



**CAPITALISM, SOCIALISM AND DEMOCRACY  
80 YEARS LATER**

*Looking at capitalism today in light of its past and  
possible future*

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**An analysis of the contemporary based on the ideas of J.A. Schumpeter  
Leonardo Andriola**

## Introduction

The book "Capitalism, Socialism and Democracy" conceived and written by Schumpeter between the second and third decades of the last century and published in London in 1942, on the one hand aims to understand the contradictions on which capitalist societies are based, contradictions that fully capture those connotations societies; on the other hand it presents a possibility of emerging from the same contradictions. Unfortunately, the non-realization of this idea did not open the way towards socialism, and this represents the great vulnerability that has so far remained irremediable.

We note how modern economies are characterized by the formation of large companies or business combinations by the writer so praised, but not even they have shown a perspective of escaping the contradictions, despite the great efforts that have been made to manage the same contradictions. Indeed they have strengthened their position by delegating their policy, which is not real politics in its sense but marketing, to an ostentatious, hypocritical and far-sighted Corporate Social Responsibility (CSR) and to a philanthropic action and, with a semantic shift of these two actions, they flaunt moral virtues for a restyle of their image (greenwashing) giving a left-wing cultural appearance, especially when they flaunt attention to the protection of the environment, against homophobia, xenophobia, against the exploitation of minors at work, against poverty and inequalities, offering the community a progressive idea.

Through these marketing policies, large supranational companies manage to make high profits and accumulate large amounts of capital to impose their diktats on the political planning of various nations. By subjugating the nations, however, they preserve the iconography, the institution, the language of the old capitalist democracy and the symbols, the so-called "Inverted Totalitarianism" (1).

Some historiographical hints lead us to think about how and why, after the Second World War, a system of international laws was born to protect the power of supranational companies and protect the rights of foreign investors, consecrated by the creation of the World Bank, by the International Monetary Fund and the World Trade Organization. These are the bodies that control the globalized economy and how a country develops, effectively undermining the fortunes of a democracy founded by the power of the people and exercised by national governments, privatizing natural resources and public goods (2). Paraphrasing Thomas Friedman "the golden straitjacket", the gold is not real but the straitjacket is (3). These are irresponsible systems with overwhelming and unchallenged powers. These are arguments parallel to those ones by Schumpeter, which give the sense of distancing from democracy, but they can be discussed elsewhere.

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1) Sheldon Wolin (2016). Fugitive democracy. Princeton: Nicholas Xenos.

2) Claire Provost & Matt Kennard (2023). Silent Coup: How corporations overthrew democracy. London – New York: Bloomsbury.

3) Thomas Friedman (2007). The world is flat. The globalized world in the twenty-first Century. USA: Ed. Penguin

Therefore we can say that Schumpeter gives importance to the organized form of business activity compared to the role played by the individual entrepreneur and criticize, monopolistic markets, underlining that the monopolistic structure is antithetical to the dynamic process of capitalism as it operates in a static context that a) does not nourish the vital essence of capitalism and b) destroys every form of freedom. He highlights large companies both because they are the place where the conflict between owner and worker is more evident and because of the enormous volumes of business which at that time had a strategic importance on the development of the whole society. In fact, every change in automated processes, in the optimization of resources, in production, in timing that destroys the old production system and gives way to a new system, represents a type of innovative change also in cultural, political and social activities in the society where it operates: these statements find wide space in the book written by Schumpeter in 1942. The establishment of large companies creates the conditions to increase the scale of operations, this decreases the unit cost of production, thus benefiting from economies due to mass production, the so-called “economies of scale”. However, it remains clear that economies of scale do not contradict the Ricardian law of diminishing returns.

### **The need for radical change**

The phrase born with the death of King Charles VI in France in 1422 “Le roi est mort, vive le roi” and with the immediate succession to the throne of King Charles VII, echoed in 1883 with the death of Karl Marx and with the birth of Keynes and Schumpeter, the three most important anti-capitalist scholars of the last two centuries and, in their own way, progressives of the Western world.

I would like to underline that progressive politics, with the implementation of innovative policies, pursues, as its goal, the improvement of a society in the economic, political and social fields, unlike conservative policies, which place trust only in the individual (A. Smith), economic liberalism versus political liberalism, therefore individualism versus subjectivity, because only where there is subjectivity community and socialization can be achieved (K. Marx).

The crisis of 1929 (Black Thursday) was the event that devastated social and economic balances throughout the world. And then the study of many economists opened the field to several hypotheses studying their causes, so that such a global crisis would never happen again. Those who saw the inflationary expansion of credit as the main cause (4); those who stated that the delay in the positive effects of innovations had modified cyclical fluctuations (5); who stated that there was a drop in investments which generated a drop in demand and consumption, in the absence of social safety nets (6); who pleaded the poor distribution of income and speculative loans (7).

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4) Lionel Robbins (1934). *The Great Depression*. London: MacMillan.

5) Joseph A. Schumpeter (1939). *Business Cycles*, vol. 1, pp. 161-174. New York: McGraw-Hill.

6) John M. Keynes (2006). *La teoria generale dell'occupazione, dell'interesse e della domanda*, pp. 230-292. Turin: Utet.

7) John K. Galbraith (1954). *The Great Crash, 1929*. Boston: Houghton Mifflin.

The constitutive element of capitalist development is its cyclical trend: crisis, depression, recovery and expansion, which represent its essence and on this, both Marx and Schumpeter agreed that they are the same causes that determine cycle and development. With reference to crises, according to Keynes they can be overcome with massive state intervention, while according to Schumpeter the Keynesian model was deceptive because on the one hand it did not consider the endogenous nature of crises and on the other hand it underlined in its theory how fundamental the “demand” problem was.

At that point the dominant transversal idea, which characterized all political ideas, was the need for a radical change in the world system, globalization had involved all states/nations. As an immediate measure, the FED implemented economic policies of contraction of the monetary supply and the raising of interest rates, but with the negative consequence of a reduction of more than 55% of the national income in the following five years (8).

The social and political causes of capitalism's debacle were evident: on his own he was unable to find levels of employment and production that would guarantee a systemic balance. Schumpeter, in the following text, highlights the sociological part of unemployment very:

“The real tragedy is not, however, unemployment itself, but unemployment and the impossibility of adequately providing for the unemployed without worsening the conditions for further economic development, it being obvious that the suffering and destruction of human values inseparable from unemployment would be largely eliminated, and unemployment would lose practically all its distressing aspects” (9).

This is a clear accusation against the capitalist order of not being able to provide any type of guarantee, if there is no unemployment there is no capitalism, we note, in a Marxian version, the indispensable “industrial reserve army” that is still in vogue today.

Therefore it needs a change towards an economic system that is regulated by political institutions. Schumpeter, in his sociological perspective, observed how the capitalist process determines changes in institutions and culture, and precisely such changes create obstacles to the self-regulation mechanisms of the markets and therefore the transition from an unregulated capitalist system to a capitalist system regulated by a parliament basically social democratic, is an integral part of the democratic process (10).

“A constitutional instrument to reaching political, legislative and administrative decisions, incapable, therefore, of being an end in itself, regardless of what those decisions will produce in given historical conditions” (11).

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8) Steve H. Hanke (2008). Greenspan’s Bubbles. Added to [cato.org](http://cato.org) on June, 5.

9) Joseph A. Schumpeter (1994). *Op. cit.*, p. 67.

10) Joseph A. Schumpeter (1994). *Op. cit.* pp. 225-270.

11) Joseph A. Schumpeter (1976). *Op. cit.* p. 406.

Even if this represents a reformist vision of change by an idea of democracy as a political method, it must also be admitted that this is the noblest point and is the climax of the book. It is also worth noting his conservative vision of politics, although he has an innovative vision of economics. Differently from the Schumpeterian reformist idea, Marx argued that the change would have been possible through a cultural and social revolution against the functioning of capitalism, which would have decreed its death.

I have to highlight that in the Schumpeterian sociological perspective, the innovations themselves are the takeoff of the capitalist process and the consequent changes shape the institutions and culture, leading inexorably to the fall of capitalism, just as for Marxists the fall of capitalism will occur through a cultural and social revolution, so it is obvious that both currents identify capitalism as both the process of evolution and self-destruction. This condition is reflected very well in this sentence:

“Recognize without fail the vocation of capitalism to "permanent revolution", to continuous innovation of the work process and forms of life, thus avoiding remaining astonished, or covering our heads with ashes, when the surplus value no longer is produced in occurs the factory and sovereignty no longer coincide with nation states" (12).

I would like to argue on this last point, which in my opinion, seems to focus the slowdown of current democracy, where political and social systems are subsumed by the economy and where national parliaments have lost their sovereignty and representativeness.

Precisely because the representative system is extremely weak and the social extremely fragile in its structures, like an overprotected body, any cancerous growth can arise in any sector of this social body, vulnerable to any virus since all its functions have been devolved to artificial organisms (13).

Among other things, public spirit and popular will, even if they emerge, remain trapped as if in a state of inertia, and those who are apparently in power profit from it.

Our representatives, whoever they are, are in a completely false situation: they are in their place to represent this will and at the same time to hide the fact that they represent nothing. This last task is paradoxically more exhausting than the other, they have to keep it so hidden from themselves that they represent nothing (14).

Vivek Chibber, sociologist of the “Democratic Socialists of America” breaks out against this torpor:

The left's strategy must revolve around building a movement to put pressure on the state, gain power within it, change the institutional structure of capitalism and weaken the structural power of capital, rather than over take it (15).

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12) Paolo Virno (2002). *Esercizi di esodo*. Verona: Ombre Corte, p. 21.

13) Jean Baudrillard (1986). *La sinistra divina*. Milan: Giangiacomo Feltrinelli, p. 76.

14) Jean Baudrillard (1986) op. cit., pp. 70-71.

15) Vivek Chibber (2017). Our road to power. <https://www.jacobinmag.com/2017/12/our-to-power>

The revisionist idea is that popular pressure on the State will produce a sort of socialism through the so-called democratic path (16). We also refer to Kautsky who stated: "Like any other class, the working class must strive to influence the state authorities, to bend them to its purposes and can only do so through parliamentary activity "(17): statements in line with Schumpeter's thinking. But Trotsky also stated that the working class must be looking for a democratic socialist world, a world that is much more democratic than bourgeois democracies (18).

### **Some reflections on Schumpeter's unfulfilled expectations**

Conceptualizing knowledge of the current world would be reductive, because of the complexity of understanding the world itself. According to Schumpeter's theory of creative destruction, continuous innovations would increasingly lead to weakening the meaning of entrepreneurial initiative and increasingly intensifying the meaning of planning within large companies, so that bourgeois hegemony would lose its power and thus socioeconomic issues would have passed from the private to the public sphere, consequently to socialism. But:

“Already in 1884, at the origin of the activity of the Fabian Society in England, among the intellectuals of the infant Labour movement there was the idea of socialism as a logical and necessary development of tendencies already operating in capitalism, who argued that the growing concentration of the capitalist economy deriving from the formation of trusts and large businesses assumed the problem of the socialization of the means of production not as a revolutionary outcome of the mass class struggle but rather as a need for functionality and efficiency of a society tending through objective democratic development towards appropriation of all non-work income. Hence the prospective conception of public management of industry in the general interest and which reserves the task of planning to the State and the direct control of the majority of companies to local and regional public bodies. This policy was developed in Germany by Kautsky as "revisionism" of the official Marxism of social democracy” (19).

The public management of industry, in the socialist context, means that the State controls and coordinates the management offices of all industries and, through planning, indicates what to produce and how to produce, based on consumer demand, but also to produce the as economically possible and that the prices of capital goods must be equal to marginal costs (20).

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16) Raju J. Das (2023). Marxism and revisionism in the world today. *Capital & Class*, 47(3): 383-406.

17) Karl Kautsky (1892). *The class struggle*. Available at:

<https://www.marxist.org/archive/kautsky/1892/erfurt/ch05.htm>

18) Lev Trotsky (1936). *How Lenin studies Marx*. Available at:

<https://matxist.org/archive/trotsky/1936/xx/lenin.htm>

19) Antonio Negri (1970). *Scienze Politiche 1 (Stato e Politica)* by. Milan: Feltrinelli, p. 470.

0) Joseph A. Schumpeter (1994). *op. cit.*, pp. 170-172.

The practice of planning is immanent in the social democratic context, where its characteristic point that characterizes it is the concreteness to allow the political forces of the working class collaborate with the management of the State. Overcoming the antagonism of the struggling classes and the conquest of power will take place without violent actions on the part of those who have seen their rights trampled upon, but it will take place democratically as hoped for by Schumpeter.

In Europe, the state which, from the 1930s to the end of the 1980s, continuously and until today alternating with bourgeois parties, followed Schumpeterian policies very closely was Sweden, which created an integrated welfare state. In the capitalist mechanism, a mixed system between the socialist system and the liberal system, where the accumulation of private wealth was discouraged, otherwise the ownership of the means of production and large-scale industry passed into public hands (20). But in 1991 Sweden, after decades of choice for self-definition, has redefined its international relocation after the fall of the Berlin Wall, by converting to Europeanism and renouncing the priority in the long term of full employment.

In social democracy the State assumes the role of "regulator" and not of "interventionist", it assumes this in the continuous crises of neo-liberalism.

Schumpeter in "Capitalism, Socialism and Democracy" had stated that thanks to performances beyond all limits, capitalism itself would implode, giving way to socialism in Western democracies.

Among Schumpeter's unfulfilled expectations we have, among other things, the rebirth of entrepreneurship with modern technologies towards the end of the 20th century instead of the dominance of large companies. The failure of socialism in Eastern Europe versus the claim that "socialism can work".

I don't mean to say that he had made a mistake in his predictions, especially when he stated that "in these things a century is a short time", but it is clear that the introduction of socialism in its classic meaning has disappeared from the agenda of pseudo-democratic or authoritarian democratic countries. Its classical nature. In fact, the defeat of the stationary state is also evident, emblem of socialist states that aim to a limited consumption of natural resources with consequent equal quantities of waste material or pollution (on this last topic read Daly (21)), to avoid the metabolic rift (J.B. Foster). In his masterpiece "Capital", Marx enlightened us a lot about the relationship between man and the earth, and Nature, and its conservation, therefore he introduced very advanced concepts, for that time, on ecology. It is a pedagogical dialectic that modifies our conceptions and our actions with respect for Nature, but nothing yet suggests an improvement in change, despite the disasters due to anthropogenic activities. We have not reached yet that level of knowledge of man's interdependent relationship with Nature.

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20) Magnus Henrekson & Ulf Jacobsson (2001). Were Schumpeter was nearly right - The Swedish model. *Journal of Evolutionary Economics*, 11(3): 331-358.

21) Herman E. Daly (2023). *verso un'altra economia*. Rome: Carocci Editore, pp. 111-114.

Some eco-Marxist scholars, together with the first contradiction of capitalism, the capital/labour relationship, have extrapolated the second capital/nature contradiction, in which the concept of capitalization of Nature is evident (22).

Man's mistreatment of Nature turns against man himself. Marx was the proponent of this idea, as Pope Francis reiterated today in his latest encyclicals. Wealth has been given large space in Schumpeter's book, but it doesn't deal with the sustainability to obtain such wealth, for example about the use of limited natural resources. Sustainability is also synonymous with democracy towards future generations.

Two topics which are not discussed in Schumpeter's book, rightly unpredictable but it is worth mentioning them because they undermine democracy, a) the worsening of globalization, underway in a tolerable form since the 10th century by the Maritime Republics. In the last half century the whirlwind globalizing process has involved all the world states, creating superstructures that have inhibited democratic processes within the various states, e.g. the I.S.D.S. (Investor State Dispute Settlement), the power of multinationals against the sovereignty of states to invest in foreign territory: a true attack on the "rule of law"; b) lastly, the formation of the European Union has effectively eliminated the parliamentary sovereignty of the member states; it introduced balanced budgets in 2013; it eliminated monetary sovereignty; it eliminated the possibility of adjustment when there is an economic shock in a State by eliminating the exchange rate and the interest rate without any replacement of these mechanisms; the reform of the stability and growth pact has just been introduced without the people having the possibility of influencing decisions regarding their own democratic life, a DE-constitutionalizing power that undermines national parliamentary sovereignty has been going on for some time; deficit < 3% of GDP, public debt < 60% of GDP, these data have no reference to economic science, they only help to reduce the democratic possibility of self-determination.

Lastly, globalization, instead of developing generalized well-being, has only produced dictatorships in the form of (authoritarian) democracy, it increased inequalities between states and within individual states and people's uncertainty about their future.

## Conclusions

Today the "ethical" problem is no longer decisive, social democracy has failed to humanize capitalism: it has taken over especially in our minds, it is a process that has capitalized on new knowledge and our consciences, therefore the rise of capitalism do not represent just a purely economic process. According to Schumpeter, intellectual debate, technological change and political development were scenarios that should have led to the defeat of capitalism; socialist parties would let events run their course and introducing socialism before the time was ripe could lead to failure. Democracy and socialism, with this state of affairs, seem like chimeras. *Morta gora*

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22) Leonardo Andriola (2021). James O'Connor e la seconda contraddizione del capitalismo: dalla dialettica pedagogica di Marx all'eco-marxismo di O'Connor. *Nuova Economia e Storia*, 1-2: 117-142.