task here has been one of diagnosis—not prescription. I do not know what others should do. I know only what I try to do about it, and that is to talk, and talk, and talk, and talk—and that isn't much. Each of you must make your own decision. But, if you're worried that the world may be destroyed before you have a chance to change anything, I offer you in closing words of consolation from Adam Smith. Writing in 1776 when the outlook for capitalism was certainly no better than it is today—it had not even been fully tried—he said that:

The uniform constant and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement in spite of both the extravagance of government and the greatest errors of administration. Like the unknown principle of animal life it frequently restores health and vigor to constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor.

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