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Can Socialism Work? Of Course it Can't!

Schumpeter on Capitalism, Socialism and Economic Change

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[Incomplete draft / work in progress]

Abstract

In *Capitalism, Socialism and Democracy*, Schumpeter famously predicts the likely replacement of capitalism by socialism and claims that a socialist economy could be perfectly workable. While most commentators have interpreted the book as a neutral or even favorable assessment of socialism's feasibility, a few of them have noted the ironic tone that pervades parts of the book. Yet, the implications of this irony for Schumpeter's assessment of socialism remain largely unexplored. This article argues that Schumpeter's apparent defense of socialism is best understood as a sustained ironic demonstration designed to expose the limits of socialist planning rather than to endorse its superiority over capitalism. Drawing on concepts that lie at the heart of Schumpeter's theoretical framework, notably the distinction between growth and development, the opposition between perfect competition and plausible capitalism, and the central role of the entrepreneur in the emergence of novelty, we show that Schumpeter could not consistently maintain that a socialist economy would be capable of reproducing the developmental performance of capitalism. Behind an explicit but mostly ironic claim asserting the viability of socialism, *CSD* provides in fact a demonstration that socialism cannot match capitalism's ability to generate the stream of discontinuous innovations that constitute economic development.

Keywords: Schumpeter, entrepreneur, capitalism, socialism, development, growth

JEL codes : B15 ; B25 ; O3 ; P3 ; P5 ; P41

"Can socialism work? Of course it can. No doubt is possible about that once we assume, first, that the requisite stage of industrial development has been reached and, second, that transitional problems can be successfully resolved"

(Schumpeter, *Capitalism, Socialism and Democracy*, 1942, p. 167)

1. Introduction

Capitalism, Socialism and Democracy (*CSD* in the following), first published in 1942, is often presented as J.A. Schumpeter's major work and the one that most easily found its public. This is hardly surprising, given the ideal timing of the book's publication: right in the middle of the Second World War, one of the most renowned economic researchers in the USA published a book in which he predicted the end of capitalism and the likely advent of socialism. This was bound to be of interest to most readers. The second edition of *CSD* published just after the end of WWII was a major success. However, beyond this undeniable opportunity effect, *CSD* remains a major work for understanding the dynamics of capitalism (Metcalfe et al., 2024).

CSD contains four parts: The first one is dedicated to Marx (with a first chapter curiously entitled "Marx the prophet"). The second one is about capitalism, what it is, its economic performance, how it evolves, and why it is doomed to disappear. The third one is about socialism, why it will likely replace capitalism, and its expected economic performance. Finally, the fourth part of the book is about democracy, in relation to capitalism and socialism.

The immediate reading of *CSD* is the following: the entrepreneur is at the heart of the economic dynamics of the capitalist system. He introduces innovation into the economic circuit and thus drives the movement of economic and social evolution. However, with the progress of rational thinking and modes of economic organization, the entrepreneurial function is becoming increasingly routinized and depersonalized, exercised within large industrial or even state groups. This change is a natural tendency of capitalist (bourgeois) civilization, which places rationality and calculation at its heart. This, combined with the rise of vast industrial and commercial structures in which decisions are increasingly governed by cost-benefit calculation and bureaucratic rationality, progressively crowds out the individual entrepreneur and, therefore, paves the way for a socialist and collectivist order, which Schumpeter ultimately presents as the historical culmination of the rationalistic spirit of bourgeois civilization

(socialism being, by definition, a regime highly compatible with rational thinking and bureaucratic organization).

But, the story does not end there. In the third part of *CSD*, Schumpeter goes further than announcing the demise of capitalism and its probable replacement by a socialist regime. Against the view held by most liberal economists at the time, he also makes the claim that a socialist economy could perfectly work. The third part of the book, which is about the possibility of socialism,[1] opens with the famous quotation: "can socialism survive? Of course it can" (1942, p. 167). Many readers therefore took *CSD* at face value, accepting plainly this positive assertion and considering that, in Schumpeter's eyes, socialism could perfectly well equal or even surpass the economic performance of capitalism.

However, *CSD* is a complex book, with a "humorous-ironic rococo" style according to Machlup's review (1943, p. 302), that mixes different topics and contains many digressions in a way that makes its interpretation particularly difficult. Furthermore, *CSD* is also a book full of sarcasm in many places. Its reading is thus often blurred by this ironic mode, suggesting implicitly the exact contrary of what was written down explicitly. Interestingly, the use of irony seems particularly present in the part of the book that is about the performance of a socialist economy (Muller, 2008; Boettke et al., 2017). Given all these obstacles, a non-critical reading of *CSD* cannot allow a full understanding of its real meaning.

The aim of this article is therefore to offer a re-interpretation of the socialist part of CSD by examining it in light of the key concepts developed and used by Schumpeter all his life, both before and after the publication of *CSD*: the energetic entrepreneur vs. hedonic masses, growth vs. development, perfect competition vs. plausible capitalism. This allows us to show that, behind an explicit but mostly ironic demonstration asserting the viability of socialism, Schumpeter is in fact arguing that socialism cannot match capitalism's performance in terms of long-term economic development.

Indeed, we contend that the puzzling argumentation of *CSD* becomes considerably more intelligible once it is red through the fundamental dichotomy between growth and development that was first theorized by Schumpeter in his *Theory of Economic Development* (1934) (*TED* in the following). Growth refers to the quantitative stable expansion of an economic system along

[1] Throughout *CSD*, Schumpeter uses the term "socialism" in a relatively narrow sense, referring primarily to a system based on centralized economic planning and collective control of the means of production, which constituted the dominant object of theoretical debate among economists of his time. He explicitly acknowledges, however, that other forms of socialism may exist or at least be conceived.

a given trajectory whereas development designates discontinuous change driven by entrepreneurial innovation and the qualitative transformation of economic structures themselves. This distinction between growth and development runs throughout Schumpeter's entire body of work, from his earliest writings to his latest[2]. It is best detailed in the article *Development* (Schumpeter, 1932) and in Becker and Knudsen (2005).

Relying on this fundamental distinction, one can find at least three important thesis endorsed in *CSD* which are, however, not always clearly distinguished, Schumpeter often switching from one to another without clearly warning the reader: (i) the first one is that capitalism, primarily for socio-economic reasons generated by its own success, will inevitably collapse and lead to socialism ; (ii) The second one is that socialism can work within a *growth regime*, that is a regime without major and structural changes, that is steadily growing over time along a given trajectory; (iii) The third one is that socialism can work within a *development regime*, that is driven by endogenous disruptive changes, thus replicating or even outperforming the dynamics of entrepreneurial capitalism.

These three core theses are analytically crucial to disentangle, since Schumpeter's use of irony does not extend equally to all of them and does not operate in the same way in each case. Undoubtedly, Schumpeter does adhere to thesis (i), dedicating the second part of *CSD* to explaining how and why capitalism, although it has produced an unprecedented amount of material wealth in human history, tends to erode itself. The other two theses, presented mainly in the third part of *CSD*, are considerably more controversial. Because commentators have not rigorously distinguished between these latter two claims, they have sometimes inferred that Schumpeter's ambiguous position on thesis (ii) implies a similar stance toward thesis (iii). We argue that this conclusion is deeply misleading. While Schumpeter may have been willing to endorse thesis (ii) under highly restrictive assumptions, he could not have seriously adhered to thesis (iii) without abandoning many of the core ideas that structure his entire work.

Building on a previous contribution (Guichardaz & Pénin, 2024), we show that Schumpeter's vision of capitalism as distinguished from perfect competition and, most of all, his ontology of

[2] As Becker and Knudsen explain: "Schumpeter consistently made a distinction between incremental change, which he called growth, and a more fundamental discontinuous change, economic development. Development is a discontinuity of the steady state, a disruption of the static equilibrium leading to an indeterminate future equilibrium. Since his early works, Schumpeter had persistently associated development with discontinuity, but in *Development*, Schumpeter adds precision by defining development as a change from one vector norm to another in such a way that this transition cannot be decomposed into infinitesimal steps (Becker and Knudsen, 2005, p. 110).

entrepreneurship and conception of the emergence of pure novelty, make it impossible for him to consider that a socialist society, in which all decisions are routinized and rationalized, can reproduce the developmental performance of entrepreneurial capitalism. Development, in Schumpeter's sense, presupposes forms of "extra-rationalist" initiatives and institutions that bureaucratic organizations tend to suppress[3]. Consequently, any attempt to reproduce such dynamics through centralized administration risks either turning back into capitalist mechanisms or collapsing toward increasingly authoritarian forms of coordination.

The remainder of the paper is organized as follows. We first return to the question of irony in *CSD* (Section 2). We then examine Schumpeter's discussion of socialism within the framework of a growth regime (Section 3), before turning more crucially to the question of socialism in a development regime (Section 4). Finally, we conclude with a broader discussion of the nature of capitalism, the role of individual entrepreneurs and of the State in Schumpeter's thought (Section 5).

2. Irony misread: the equivocal reception of CSD

A careful reading of *CSD* suggests that Schumpeter's analysis of socialism (the third part of the book) is infused with irony, an aspect often overlooked or misunderstood. While some have interpreted this book as a neutral or even favorable assessment of socialism's feasibility and superiority, a closer examination suggests that Schumpeter is often engaging in a subtle, even sardonic critique. Muller notes that irony is "Obvious to most careful readers […] but missed by many" (2008, p. 241). Boettke et al. observe that "almost every sentence [from Chapters 16 and 17] reads differently once the possibility of irony is kept in mind." (2018, p. 25). More ambiguously, Machlup, in his review of the work in AER (1943), acknowledges that Schumpeter considers socialism as "Possible, practicable, efficient, democratic and inevitable", but adds "and yet I have the firm impression that Schumpeter dislikes socialism, nay, despises it. I read this between the lines only, and, to be sure, that is not sufficient evidence for an assertion" (1943, p. 318).

While it is true that Schumpeter never explicitly criticizes socialism in *CSD*, his skepticism is nevertheless clearly expressed in many undeniably ironic passages of the book. Let us mention for now only three of them, when he discusses the merits of socialism as to taxes, management,

[3] On this extra-rationalist aspect of entrepreneurship in Schumpeter see also Langlois talking about an "extra-logical function" (2002, p. 18).

and incentives. First, when it comes to taxes, Schumpeter explains that true capitalists can only look forward at the advent of a socialist regime, since the latter has precisely the merit of abolishing all taxes. Indeed, "since it [the state] would control all sources of revenue, taxes could vanish" so that, for people who do not like taxes, the disappearance of taxes would be "one of the most significant title to superiority that can be advanced in favor of the socialist plan" (1942, p. 198-199). A system in which all economic activity is controlled by the state, and where taxes are therefore 100%, that would eliminate taxes. Should we really take this argument seriously?

Second, as to the essential question about how to monitor workers in a capitalist versus a socialist regime, Schumpeter does not hesitate to stress the merits of socialism, for "the socialist management will find it much easier to use whatever tools of authoritarian discipline it may have" (*Ibid*., p. 215). For instance, "a strike would be mutiny" (*Ibid*., p. 215) and therefore could directly be prevented by the army. In other words, socialism allows for much more efficient management, but at the cost of an authoritarianism that few of its supporters would actually want to see put into practice. Schumpeter nevertheless concedes that these tools of authoritarian discipline should not be necessary in a socialist economy because "every comrade will realize the true significance of strikes that would "now" be nothing else but anti-social attacks upon the nation's welfare […] there would no longer be, in particular, any well-meaning bourgeois of both sexes who think it frightfully exciting to applaud strikers and strike leaders" (*Ibid.*, p. 212). Or, once again, how to ironically highlight the fundamental freedom of rights under capitalism, which would disappear under a truly socialist regime.

Third, as to the no less essential question about how to incentivize talents in a socialist regime, Schumpeter does not hesitate to explain that socialist authorities could easily match capitalist's incentives simply by rewarding talent with a stamp on their clothing:

> "Moreover the prestige motive, more than any other, can be molded by simple reconditioning: successful performers may conceivably be satisfied nearly as well with the privilege—if granted with judicious economy—of being allowed to stick a penny stamp on their trousers as they are by receiving a million a year. Nor would that be irrational. For, assuming that the penny stamp will impress the environment sufficiently to induce it to behave deferentially toward the wearer, it will give him many of the advantages for the sake of which he at present prizes the million a year. This argument loses nothing by the fact that such a practice would only revive a device which in the past has been widely used with excellent results. Why not? Trotsky himself accepted the Order of the Red Flag." (*Ibid*., p. 208)

A stamp to motivate workers! Even if recent literature has highlighted the power of non-monetary incentives in the case of creative tasks, Schumpeter's assertion obviously cannot be

taken at face value, especially when it is combined with his previous comments on socialists' authoritarian management.

When trying to explain Schumpeter's ironic tone, several arguments can be put forward (Swedberg, 1991; McCraw, 2007). It could stem from his Viennese intellectual background and culture where irony served as a way to maintain critical distance from political and historical events. World War II was indeed a very difficult time in Schumpeter's life, during which he saw the world of his youth collapse (for the second time, following World War I). The events of World War II thus placed him under intense mental strain and left him with a sense of constant melancholy. Irony was possibly a way to evacuate these tensions. Alternatively, it may also have been a rhetorical adaptation aimed at reaching a broader audience than his earlier, more technical writings. His former books have indeed been largely neglected by the general public. *Business Cycles* (*BC* in the following), in particular, that Schumpeter regarded as his major work, went largely unnoticed by the public, considered too dense, too academic and too serious (McCraw, 2007).

While none of these explanations can be dismissed out of hand, we tend to agree with Muller's (2008) explanation, for whom the use of irony was a deliberate strategy to convince opponents (socialism proponents) of the futility and inadequacy of socialism. Schumpeter uses the tone of irony as a weapon to convince readers who cannot be convinced by rational arguments. This explanation has, among others, the merit of also casting light on why *CSD* begins with a first chapter entitled "Marx the prophet" in which Schumpeter claims that Marxism is a religion and that Marxists are like members of a sect: they cannot be convinced by arguments of reason. Thus, other persuasive techniques, such as irony, must be used to convince them. In short, it is likely that *CSD* was largely written in an ironic mode, thus hiding the critic of socialism at first glance, because the objective of the author was to attract socialist proponents who would surely not have considered it otherwise. Schumpeter wanted to force them to read the book and to make them think by themselves about the many inconsistencies of socialism, particularly regarding its ability to drive ongoing economic change.

Yet, as stressed by Boettke et al., this strategy turned out to be a "colossal failure" (Boettke et al. 2017, p. 445), as most *CSD* readers seem to have taken its explicit message at face value. *CSD* has indeed witnessed a strangely equivocal reception, oscillating between admiration and conceptual discomfort. Much of this reception is marked by a recurring inability to correctly locate Schumpeter's use of irony. This started as soon as Edgar Salin's introduction of the

German edition of *CSD* published in 1946 who remarked that "Schumpeter is a socialist – a convinced socialist" (p. 8). It was furthermore strengthened by Hayek, describing Schumpeter as "the original author of the myth that Pareto and Barone have 'solved' the problem of socialist calculation" (1945, p. 529). In his critical assessment, Hayek accuses Schumpeter of having "fallen into a trap which the ambiguity of the term 'datum' sets to the unwary" (*Ibid*., p. 530), namely, the mistaken assumption that the information referred to as "data" is simply given to the socialist planning authority. As Vanberg (2015) observes, Hayek's authoritative judgment became highly influential in shaping the economists' opinion according to which Schumpeter was seen as aligning with socialist economists, a view shared, for instance, by Keizer (1997), Böhm (1990), Lavoie (1985) and McCaffrey (2009).

In the same vein, Herbert Gintis (1991, p. 1) writes that: "being quite confident in the ability of the socialist economy to operate efficiently, he [Schumpeter] sided unequivocally with Enrico Barone and the socialists in their famous dispute with the arch-defenders of private property, Friedrich Hayek and Ludwig von Misses". Likewise, Heilbroner characterizes Schumpeter's prediction as "philosophical", but endorses the view that he envisions a viable path of continuity between capitalism and socialism, since "the skills needed to direct a socialist system are sufficiently like those needed to run an advanced capitalist one […]" (1953, p. 308). Foster even goes as far as claiming Schumpeter viewed socialism as not only "inevitable" but "perhaps, even a bit opportune" (Foster, 1984, p. 18). In a telling footnote, he adds: "Many have been puzzled by the fact that Schumpeter, a conservative, seemed fairly calm about the socialist prospect" (*Ibid*. p. 18). Even Seidl, who carefully traces Schumpeter's growing distance from projects of socialization in Austria after the First World War, ends his article with a striking conclusion: "Ironically, Schumpeter was right in 1919, but not in 1942, when he succinctly posed and at the same time answered his famous questions [...] 'Can Capitalism survive?' is a YES, and the proper answer to the question 'Can Socialism work?' is a NO." (1994, p. 67)

In France, the ambivalent reception of *CSD* culminates in a 1951 special issue of *Économie Appliquée* dedicated to Schumpeter. In his review, Fain takes at face value every step of Schumpeter's argument regarding the feasibility of socialism. Thus, according to him Chapter 17 presents "the reasons for [socialism's] superior efficiency compared to contemporary

capitalism" (1951, p. 201)[4]. But, in the exact same issue Perroux notes the many contradictions of this position for a real Schumpeterian economist:

> "On the question of socialism, what does a careful reader ask of J. Schumpeter, one who has become a disciple, who has set aside their own methodological preferences in order to follow the movement of thought of the great analyst of innovation? They ask for some clarity on the relationship between innovation and socialism. Would socialism wish, or even be able, to merely administer a stationary economy indefinitely? Certainly not. During the transition period, what are the forces that threaten, and those that safeguard, the springs of innovation? In the functioning of a realized socialism, who are the innovators? What are their motivations, their means of action, the forms of dialogue that emerge between them and the institutions? What are the mechanisms for transmitting and diffusing innovation? How and why does it benefit the mass of workers and consumers? (Perroux, 1951, p. 322)[5]

Obviously, there are no consistent answers to these questions, and Schumpeter never intended to provide them. His aim, rather, was to provoke precisely this line of inquiry, particularly among readers sympathetic to socialism, in order to lead them to the unsettling realization that such questions have no coherent answers. In the remainder of this paper, we continue the line of inquiry initiated by François Perroux by exploring in greater depth the link between socialism and innovation, drawing on the concepts developed by Schumpeter himself.

3. Socialism and growth regime, from a misguided theory to a practical dead-end

Schumpeter's discussion of socialism is first developed within the framework of what he himself would describe as a growth regime. Within this setting, his argumentative strategy unfolds in two complementary stages. First, mainly in the first part of Chapter 16, he shows that socialism is theoretically capable of reproducing the model of perfect competition that socialist theorists consider the very essence of capitalism. However, this reasoning is obviously fallacious when applied to a comparison between socialism and capitalism, since capitalism cannot be reduced to the model of perfect competition. As one of the earliest theorists of capitalism's dynamic, a theme developed also in *CSD* itself, Schumpeter was undeniably aware of this limitation (Section 3.1). In a second step, developed in the latter part of Chapter 16 and extended throughout the following chapters, Schumpeter progressively turns to the practical workability of socialism. Here, his argument increasingly takes the form of an ironic demonstration: by systematically minimizing the practical obstacles of socialist calculation, he

[4] Our translation
[5] Our translation

ultimately reveals that its apparent coherence rests upon a tautological reasoning that remains largely disconnected from reality (Section 3.2).

3.1. The perfect competition fallacy of socialism "in principle"

The question of socialism's viability in *CSD* centers first on the calculation debate, which Schumpeter reconstructs through an examination of the positions of Mises and his principal opponents, Barone and Lange. As Boettke et al. (2017) note, Schumpeter attributes to Mises a radical thesis on the impossibility of socialism that Mises himself does not fully endorse. Mises, in fact, concedes that socialism could theoretically function under the highly restrictive assumptions of a hypothetical "static state", where prices, preferences, and economic data remain constant over time. Such a situation closely parallels what Schumpeter characterizes as a regime of growth, in which the economy operates without structural transformation or disruptive innovation. Within this framework, and provided that all relevant information is available to the planner, socialism may *in theory* be feasible. A conclusion Schumpeter ultimately agrees with.

From this starting point, a natural way to undermine socialism is to point out that such a framework is purely tautological: if we remove the problem of how the central planner could access the relevant knowledge, by simply postulating that this knowledge is fixed and already available, then there is no real difficulty in planning. As Mises astutely observes, in such a world, there is paradoxically no need to plan at all! This, however, is not the argumentative route taken by Schumpeter. Instead, he embarks on a significant theoretical detour, shifting the question from how socialism might be implemented using a set of static data virtually inherited from capitalism, to a much more abstract one:

> "Given a socialist system of the kind envisaged, is it possible to derive, from its data and from the rules of rational behavior, uniquely determined decisions as to what and how to produce or, to put the same thing into the slogan of exact economics, do those data and rules, under the circumstances of a socialist economy, yield equations which are independent, compatible—i.e., free from contradiction—and sufficient in number to determine uniquely the unknowns of the problem before the central board or ministry of production? The answer is in the affirmative. There is nothing wrong with the pure logic of socialism." (CSD, 1942, p. 172)

Therefore, it seems that Schumpeter attempts a surprising tour de force in defense of socialism by claiming to demonstrate that it could function not merely as a result of the historical contingencies of capitalism, culminating in a so-called "static state", but in general, as a viable economic system in principle.

To that end, he invokes the work of Enrico Barone, described as "the economist who settled the question in a manner that left little to do except elaboration and the clearing up of points of secondary importance" (*Ibid*., p. 173). Barone's demonstration begins with the argument that, unlike in a market economy, distribution under socialism can be decoupled from production. In particular, by replacing monetary wages with a "social wage" (taking the form of consumption vouchers), and following specific rules of the game, Barone's model shows that a socialist economy could replicate the outcomes of perfect competition model, that is allocating resources efficiently while preserving consumer choice. Indeed, perfect competition model, Schumpeter observes, ensures the determinacy of socialist calculation as firms are assumed to operate in conditions of intense competition that prevent them from setting prices above the marginal cost of production. Under a system of market socialism, the same data could then be used to optimize industrial performance across sectors:

> "The task of each industrial board is then uniquely determined. Exactly as today every firm in a perfectly competitive industry knows what and how much to produce and how to produce it as soon as technical possibilities, reactions of consumers (their tastes and incomes) and prices of means of production are given, so the industrial managements in our socialist commonwealth would know what to produce, how to produce and what factor quantities to "buy" from the central board as soon as the latter's "prices" are published and as soon as the consumers have revealed their "demands" (*CSD*, 1942, p. 177)

Thus, two distinct, yet closely related, claims seem to emerge from Schumpeter's discussion of the work of Barone. First, the Barone model allegedly demonstrates that socialism can reproduce the allocative properties of the perfectly competitive model. Second, and more audaciously, Schumpeter appears to suggest that the Barone framework is not merely a theoretical construction for building socialism, but an adequate representation of how firms actually behave under capitalism itself. Taken as face value, the implication of these claims is considerable: if capitalist firms already operate, in practice, according to the same optimizing logic formalized by equilibrium theory, then socialist planning would merely extend to the economy as a whole the rational calculative procedures already governing capitalist production.

Yet, to what extent can this argument be of any use in a discussion about capitalism? Can we conclude from the fact that socialism could, in theory, reproduce the conditions of perfect competition that it outperforms capitalism? Of course not. As Boettke et al. (2017) have observed, in the capitalism section of *CSD*, Schumpeter explicitly endeavors to demonstrate that the actual operation of capitalism, characterized by the ceaseless process of creative destruction, departs profoundly from the abstract model of perfect competition. Capitalism's

extraordinary capacity to generate prosperity arises from innovation, which grants firms temporary market power and allows them to set prices independently of the constraints imposed by perfect competition. This oligopolistic competition is producing far greater welfare than the framework of perfect competition ever could:

> "[It is] a fact that the actual efficiency of the capitalist engine of production in the era of the largest-scale units has been much greater than in the preceding era of small or medium sized ones. […] in other words, that the technological and organizational possibilities open to firms of the type which is compatible with approximately perfect competition could never have produced similar results" (*CSD*, 1942, p. 189)

As a consequence, by reducing capitalism to the model of perfect competition, socialist theorists inadvertently undermine their own argument. As Schumpeter notes, perfect competition is a "bloodless concept" (*Ibid*., p. 183) to the point that "how modern capitalism would work under perfect competition is hence a meaningless question" (*Ibid*., p. 189). Socialist theorists therefore commit two mistakes. First, they assume that perfect competition accurately captures the functioning of capitalism, whereas capitalist dynamics are in reality driven by innovation, entrepreneurial behavior, market power, and disequilibrium. Second, they interpret the emergence of monopolistic capitalism as a deterioration from an ideal competitive benchmark. Yet, for Schumpeter, what appears as inefficiency or "waste" from the standpoint of perfect competition is precisely what underpins capitalism's superiority, since it facilitates innovation and long-term growth. Thus, even if perfect competition displays desirable properties of static efficiency and could, in principle, be reproduced under socialism, this remains largely irrelevant for assessing its relative performance as compared to capitalism, whose superiority lies in its dynamic capacity to generate structural change.

3.2. The practical workability of socialism "in principle"

At this stage of the argument, one could rightly object that, even if Schumpeter clearly does not believe that the model of perfect competition corresponds to the actual functioning of the capitalist engine, this still does not prove that he rejects the viability of market socialism as such. Indeed, even if the Barone model fails as a realistic description of capitalist economies, it might still function as a sufficiently effective mechanism for coordinating production, investment, and consumption within a relatively stable economic order. Put it otherwise, socialism may still appear workable if one seeks to reproduce "a stationary process of economic life in which everything is correctly foreseen and repeats itself and in which nothing happens to upset the plan" (*Ibid*., p. 178).

Schumpeter then presents a "solution" for implementing market socialism that he himself describes peremptorily as "eminently operational" (*Ibid.*, p. 185). He even extends this claim to the extreme case in which the entire production plan must be constructed "*ab novo*", that is, without any prior economic data from which to begin. How could such a feature supposedly be achieved? Through a mere "survey of the available resources and technologies and a general knowledge about what kind of people the comrades are" (*Ibid*., p. 185). Yet, while acknowledging that a socialist economy would require a "huge bureaucracy" and hinting at the many "derogatory comments" that could be directed against it, Schumpeter surprisingly declares that "we are not concerned with the question how well or ill it may be expected to fulfil its task" (*Ibid*., p. 185). This is curious because whether the administrative apparatus can actually perform the immense coordinating functions assigned to it is precisely the issue under dispute. Overall, all along the discussion, the arguments therefore take on a distinctly bizarre character: the "eminently operational" aspect of his so-called solution is not answered but instead suspended, only to be replaced by the much weaker claim that there is "no reason to believe that it will break down under the task." (*Ibid*., p. 185). This categorical assurance thus substitutes for the demonstration leaves the reader with the uneasy impression that this practical problem has been rhetorically dissolved rather than genuinely solved.

As to the practicability of socialism, many readers and experts may have been misled by Schumpeter's admiration for Walras which could be interpreted as evidence that he regarded mathematical economics as an operational instrument through which central planners could derive immediate practical recommendations. Keizer (1997) and Vanberg (2015), among others, read Schumpeter in this light. However, Schumpeter was acutely aware of the limits of theoretical abstraction, and his engagement with walrasian economics should not be mistaken for an uncritical endorsement of its practical applicability. Rather, his use of equilibrium theory often functions as a heuristic device, i.e. a theoretical framework against which the messier, historically contingent dynamics of capitalism can be contrasted. In *CSD*, this critical distance appears at the outset of Chapter 16, where Schumpeter warns that demonstrating the internal consistency of a market socialist model "will not convert anyone to socialism or, in fact, prove much for socialism as a practical proposition" (1942, p. 173).

These qualifications to the workability of socialism can also be found explicitly in Schumpeter's later reflections on Barone in the *History of Economic Analysis*, where his assessment of the practical significance of his contribution appears considerably more doubtful:

> "We must not forget that, just like the pure theory of the competitive economy, the pure theory of socialism moves on a very high level of abstraction and proves much less for the 'workability' of the system than laymen (and sometimes theorists also) think […] For it is quite possible to accept it (the Barone result, V.V.) and yet to hold that the socialist plan, owing to the administrative difficulties involved or for any other of a long list of reasons, is 'practically unworkable"' (1954, p. 989)

In other words, while there may exist, *as matter of pure logic*, a unique set of equilibrium prices that solves the system of equations underpinning a socialist economy, there is *no means* of gathering the required data *ex ante*, excepted by asserting that they are already given. In this respect, Schumpeter is closer to Mises than is often acknowledged, albeit through very different rhetorical means. Whereas Mises foregrounds the knowledge problem explicitly, Schumpeter adopts a peremptory tone that appears to dismiss it altogether, only for its significance to re-emerge indirectly through the very ease with which it is brushed aside.[6]

We may therefore have serious doubts about whether Schumpeter truly subscribed to thesis (ii), namely the claim that socialism could operate in a sustained growth regime, except perhaps in a highly "haphazard manner" (1942, p. 172). However, instead of stopping at this stage of the argument, Schumpeter extends his rhetorical strategy further by arguing that socialism could also compete with capitalism within a more genuinely dynamic setting and that it could continuously sustain an innovative economy over time, such as that implied by thesis (iii).

4. Socialism and development

Having discussed the possibility of socialism under a growth regime, Schumpeter is indeed led to confront the decisive question: can socialism reproduce the dynamism of capitalism itself and produce development? Again, he proceeds by a detour, asserting, in the last part of Chapter 16, that socialism could easily deal with economic development. Yet, his demonstration is deeply misleading and ultimately designed to lead the reader toward the opposite conclusion, namely, that only a socialism that looks like capitalism can genuinely cope with economic

[6] However, Schumpeter does not specify the precise grounds on which the socialist plan should be regarded as practically unworkable. A first interpretation is epistemological: preferences may be sufficiently stable within a growth regime to permit economic planification, but the practical difficulty lies in accessing, aggregating, and processing the information required to reconstruct them. A second interpretation is ontological and corresponds more closely to Mises's argument. On this view, preferences are inherently evolving, making it impossible *in principle* to access the information in the first place. Put differently, while under the first interpretation, the obstacle is contingent (it reflects the limits of existing computational or informational technologies), under the second interpretation, the obstacle is intrinsic: because data are constantly changing, no improvement in information-processing capacities could ever fully solve the problem. Schumpeter's tendency to associate a growth regime with stable and given preferences (see also footnote 7) seems to favor the first interpretation over the second. In that respect, the distance separating Schumpeter from Mises remains substantial and may help explain some of the ambiguities surrounding the interpretation of *CSD*. We thank Sina Badiei for drawing our attention to this issue.

development (Section 4.1). We then build on Schumpter's theory of entrepreneurship and the emergence of radical novelty (Guichardaz and Pénin, 2024) to show why Schumpeter could not consistently maintain that socialism might reproduce the developmental dynamism of capitalism (Section 4.2). Finally, we put forward how Schumpeter pushes the irony one step further by envisioning a system in which change no longer emerges spontaneously from decentralized entrepreneurial initiatives but from a centralized authority empowered to redefine social wants themselves. The entrepreneurial function thus ceases to operate through persuasion, experimentation, and market selection, and becomes increasingly fused with administrative authoritarian power. What initially appears as an escape from economic stagnation progressively reveals its deeply authoritarian implications (section 4.3).

4.1. Turning socialism upside-down

In the last part of Chapter 16, Schumpeter advances a set of striking claims about socialism's capacity to escape the stationary state, arguing even that it would face no "great difficulties" in dealing with "industrial change" (1942, p. 178). At first sight, the argument therefore seems to imply that socialism might successfully operate not merely within a regime of growth, but within a genuinely developmental dynamic comparable to that of capitalism itself. But any reader paying a minimum attention to his argumentation will quickly realize that, first, most of Schumpeter's arguments and examples miss the point and pertain to a stable and predictable system belonging to growth regime, and, second, when Schumpeter seriously considers questions of development, it leads him to propose a form of socialism that adopts the very characteristics of capitalism (investment, credit, profit, property rights, inequality, etc.).

As regards the first point, Schumpeter's demonstration is carefully constructed so as to exclude any genuine structural disturbance from the outset. His central illustration involves a "new and more efficient piece of machinery" introduced in "industry X", under the crucial assumption that it can be produced "by the same plants" and "at exactly the same costs in terms of productive resources" (*Ibid*., p. 178). Under these conditions, the planner can supposedly reallocate resources in a "uniquely determined manner" while ensuring that "profits will never emerge" (*Ibid*., p. 178). Yet this result presupposes that consumer preferences are already known, stable, and fully reflected in accounting prices so that profit signal reveals no new information but merely indicates that costs have fallen within an unchanged structure of

demand, a characteristic feature of a growth regime[7]. A similar pattern reappears when he turns to unemployment and economic crises. Socialism is said to overcome cycles through a "comprehensive plan" (*Ibid*., p. 195), whereby obsolete resources are simply redirected to "other uses" already anticipated by the planner. The immense problem of anticipating change, reallocating resources, and coordinating transitions is then reduced to a matter of administrative common sense accessible to a "layman's mind" (*Ibid*., p. 195). Schumpeter ultimately undercuts his own argument, conceding that "all that I have said so far refers exclusively to the logic of blueprints" and that "socialism in practice may be quite unable to realize" them (*Ibid*., p. 196). Then, in a rhetorical twist similar to the one he previously employed with the perfect competition model, Schumpeter ultimately undercuts his own argument. Far from demonstrating that his "altered" socialist blueprint can generate development, he ends by acknowledging that its practical feasibility remains unsolved.

Furthermore, and this brings us to the second point, Schumpeter pushes the argument one step further by addressing the question of investment policy. Up to this point, Schumpeter has simply assumed that a change occurs in "industry X," without explaining either how or why such a change emerges in the first place. Yet, in capitalist economies, change is driven by investment decisions undertaken by bankers and capitalists who finance entrepreneurs. The question therefore becomes how a socialist economy would generate and allocate investment in the absence of these institutions. Here again, Schumpeter appears to have an immediate answer. First, he reminds us, that investment, whether under socialism or capitalism, necessarily entails an intertemporal sacrifice: longer working hours, reduced current consumption, or some combination of both. However, capitalism relies on market signals as "objective indications" (*Ibid*., p. 179) to guide investment, whereas socialism lacks any comparable automatic feedback mechanism. Schumpeter then sketches a method by which investment might nonetheless be mechanically derived from available data:

- Abolish the law preventing savings (non-consumption of income): In the model of strict socialism Schumpeter describes, unused claims to consumer goods expire at the end of

[7] In Schumpeter's growth regime, firms merely "execute what is prescribed for them by wants or demand and by the given means and methods of production" (1934., p. 21). Since "the spontaneity of wants is in general small" (*Ibid*., p. 65), goods of "the same kind and quantity" (*Ibid*., p. 42) tend to be reproduced period after period. By contrast, development begins with "spontaneous and discontinuous changes" originating "in the sphere of industrial and commercial life, not in the sphere of the wants of the consumers of final products" (*Ibid*., p. 65). Consumer preferences may subsequently evolve, but only because innovation transforms the characteristics, uses, and relative valuations of goods.

a period. By abolishing this rule, people could accumulate savings—much like in capitalism, where savings can later be used for investment;

- Abandon income equality: In order to incentivize people to work overtime or save, inequalities in income must be introduced—again, mirroring capitalist economies where income disparities create incentives for work and investment[8];
- Allow the central board to offer premiums for overtime and saving: This is equivalent to capitalist-style financial incentives, such as wage bonuses for extra work and interest rates to encourage saving.

Schumpeter even goes so far as to suggest that socialism might reform itself by borrowing openly from the playbook of capitalist enterprise, namely, by judging investment projects according to their "profitability". Under this arrangement, the central board would allocate resources not on the basis of ideological commitment or moral priority, but by estimating which ventures promise the highest returns, much like a cautious capitalist surveying the field for the next profitable opening.

Yet, even this graceful concession to capitalist rationality proves insufficient. The sustained momentum of investment in capitalist economies, Schumpeter reminds us, is not driven by savings alone, but by institutional engines such as corporate accumulation and bank credit — mechanisms that socialism, in its pure form, simply does not possess. Then, if socialism hopes to keep pace, it cannot rely on savings alone. However, accumulation and credit "are not particularly automatic or uniquely determined either" (*Ibid.*, p. 179). We then come back to the issue of guiding investment without profit. Here again, his remedy is characteristically simple: let the central board step in, finance investment through credit or retained earnings, and incorporate these expenditures into a "social budget", alongside defense and other state functions that Schumpeter leaves largely unspecified (*Ibid.*, pp. 179–80). In this respect, socialist investment policy increasingly comes to resemble the management of public expenditure and taxation within capitalist economies, extending a logic similar to that governing the provision of public goods.

After having reintroducing profits and credits, Schumpeter comes to justify what he presents as one of the most hostile cases from a socialist standpoint, land rent. While formally abolishing

[8] Schumpeter readily concedes that a socialist society need not be strictly egalitarian. Yet he astutely observes that such inequalities cannot be allowed to reach the magnitude characteristic of capitalism without undermining the very coherence of the socialist project. However, he argues, by limiting the concentration of income and wealth, socialism also limits the capacity for capital accumulation and therefore its ability to sustain "the rate of investment that capitalist society produces on the average of cyclical phases" (1942, p. 179).

private landownership, the socialist state, explains Schumpeter, would be nonetheless required to assign land an "index of economic significance" (*Ibid*., p. 181) in order to allocate it rationally. This index performs exactly the role that rent plays in a capitalist economy: it signals scarcity, guides allocation among competing uses, and disciplines decision-making. However, Schumpeter astutely insists that nothing commercial or capitalist survives this transformation, since the sociological attributes of rent (private income, landlords, and property rights) have been removed. Yet precisely by stripping rent of its institutional and social form while preserving its allocative function, the argument exposes the tension at the heart of socialist rationality. What is eliminated is not rent as an economic mechanism, but only its name and its social symbolism. In claiming to purge rent of its capitalist meaning, Schumpeter's construction ironically reinstates it as an indispensable condition of rational allocation, thereby reinforcing the broader pattern through which socialism reproduces capitalist logics.

Finally, Schumpeter's argumentation culminates with the introduction of a "labor market" (*Ibid*., p. 180), where he first considers a rigid, centrally assigned system compared to military conscription, only to propose an alternative in which "premiums" are offered to incentivize most talented workers, reintroducing wage differentials and, with them, a market-like logic. Yet Schumpeter acknowledges an obvious difficulty at this point: in the absence of sufficiently strong material incentives, workers may lose their motivation. As we have seen in Section 2, he proposes in Chapter 18 to stimulate individual effort through the distribution of stamps. Such a form of "simple reconditioning" (*Ibid*., p. 208), however, may prove insufficient to sustain productive effort as explicitly acknowledged by Schumpeter:

> "As regards preferential treatment in terms of real income [that] Just as race horses and prize bulls are the grateful recipients of attentions which it would be neither rational nor possible to bestow on every horse and bull, so the supernormal human performer has to be accorded preferential treatment if the rules of economic rationality are to prevail. Of course they need not. The community may elect to give effect to ideals that preclude this and to refuse to look upon men as they would upon machines. And all that an economist is entitled to say about it is that the community should not act in ignorance of the fact that those ideals cost something" (*Ibid*., p. 209)

Schumpeter concedes the resemblance between this system and capitalism. Yet, he contends that it is not capitalism, but rather economic rationality that requires the acceptance of wage inequalities. To deny this principle, he argues, would inevitably diminish overall societal output, regardless of whether the economic system is capitalist or socialist[9]. The structure of

[9] In Chapter 17 Schumpeter concedes that even if egalitarian socialism were "somewhat less efficient" (*Ibid*., p. 190), it might still be defensible on utilitarian grounds, since greater income equality could raise total utility —

the argument progressively leads the reader toward a stark conclusion: If socialism seeks to preserve the economic performance of entrepreneurial capitalism, it must inevitably approximate its mechanisms.

As if this were not enough, Schumpeter invites the reader to consider that socialism that would promote economic development would ultimately be led by the bourgeoisie itself. The bourgeoisie, he argues, represents a reservoir of talent and expertise that any rational society should seek to harness rather than discard. Under socialism, this class would therefore continue to play a central role by occupying the positions for which its members are supposedly best suited, that is in management and administration, thereby ensuring that bureaucratic appointments are governed by their "aptitude and tradition" (*Ibid*., p. 205) rather than ideology. After all, the bourgeoisie has already demonstrated its capacity for effective and rational bureaucratic management through the development of large corporations, which Schumpeter implicitly presents as a kind of prelude to socialism. Over time, capitalists could thus be progressively integrated into the bureaucratic framework itself, with their loyalties gradually redirected toward the socialist order rather than eliminated altogether. However, and more strikingly, Schumpeter insists that appointment alone is insufficient. These individuals must also enjoy "freedom to act under one's own responsibility" (*Ibid*., p. 206) that is, a degree of autonomy traditionally associated with entrepreneurial and managerial decision-making.

Clearly, as Boettke et al. observes, the more Schumpeter attempts to develop his socialist "blueprint", the more he ends up "qualifying it to death" (2017, p. 432), so that capitalism, or at least capitalist-like mechanisms, inevitably resurfaces. While he pretends to show that socialism can generate development, he actually convincingly shows that to meet that end socialism must be progressively turned inside out until it is compelled to recover the very logic of capitalism it initially sought to transcend. And this, Schumpeter explains, is no accident:

> "The cause of that family likeness [between socialism and capitalism] is by now clearly visible without doing so: our socialism borrows nothing from capitalism, but capitalism borrows much from the perfectly general logic of choice. Any rational behavior must of course display certain formal similarities with any other rational behavior, and it so happens that in the sphere of economic behavior the molding influence of mere rationality goes pretty far, at least with regard to the pure theory of it" (1942, p. 182)

provided, of course, that redistribution does not undermine incentives so severely as to collapse output altogether. Formally, he professes neutrality on this trade-off. In tone, however, he leaves little doubt as to where he stands. The egalitarian option may indeed be preferable, but only if individuals "derive satisfaction from the mere fact of living in a socialist society" (*Ibid*., pp. 190–191). Schumpeter dryly concludes, "Socialist bread may well taste sweeter […] even if they found mice in it" (*Ibid*., p. 191).

Socialism prides itself on breaking with capitalism, yet Schumpeter suggests that, if it seeks economic efficiency, what it inevitably ends up reproducing is the abstract logic of rational economic choice of which capitalism is one, if not the best, historical instantiation. At this stage, one might therefore conclude that Schumpeter locates capitalism's superiority over socialism primarily in its ability to convey, through market mechanisms, the economic rationality required for the efficient coordination of economic life. Yet there is a deeper layer to Schumpeter's argument against socialism and in favor of capitalism. To uncover it, one must connect the discussion of socialism in Part III of *CSD* with the analysis developed in Part II concerning the gradual disappearance of the entrepreneurial figure. For the decisive issue is ultimately not whether socialism can rationally allocate given resources, but whether it can generate the novelty and disruption that constitute economic development itself. As we shall now see, once Schumpeter's conception of the entrepreneur and the emergence of pure novelty are taken seriously, the possibility that socialist system could reproduce the developmental performance of entrepreneurial capitalism becomes very hard to sustain.

4.2. The impossible socialization of the individual and energetic entrepreneur

One of Schumpeter's most significant contributions to economic analysis lies in his conceptualization of the entrepreneur as a central figure in explaining the dynamics of capitalism. In this context, the literature has identified two phases in Schumpeter's thought regarding entrepreneurship and innovation, often referred to as the "young" and the "old" Schumpeter (Becker and Knudsen, 2002; Becker et al., 2011). This distinction reflects a shift in the locus of innovative activity, from individual entrepreneurs operating within small firms to large corporations with bureaucratic and depersonalized R&D departments. According to some commentators, in the later stages of his career, Schumpeter even pioneered a "systemic" view of the innovation process in considering entrepreneurship as an impersonal function rather than as a manifestation of individual and exceptional traits (Antonelli, 2015).

This interpretation culminates in contemporary readings that portray late Schumpeter as a precursor of the notion of the "entrepreneurial state" (Ebner, 2006; Burlamaqui, 2020) namely the idea that public institutions and large-scale bureaucratic organizations may themselves become the principal drivers of innovation and economic transformation (Mazzucato, 2013). Since Schumpeter's later work appears to move away from the heroic individual entrepreneur of *TED* toward a more collective, organized, and routinized conception of innovation, the idea

that he might ultimately have accepted the claim that socialism could generate and manage economic development in a manner comparable, or even superior, to capitalism gains a certain degree of plausibility. If innovation increasingly depends upon large organizations, coordinated research, and institutional planning rather than exceptional individuals, then the gap separating entrepreneurial capitalism from a rationally organized socialist economy would appear significantly reduced. Innovation could be rationally managed in public administrations as well as in private ones. In that sense, *CSD* would indeed constitute a radical departure from Schumpeter's previous analytical framework (Burlamaqui, 2020).

In Guichardaz and Pénin (2024), however, we argue that these interpretations are misleading. Drawing on a range of textual and conceptual evidence, we demonstrate that the complex interplay between entrepreneurship and innovation in Schumpeter's thought remains substantially unchanged throughout his life and is best understood through his overlooked 1928 article *Entrepreneurs*. In this work, as well as elsewhere in his writings, Schumpeter defines entrepreneurship with two essential components: (a) the ability to create something radically new, to generate pure novelty in the economy; and (b) the ability to diffuse pure novelty in the economic system, that is the ability to persuade others of the value of this novelty, to slightly improve it, to adapt to the needs of the consumers, etc. Importantly, we show that the commonly accepted shift between the "young" and the "old" Schumpeter pertains first to component (b) of entrepreneurship, which Schumpeter himself conceptualizes as a *function*. In contrast, component (a), the act of creating something genuinely new, is tellingly described as arising from a "creator personality", that is within the realm of few individuals endowed with an extra-rational mode of thinking (Guichardaz and Pénin, 2024).

Indeed, for Schumpeter, the emergence of pure novelty has always been inseparable from the individual and extra-rationalist figure of the entrepreneur. By pure novelty, Schumpeter does not mean mere incremental improvement, but a discontinuity that transforms the existing economic order. Crucially, this distinction lies at the heart of Schumpeter's dichotomy between growth and development or, in the terminology of the late Schumpeter, from "creative responses" as opposed to the "adaptive responses" (Schumpeter, 1947) (Figure 1). Creative responses, by contrast to adaptive ones, cannot be mechanically and rationally derived from the data available within the system, since they consist precisely in departing from existing habits and norms. To break out of the existing order a different kind of actor is needed: an individual endowed with the energy and dynamism of the entrepreneur (Guichardaz and Pénin, 2024). It

is for this reason that Schumpeter consistently associates genuine development with exceptional entrepreneurial personalities and not with rational planning, whether public or private.

Furthermore, and central to our argument, these considerations regarding the emergence of pure novelty and the necessity of the individual and energetic entrepreneur remained consistent throughout Schumpeter's work, from his earliest to his last writings. It is only regarding point (b) that a shift can be observed, marking a transition from the individual to a more depersonalized entrepreneurial function. As to the emergence of pure novelty, Schumpeter has always remained faithful to a vitalist and energetic view. This is, for example, why, toward the very end of his life, in writings from 1949–1950, he put forward a "principle of indeterminacy" regarding the emergence of pure novelty (Schumpeter, 1949).

Figure 1. Different types of economic regimes[10]

Type of economic regime	Agents of change	Type of innovation	Historical period
Development	"creator personality" entrepreneurs - component (a)	Radical innovation, Creative response	XIXth century capitalism, early trustified capitalism
Growth	Managers within big firms/administrations - component (b)	Incremental innovation, adaptive response	fettered capitalism, socialism

Once the necessity of the individual and energetic entrepreneur to generate pure novelty is taken seriously, Schumpeter's argument against socialism becomes clear: The entrepreneur, as the sole agent capable of creating genuine novelty into the economy, remains irreducible to any calculation and then beyond the reach of socialist planning. The idea that *CSD* would sincerely argue that a socialist economy could reproduce the developmental dynamism of capitalism becomes therefore highly unlikely. It comes at the cost of a loss of coherence in Schumpeter's thought that is untenable for such a rigorous and meticulous thinker.

Instead, it seems much more likely that CSD ultimately describes how the advance of rationalistic thinking under late capitalism progressively routinizes the functional dimension of entrepreneurship, that is component (b) while simultaneously eroding the "creator personality"

[10] Adapted from Guichardaz and Pénin (2024)

associated with component (a). In this perspective, the rise of bureaucratic rationalization observed by Schumpeter in *CSD* does not culminate in the successful socialization of development, but in the gradual disappearance of the very psychological and social conditions that make genuine development possible in the first place. With the sacrifice of the creator personality on the altar of rationalization disappears, too, the capacity to generate radical novelty. Put it otherwise, an economy deprived of individual and energetic entrepreneurs can only generate growth, but never ongoing development (Guichardaz and Pénin, 2024).

Schumpeter's discussion of development under socialism must therefore be understood for what it is: a progressive sabotage of his own demonstration. In this view, it is no accident that Chapter 16 concludes with the image of "beefsteak socialism" (*Ibid*., p. 184). After having ostensibly argued on how socialism could cope with economic development, he ends up characterizing this system as "beefsteak socialism", that is an economic system deprived of any capacity to create and limited to the satisfaction of its people needs "as they are felt at the moment" (*Ibid*., p. 184). This chapter conclusion's is therefore revealing: socialism may organize, administer, and even rationalize economic life, but it cannot generate the forces of development. What remains is not entrepreneurial capitalism, but a stabilized regime of growth.

4.3. The authoritarian route for escaping from "beefsteak socialism"

At this stage of the argument, one might still object that socialism could escape the trap of "beefsteak socialism" if "creator personalities" were somehow incorporated into the planning apparatus. Even if the "extra-rational values" (*Ibid*., p. 144) inherited from the past no longer nurture such personalities as effectively as before, there seems to be no obvious reason why individuals occupying positions of authority could not themselves break the circular flow and initiate economic development. In the end of Chapter 16, Schumpeter, with a mixture of sarcasm and rhetorical indulgence, even expresses a form of "sympathy" for those socialists who recognize the limitations of "beefsteak socialism" and aspire to mold "new cultural forms for the human clay" (*Ibid*., p. 184). Then, there is no reason why the socialist leadership itself could not become animated by the will of producing breakthrough transformations for humanity. After all, as Schumpeter notes, "the real promise of socialism, if any, lies that way" (*Ibid*., p. 184). Yet the prospects he associates with such a solution are decidedly bleak.

Schumpeter indeed goes on explaining that the central board should "adopt a Gosplan", not merely for investment policy but "for all purposes that do present other aspects" (*Ibid*., p. 184),

thereby arrogating to itself the authority to construct an independent scale of values and to override consumer desires altogether: "Given its system of values, that authority could do this in a perfectly determined manner exactly as a Robinson Crusoe can. And the rest of the planning process could then run its course, much as it did in our original blueprint" (*Ibid*., p. 184). The reader can hardly miss the significance of this comparison: by invoking the Robinson Crusoe figure to justify centralized socialist planning, Schumpeter deliberately collapses the diversity of social life into the decision-making problem of one single will. The socialist authority can behave "exactly as a Robinson Crusoe can" only because society itself has effectively been reduced to a unique consciousness by a centralized authority empowered to impose its own preferences. In a sense, the planning board would merely assume the role traditionally attributed to entrepreneurs but in a fundamentally altered form: Rather than relying on decentralized and free entrepreneurs who introduce new products and innovations whose success or failure would be tested against consumers' evolving preferences, it would instead seek to reshape those preferences themselves, compelling them to conform to the value scale imposed by the Gosplan.[11]

In this respect, the solution Schumpeter outlines at the end of Chapter 16 sets the stage for the analysis developed in Chapters 17 and 18. As the argument unfolds, Schumpeter appears increasingly entangled in the depiction of an economic system that progressively erodes individual liberties, leaving readers with a growing sense of unease. Consider, for example, how he addresses the problem of employment. As he astutely observes, under capitalism, when combined with a "successful socialization" of benefits initiated by "the action of [the] capitalist stratum itself" (*Ibid*., p. 69), unemployment does not "leave very much to be desired" (*Ibid*., p. 196). What, then, does socialism offer as an alternative to this seemingly tolerable market-based arrangement? Quite simply, its virtually unlimited authoritarian power: "where [unemployment] does occur, mainly in consequence of technological improvement, the ministry of production will be in a position —whatever it may actually do— to redirect the men to other employments" (*Ibid*., p. 196). The same rhetorical move reappears in the next paragraph, when he presents as a major advantage of socialism the fact that "every improvement could theoretically be spread by decree" (*Ibid*., p. 196), making economic progress a matter of administrative command. The elimination of unemployment is achieved not through expanded

[11]This approach stands in sharp contrast to the market mechanism. Whereas the Gosplan substitutes its own hierarchy of values for those of individuals, the market "will come nearer than any other" mechanism to give each person "what he wants". In this perspective, Schumpeter explains, "there exists no more democratic institution than a market." (1942, p. 184)

freedom or improved bargaining power, but through the capacity of the planning authority to administratively redirect labour wherever it deems necessary in accordance with its "Gosplan". In this respect, Schumpeter implicitly reverses one of socialism's central promises: capitalism may expose workers to instability, but socialism risks subordinating them to a far more pervasive apparatus of administrative control.

The growing sense of unease reaches its culmination in Chapter 18, where Schumpeter moves away from the abstract "blueprint" logic of the earlier chapters toward a more concrete discussion of socialism's historical realization. At this point, his tone is no longer merely ironic; it acquires an increasingly dystopian, and ultimately tragic, dimension. Consider, for example, how he opens this chapter. While explicitly denying (or at least claiming to deny) that socialism requires "demigods to direct the socialist engine" with "an ethical level that men as they are cannot be expected to reach" he nevertheless introduces the idea that "human nature" is "certainly malleable to some extent", particularly "if these alterations are carried out rationally" (*Ibid*., p. 202). The very mention of this possibility, however, invites the reader to imagine how socialist leaders might undertake such transformations to secure the system's success. Schumpeter, however, feigns to reassures the reader in portraying these alterations as relatively benign. The everyday substance of social life would remain largely intact. Football, for instance, would simply become "proletarian football" rather than "bourgeois football" (*Ibid*., p. 203). The irony, of course, is that this supposedly modest adjustment already presupposes a substantial transformation of consciousness. Individuals are not primarily expected to act differently; rather, and more substantially, they are expected to understand, justify, and experience their actions through a different ideological lens.

Indeed, unlike capitalism, which maintains economic order "by means of the institutions of private property and 'free' contracting" (*Ibid*., p. 203), socialism would rely on "self-discipline" (*Ibid*., p. 211), fostering a "healthier attitude" among workers supposedly freed from "the class-war complex" (*Ibid*., p. 211). As discussed in Section 2, strikes would therefore be treated as mutiny and resisted by workers themselves who would understand their antisocial dimensions. Likewise, "intellectuals as a group will no longer be hostile", while dissenters would "be restrained by a society that once more believes in its own standards" (*Ibid*., p. 215). Far from liberating individuals from capitalist alienation, socialism thus appears as a society in which "moral allegiance" (*Ibid*., p. 211) and internalized discipline are so pervasive that dissent becomes increasingly difficult to conceive. And when self-discipline proves insufficient,

socialist management still enjoys "advantages which […] are so considerable" over its capitalist predecessor that "socialism might be the only means of restoring social discipline" (*Ibid*., p. 215). But what, precisely, are these advantages? Whereas capitalism disciplines workers primarily by threatening to fire them, socialism may exert a far more coercive form of control. Indeed, in a system where the state oversees both employment and the distribution of goods, the threat is no longer limited to job loss but extends to the denial of means of subsistence. This, paradoxically, makes the capitalist labor market much more "secured" as it still offers workers the option of "alternative employment" (*Ibid*., p. 215).

Schumpeter actually pushes the logic to the point where the distinction between society and the state progressively disappears. This is clearly expressed in his ironic discussion about the elimination of taxes (as discussed in section 2) where taxation obviously does not truly disappear but becomes absorbed into a system in which the central authority controls the totality of income distribution. The result is not a less intrusive fiscal order, but a far more encompassing one in which economic resources are allocated prior to any sphere of autonomous individual disposal. What appears as the disappearance of taxation presupposes in fact the disappearance of the economic separation between individuals and the state itself, a separation that Schumpeter feigns to consider as the ultimate source of efficiency as "the government would become fully aligned with economic activity, or more precisely, with the single enterprise administered by "the ministry of production"" (*Ibid*., p. 215). "To be sure," Schumpeter sarcastically adds, "that responsibility would be political only and good oratory might possibly cover many sins". But, on the other hand, "the opposition to the interest of government will of necessity be eliminated" (*Ibid*., p. 215). Therefore, conflict disappears not because divergent interests are reconciled, but because institutional opposition is absorbed into a single authority claiming to embody the general interest. What appears as harmonious coordination increasingly resembles the dictatorial silencing of all disagreements.

This dystopian scenario, Schumpeter concludes, is not speculative but already unfolding in Russia at the time of his writing. Readers are encouraged to consult the end of Chapter 18, particularly pages 217–218, to grasp the full bleakness of the picture he paints. Here, Russian trade unions are depicted as tools of State control, having abandoned core principles such as wage equality and the right to strike. Instead, they enforce productivity through "premium systems" and suppress dissent using "sanctions which no capitalist employer would think *of* applying even if he had the power frown sternly from behind all gentler psycho-technics" (Ibid.,

p. 217). While Schumpeter concedes the "sinister" character of this depiction, he maintains his ironic tone by offering a final rhetorical reassurance: "the cruelties to individuals and whole groups" stem not from socialism itself, but from the economic "circumstances" and the poor quality of its "ruling personnel" (*Ibid*., p. 218). Thus, the more Schumpeter details the authoritarian and potentially self-deluding tendencies generated by socialist organization, the more insistently he claims that the model itself remains untouched. But the reader is inevitably invited to draw the opposite conclusion, namely that these "deviations" may not be accidental distortions external to the blueprint, but consequences flowing from its very institutional logic.

5. Conclusion

In this paper, we have sought to clarify the argumentative status of *CSD* by highlighting the ironic, if not outright satirical, dimension of Schumpeter's arguments "in favor" of socialism. This clarification, however, required us to delve more deeply into Schumpeter's position in the socialist calculation debate, his normative views on socialization, and, more fundamentally, his underlying argumentative edifice in defense of capitalism, one that rests on the creative agency of the vitalist and energetic entrepreneur as a "creator personality", solely capable of producing continuous economic development (as opposed to growth).

Once Schumpeter's argument has been elucidated in this way, the true message of *CSD* becomes clear: the book is, above all, a warning about the decline of entrepreneurial capitalism, its erosion in the face of the institutional and cultural changes it itself brings about, and its possible, if not probable, replacement by a socialist economy. Indeed, it seems to us indisputable that Schumpeter subscribes to thesis (i). The gradual exhaustion of capitalism in the face of the rise of rational civilization is a theme that runs through his entire body of work. This observation, coupled with the fact that socialism and its rational bureaucratic organization are a very credible candidate to take over from this capitalism on its end, prompts Schumpeter to warn about the limits of socialism, particularly in terms of innovation and long-term dynamism.

It remains plausible that Schumpeter might actually have defended, as *theoretical* possibility, thesis (ii), namely that socialism is compatible with a stable regime of growth. The irony used in many parts of the book suggests that he was under no illusions on this subject. But, compared to a degenerate capitalism that was exhausted and close to its end, it is possible that he might have considered socialism the lesser of two evils. On this subject, he adds that socialism's

advantage lies precisely in coming after capitalism and thus in benefiting from the huge wealth and standard of living produced by it. This could spare its socialist successor from having to perform as well in this regard without threatening its survival. Comparing "beefsteak socialism" with an exhausted and therefore equally mediocre capitalism remains intellectually coherent.

But the idea that Schumpeter could have defended thesis (iii), namely that socialism is capable of generating economic development and bringing about ongoing structural and qualitative economic changes, cannot be endorsed without undermining to death the overall coherence of Schumpeter's work. The apparent concessions Schumpeter makes to socialism's capacity to cope with innovation and dynamism rest on a spurious notion of development, one that remains strictly confined to the logic of the circular flow. Furthermore, once development is understood in Schumpeter's own sense, what remains, at best, is a conception of socialism as a theoretically coherent framework confined into the realm of "growth regime". As to development, Schumpeter treats it as a process that presupposes specific institutional and social structures that socialism, as he conceives it, is unable to replicate. Ultimately, Schumpeter ultimately leads the reader to confront a fundamental dilemma: either socialism complies with wants as freely expressed by consumers, in which case it is condemned to merely and poorly reproduce a regime of growth ("beefsteack socialism"), or it attempts to generate genuine economic development, but can do so only by restoring the main properties of capitalism or by progressively suppressing individual freedom and by drifting towards authoritarianism.

This interpretation, ultimately, explains the profound pessimism running throughout *CSD*. Since the cultural matrix which once nurtured individual entrepreneurship is progressively collapsing under the advance of rationalistic thinking, socialism appears increasingly credible as an alternative mode of organization. The entrepreneurial spirit, once central to capitalist development, becomes increasingly marginalized by the very process of rationalization and bureaucratization that capitalist success itself unleashes. The use of irony in *CSD* thus dissimulates the deeper tragedy he sought to highlight: capitalism cannot sustain the entrepreneurial conditions necessary for its own reproduction, even while no genuine alternative capable of replacing its developmental dynamism exists. Irony thus allows Schumpeter simultaneously to expose the conceptual fragility of socialist planning and to underline the historical vulnerability of capitalism itself.

Schumpeter's decisive argument in favor of capitalism and against socialism therefore differs from those usually associated with liberal thinkers such as Mises, Hayek, or Polanyi. To clarify

this difference, one may distinguish between a *catallactic* argument for capitalism, which emphasizes the coordinative properties of market exchange, and a *poietic* argument, which emphasizes the capacity of individuals to generate novelty by creatively exploring opportunities that cannot be derived from existing data. To be sure, Schumpeter and his Austrian contemporaries subscribe somehow to both arguments. The difference lies in the relative importance they assign to them. For Schumpeter, the superiority of capitalism ultimately rests less on its capacity to coordinate existing knowledge than on its capacity to generate new knowledge through entrepreneurial action. This difference becomes particularly visible in Schumpeter's appreciation of Hayek's *Road to Serfdom* (1944). Schumpeter reproaches Hayek for taking "surprisingly little account of the political structure of our time" (1946, p. 270). In his view, the values of "individual initiative and self-reliance" are historically contingent and increasingly marginalized, for "it is the people whose ideas count politically that have changed" (*Ibid*., p. 270). Schumpeter concludes that Hayek has "much more in common" with "academic socialists" than he realizes as both remain committed to "the political sociology […] of J. S. Mill" (*Ibid*., p. 210) that attributes causal primacy to ideas instead of explaining political change through the transformation of social structures and cultural dispositions. The challenge facing capitalism therefore lies not only in preserving markets but also in preserving the pre-capitalist cultural foundations of entrepreneurship itself.[12]

Put differently, whereas Austrian thinkers tend to view the market order as the institutional framework most conducive to the expression of entrepreneurial creativity, Schumpeter goes further by arguing that entrepreneurship itself depends upon a broader cultural matrix that markets may ultimately erode and whose preservation may require political arrangements extending beyond the market order itself. It is for this very reason than Schumpeter can still envision forms of mixed capitalism in which elements of socialization coexist with markets — a compromise that would have been inconceivable for Mises and Hayek. In his late writings, Schumpeter attempted to elaborate in greater detail what such a hybrid system might look like. On November 1945 he delivered a speech in Montreal entitled *How to Preserve Private Enterprise: The Importance of Professional Organizations*, at the first convention of *L'Association Professionnelle des Industriels*. Echoing themes from *CSD*, he proposed that saving capitalism may paradoxically require a degree of compromise with certain forms of

[12] In *CSD*, and especially in Chapter 8, Schumpeter still insists that the entrepreneur can flourish only with the help of "extra-capitalist" elements. He even asks whether capitalism is not simply an extension of the feudal order (1942, p. 139), which provides, on the one hand, the "personal force" of the entrepreneur (*Ibid*., p. 133) and, on the other, the "extra-rational loyalties" of the masses (*Ibid*., p. 144).

socialization, in order to contain the social forces that tend to suppress entrepreneurial energy and protect "the functions of private initiative in a new framework" (1991, p. 404). Thus, Schumpeter's corporatism remains grounded in a fundamentally hierarchical social order. It may resemble a moderated form of socialism from the outside, or what Schumpeter terms "laborist capitalism" (1950, p. 450). Yet, in his eyes, the purpose is neither to empower labor nor to abolish class distinctions but instead to preserve the institutional and cultural conditions that enable creative economic leadership to persist.

To conclude, let us return to the question of irony in *CSD* and why Schumpeter adopted such a convoluted strategy to defend his position. As noted in Section 2, several explanations have already been proposed. But we may suggest one last, perhaps more speculative, reason: Schumpeter's indirect style may also reflect a deeper doubt about how his defense of capitalism would be received by the scientific community of his time. Having moved from Mitteleuropa to America, he increasingly felt that his views were at odds with an economic profession shaped by democratic and utilitarian values and sustained by a strong faith in the capacity of economic science to mitigate capitalism's dysfunctions. This distance may have widened further as Schumpeter came to realize that his own poietic argument for capitalism was not something that could be demonstrated scientifically. By remaining committed to a vitalist and energetic ontology of entrepreneurship, he ultimately treated novelty as the product of a *deus ex machina* — an individual force intervening exogenously in the economic circuit (Guichardaz and Pénin, 2024). Such a perspective makes it impossible to provide a causal explanation of how, why, or when novelty emerges. Schumpeter thus found himself defending a "vision" of capitalism he deeply believed to be true while knowing that it could not be demonstrated within a discipline increasingly detached from the socio-historical nature of his argument. This may also explain why history remained so central to his thought and why, in his later years, he grew increasingly disillusioned with the mainstream of the discipline.

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