

JOSEPH SCHUMPETER'S PREDICTION: WILL CAPITALISM BE REPLACED BY SOCIALISM?

LUNGU MARIUS ROBERT¹, URLICA ALINA^{1*}, LUNGU MARIA²,
IOSIM IASMINA¹, MILIN IOANA ANDA¹

¹University of Life Sciences "King Mihai I" from Timisoara

²West University of Timisoara

*Corresponding author's e-mail: alina.urlica@usvt.ro

***Abstract:** Capitalism is a word which has come under heavy criticism in recent years and its demise has long been announced, although the capitalist economic system has ensured the economic supremacy of the West for over 500 years. Capitalist economies and systems such as those of the United States continue to be the strongest in the world, at least until 2050, when it might be overtaken by the Chinese economy. Even China, a follower of the "one country, two systems" principle, accepts the capitalist economy in some of its regions, where approximately 500 million Chinese work. What will happen to capitalism? Will it fall apart? Will it be replaced by socialism? Such questions also concerned the great Austrian economist Joseph Schumpeter. In 1942 the Austrian economist dedicated an entire book to this subject: "Capitalism, socialism and democracy". His thesis is that the very success of capitalism undermines the social institutions that protect it and that inevitably create the conditions in which it will no longer be able to survive, pointing decisively in the direction of socialism as the heir apparent. In 1949, in New York, Schumpeter resumed the thesis with even greater force in the conference entitled "The March into Socialism", held before the American Economist Association.*

Key words: conceptual analysis, economic theory, capitalism, socialism

INTRODUCTION

The idea of replacing capitalism with socialism is not new. It has a history of over 170 years, if we consider the date of the Communist Manifesto, the year 1848. Karl Marx preached the inevitable end of capitalism, due to the internal contradictions between the capitalist exploiters and the exploited workers. "The essence of Marxism was the belief that the industrial economy was doomed to produce an intolerably unequal society divided between the bourgeoisie, the owners of capital, and a property-less proletariat. Capitalism inexorably demanded the concentration of capital in ever fewer hands and the reduction of everyone else to wage slavery."(5)

The working class would start a revolution, which would eliminate the capitalist economy and the capitalist social classes: the bourgeoisie, the aristocracy and the wealthy peasants. But the communist revolution did not take place in capitalist countries, as Karl Marx prophesied, but in countries that were feudal rather than capitalist, namely Russia and China.

"Born in Austria to parents who owned a textile factory, Schumpeter was very familiar with business when he entered the University of Vienna to study economics and law. In 1911 Schumpeter took a professorship in economics at the University of Graz. With the rise of Hitler, Schumpeter left Europe and the University of Bonn, where he was a professor from 1925 until 1932, and emigrated to the United States. In that same year he accepted a permanent position at Harvard, where he remained until his retirement in 1949. Schumpeter was president of the American Economic Association in 1948." (6)

Joseph Schumpeter is considered one of the most influential economists of the last hundred years, it is he who invented the concept of "destruction creative". Although he personally held conservative beliefs, Schumpeter was skeptical about capitalism's chances of survival. In his view, capitalism generates and cultivates its own seeds of destruction within itself, excelling in creating and subsidizing intellectual currents to challenge it. (6)

According to Niall Ferguson, Schumpeter had in mind when he said this mainly the intellectual elites who dominate the academic and media and more recently the business spaces, however surprising the last statement may seem at first sight. The idea that socialism could triumph remained a popular one throughout the Cold War. And at Harvard and in other academic settings, says Niall Ferguson, mainly recalling another very well-known economist, Nobel Prize winner Paul Samuelson, a former student of Schumpeter at Harvard. He predicted that the economy of the Soviet Union would surpass that of the United States in 1985. Reality contradicted him. The Soviet economy reached only 44 percent of the American one. (4)

MATERIALS AND METHODS

The topic of the survival of capitalism is a complex one that requires an interdisciplinary approach: historical, philosophical and economic. Of course, we do not pretend to give a categorical answer to this question. The debate continues. The future remains open and will be in the hands of the people.

RESEARCH RESULTS

In 1942, Schumpeter published his fundamental book: *Capitalism, Socialism and Democracy*, where he tried to answer the question: "Can Capitalism Survive?" No. I don't think it can." He then answered a second question: "Can socialism work?" Of course it can".

Capitalism, Socialism and Democracy is one of the great classics in twentieth century social science. What makes Schumpeter's book so brilliant are three things in particular: its novel view of democracy; its heretic analysis of the workings of the capitalist economy; and its provocative argument that capitalism is bound to disappear—not because of its failure, but because of its success. (15)

"Schumpeter was fascinated by Karl Marx and devoted the first 60 pages of *Capitalism, Socialism, and Democracy* to an analysis of Marx as economist, sociologist, and prophet of the future. He considered Marx to be wrong on many, if not most, things. But as a forecaster of the future, Schumpeter considered Marx to be right, but for the wrong reasons. Capitalism would pass away and be replaced by some type of socialism, but not due to growing impoverishment of "the masses" or an exaggerated concentration of wealth in fewer and fewer hands." (3)

"Why, then, has socialism come back into vogue in our time—and in America, of all places? To answer this question, it is helpful to turn back to Schumpeter. It will be remembered that he argued, first, that capitalism's propensity for "creative destruction" was also a source of weakness; second, that capitalism tends towards oligopoly, not perfect competition; third, that capitalism "creates, educates and subsidizes a vested interest in social unrest," namely intellectuals; and, finally, that socialism is politically attractive to bureaucrats and (many) democratic politicians."(5)

According to Schumpeter, creative destruction is the engine of capitalism: "This process of Creative Destruction is the essential fact about capitalism. The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that the capitalist enterprise creates. Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary." (13)

We will further detail the third factor that, according to Schumpeter, will contribute to the breakdown of capitalism, namely the intellectuals. It is true that intellectuals have played a very important role in changing societies. Intellectuals are the priests of the modern world. They are the ones who envision a better world and call for change in the name of social justice. A war is first won on ideological ground. The French Revolution was prepared

by Enlightenment philosophers, led by J. J. Rousseau. The communist revolution was prepared by left-wing Hegelian philosophers led by Karl Marx.

According to Schumpeter, "capitalist evolution produces a labor movement that is obviously not a creation of intellectuals. The workers never sought an intellectual leader, but the intellectuals invaded the politics behind labor relations. They made an important contribution: they gave expression to the movement, gave it theories and slogans such as class struggle, gave it self-awareness and thereby changed its meaning." (14)

At the same time, however, the problem of the main actor who will take over the role of overthrowing the capitalist class can be raised. Although Schumpeter designates intellectuals, it does not seem to be quite certain what motivation causes them to proceed in this way. The argument of dissatisfaction with stopping the success of the capitalist system does not provide a sufficiently categorical answer to cover the determination of the overthrow of a social system. At the same time, a possible "intellectual" pressure against the capitalist system can engage other social categories? If so, what are they? If not, can the intellectuals organize a strong enough resistance to overthrow the bourgeoisie? (12)

Furthermore, Schumpeter points out, socialism presents "an irresistible attraction" to bureaucrats and competing politicians in democratic societies. In the case of politicians, they are obviously tempted to attract voters to their side through tempting populist proposals even if they are counterproductive, even harmful, in the medium and long term.

And in the case of bureaucratic structures, because they offer those who populate them enormous levers of influence in society, as the role of the state has expanded in more and more fields. A typical example is the European structures in Brussels where tens of thousands of officials develop regulations, impose mandatory rules of conduct for the business environment and for the hundreds of millions of EU citizens (7)

H.R. Patapievici considers Schumpeter was prophetic and that capitalism will gradually disappear. People will forget what capitalism is like, and although they will live in stages of harsh regulation and entrepreneur enclosures they will not realize that they are no longer in capitalism. (11)

CONCLUSIONS

So what leads Schumpeter to conclude that the capitalism will die? He does not believe that the capitalism will collapse due to intern economic contradictions, but due to socio-psychological reasons. The people are moved by emotion rather than logic. A universal hostility to the capitalism grows amongst social categories. The masses can not see the connection between the improved standard of living and the capitalist order. (2)

Capitalism is not just an economic system, it is part of the liberal democracy's worldview, born over 400 years ago in Great Britain. Economic freedom stands alongside freedom of thought and expression, private property guaranteed by the rule of law, separation and balance of powers in the state. But we discussed the characteristics of capitalism more extensively in another article. (9)

Although it accepts the framework of the capitalist economy and liberal democracy, the social democratic doctrine claims that the replacement of capitalism with socialism can be done through reforms, in a peaceful way. Western capitalism produced prosperity and the lives of workers steadily improved. The 8-hour workday, paid vacation, minimum wage, welfare for the poor, free health insurance for all are socialist values, won through peaceful means.

Today we seem to be witnessing an anti-capitalist cultural revolution. Perhaps the best example is the followers of woke culture and cancel culture in the United States. The academic intelligentsia, most of the media, much of the political class, some of the

corporations see capitalism as absolute evil, and American culture sees it as racist. Interesting how much of the university professors and some of the corporations undermine their own positions. The vast majority of American universities are private and can afford to pay teachers very well, thus attracting the best specialists in the world.

According to Steve Forbes two major factors have caused the diminution of economic freedom in the US. One is the rise of modern socialism. Rather than the old idea of state ownership of companies and industries, modern socialists achieve control by expanding regulation. Regulators increasingly tell you what you can and cannot do. (6)

A state can stifle entrepreneurial initiative through excessive regulations and high taxes. Here is an example. At the moment, progressive taxation is being discussed in Romania. The incomes of those who will work more will be overtaxed.

Although capitalism is the economic system on which Western civilization and prosperity were built, the policies of all Western governments are currently guided by totally anti-capitalist ideas. The cardinal sin of contemporary statism is the belief that government can solve all people's problems. (10)

Excessive regulatory measures are also coming from the European Union. This forced Romania and Poland to close their coal mines because coal pollutes. Also, from 2035, the production of cars with internal combustion will be banned in the European Union, because they pollute. Another measure expected in the near future is the prohibition of heating homes with gas, because, isn't it, it pollutes! Why is the European Union undermining its mining and car manufacturing industries, while the United States and China are not taking similar steps?

For some people replacing capitalism seems like a solution to solve the problem of fluctuations and to eliminate economic inequality. But socialism has proven that it cannot generate higher productivity than capitalism because it confiscates the freedom of markets and therefore cannot innovate. To survive in the long-term socialism confiscates individual and political freedom. (1)

So the question of the survival of capitalism remains open! It can be destroyed violently, as was done in communist countries in the 20th century. Or strangled by regulations and excessive taxes to see how long it lasts, as is happening today.

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