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_The Quarterly Journal of Economics_ is currently published by The MIT Press.
MARX AND SCHUMPETER ON CAPITALISM'S CREATIVE DESTRUCTION: A COMPARATIVE RESTATEMENT*

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Despite well-known differences, the respective visions of capitalism's future by Marx and Schumpeter show striking and neglected similarities. This is illustrated, first, by their strong focus upon capitalism's progressive and creative properties; second, by their analyses of capitalism's dysfunctional properties; and third, by their respective analyses of the creatively destructive character of institutional and attitudinal change in advanced capitalism.

It is well-known that Schumpeter postulated an "inevitable decomposition of capitalist society" [1950, p. xiii]. "Can capitalism survive?" he asked pointedly. "No, I do not think it can" [1950, p. 61]. Capitalism's prospective demise is not perceived to emanate from "its breaking down under the weight of economic failure..." Instead, "its very success undermines the social institutions which protect it, and 'inevitably' creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent" [1950, p. 61]. In short, the "paradoxical conclusion" is not the result, but the process: "capitalism is being killed by its achievements" [1950, p. xiv].

How does Schumpeter's vision of capitalism's future prospects compare and contrast with that of Marx who, by fascinating coincidence, died during the year of Schumpeter's birth (1883)? Since Schumpeter's Capitalism, Socialism and Democracy, greater emphasis has been placed on the contrasts than on the parallels. Popular expositions generally present a sharp dichotomy between the themes of Marxian contradiction ("capitalism cannot survive because of economic failure") and Schumpeterian paradox ("capitalism is being destroyed because of its very creative success").

No doubt there are differences between the two men, some quite striking, in ideological commitment, economic analysis, and social vision. But there are important parallels as well. A comparative re-statement of these two perspectives, focusing on important similarities, is overdue. There is more "Schumpeter" in Marx's writings than

* The author would like to thank Professors Horst Betz and Richard Schenning, and two anonymous referees for helpful comments on an earlier draft on this paper.
many Marxists are willing to accept,\textsuperscript{1} and more "Marx" in Schumpeter’s analysis than even Schumpeter was willing to recognize.\textsuperscript{2} On the specific subject of "capitalism’s creative destruction," the two respective theories seem closer to each other than either is to any other prominent vision of capitalism’s future. At the very least, they are much closer than has been popularly supposed. The prima facie evidence supporting this interpretation is reinforced by Marx’s recently published Grundrisse, which also incorporates a process of creative destruction and supercession. As the present author has noted elsewhere: "Socialism is conceived and nurtured in capitalism’s womb, and is its product, not merely its heir apparent. It emerges on the basis of capitalism’s development and creativity as well as emanates from its conflicts and contradictions. Capitalism’s very success stimulates changes which both portend and facilitate the process of movement toward socialism" [Elliott, 1978–79].

This paper compares the Marx-Schumpeter visions of capitalism’s creative destruction, with emphasis on three major themes: (i) capitalism as a revolutionary economic system; (ii) capitalism’s economic dysfunctioning from a creative destruction perspective; and (iii) capitalism’s transformation and socialization.

**Creative Destruction I: Capitalism as a Revolutionary Economic System**

The “essential point to grasp” about capitalism, according to Schumpeter, is that it is an “evolutionary process,” as “was long ago emphasized by Karl Marx.” Capitalism is “by nature a form or method of economic change and not only never is but never can be stationary” [1950, p. 82]. This evolutionary dynamic of capitalist development has three salient characteristics: It comes from within the economic system and is not merely an adaptation to exogenous changes. It occurs discontinuously rather than smoothly. It brings qualitative changes or “revolutions,” which fundamentally displace old equilibria and create radically new conditions. Economic development is accompanied by growth, i.e., sustained increases in national income. But

\textsuperscript{1} Schumpeter described the Communist Manifesto as "an account nothing short of glowing of achievements of capitalism; and even in pronouncing pro futuro death sentence on it, he never failed to recognize its historical necessity. This attitude, of course, implies quite a lot of things Marx himself would have been unwilling to accept" [1950, p. 7, italics added].

\textsuperscript{2} Schumpeter frequently cited “similarities in results” between his analysis of capitalism and that of Marx, but felt that they were “not only obliterated by a very wide difference in general outlook, but also reached by such different methods, that stressing parallelisms would be highly unsatisfactory to Marxians” [1951, p. 161].
mere quantitative growth does not constitute development per se. "Add successively as many mail coaches as you please, you will never
get a railway thereby" [1961, p. 64n]. The immediate stimulus to de-
velopment emanating "in the sphere of industrial and commercial life,
not in the sphere of the wants of the consumers of final products," is
"innovation," i.e., the new product, method of production, market,
source of supply, or form of industrial organization [1961, pp. 65–66].
The innovational process "incessantly revolutionizes the economic
structure from within, incessantly destroying the old one, incessantly
creating a new one. This process of Creative Destruction is the es-
sential fact about capitalism" [1950, p. 83].

Interestingly, Schumpeter virtually identified his own position
on creative destruction in this sense with that of Marx. As Marx ex-
pressed it in the Communist Manifesto, the bourgeoisie "has played
a most revolutionary role in history." Inter alia,

It cannot exist without constantly revolutionising the instrument of production,
and thereby the relations of production, and with them the whole relations of society.
The need of a constantly expanding market for its product chases the bourgeoisie over
the whole surface of the globe. The bourgeoisie, by the rapid improvement of all in-
struments of production, by the immensely facilitated means of communication, draws
all nations, even the most barbarian, into civilisation. The bourgeoisie, during its rule
of scarce one hundred years, has created more massive and more colossal productive
forces than have all preceding generations together [Marx and Engels, 1976, pp.
487–89].

The key point of Schumpeter's commentary on these famous
passages is not their description as a "panegyrical upon bourgeois
achievement that has no equal in economic literature" [1949, in
Hamilton et al., 1962, p. 354], or even his observation that "all of the
achievements referred to are attributed to the bourgeoisie alone which
is more than many thoroughly bourgeois economists would claim"
[1950, p. 7n]. What is noteworthy is the strong Schumpeterian cast
given to his description of Marx's analysis of capitalism's revolu-
tionary role as

"constant revolutionizing of production," creation that spells the obsolescence and
consequent destruction of any industrial structure of production that exists at any
moment: capitalism is a process, stationary capitalism would be a contradicatio in ad-
jecto. But this process does not simply consist in increase of capital by saving—as the
classics had it. It does not consist in adding mailcoaches to the existing stock of mail-
coaches, but in their elimination by railroads. Increase of physical capital is an incident
in this process, but it is not its propeller [1949, in Hamilton et al., 1962, p. 355].

Finally, Schumpeter concludes, "not more than that (i.e., Marx's
analysis in the *Manifesto*) is implied in anything I shall say about the performance of capitalism" [1950, p. 7n].

Marx’s emphasis on capitalism’s creative propensities is reinforced by the *Grundrisse*. Capitalism, Marx argues in this work, destroys the old pre-capitalist economy “and constantly revolutionizes it, tearing down all the barriers which hem in the development of the forces of production, the expansion of needs, the all-sided development of production, and the exploitation and exchange of natural and mental forces” [1973, p. 410]. Capitalism’s “universalizing tendency,” both technologically and geographically, radically distinguishes it from all previous societies. Capitalism contains an “endless and limitless drive to go beyond its limiting barrier. Every limit appears as a barrier to be overcome” [1973, pp. 334, 408]. The extended analysis of the *Grundrisse*, combined with the earlier commentary in the *Manifesto* and the brief, but pointed, designations in *Capital* of development of technological and economic preconditions for socialism as the “historical mission” of capitalism, undergirds the conclusion that Marx’s descriptions of capitalism’s creatively destructive proclivities were not mere verbal fluff, but were instead a strategic component of his analytic program.

Beyond the general theme of capitalism’s revolutionizing propensities are other parallels between the two. Marx, no less than Schumpeter, perceived capital accumulation to occur irregularly, in bursts, with cyclical consequences [Marx, 1906, pp. 672, 693–94]. Similarly, the perception of change as emanating from within the economic system, notably from the sphere of production rather than consumption, mentioned above as one of several prominent elements in Schumpeter’s definition of economic development, is of course vintage Marx. Even their respective analyses of the process of innovation-competition-reduction of innovative profits contain similar elements.3

Turning from similarities to differences, it has often and appropriately been observed that Marx’s discussions of capitalism’s creative properties are usually accompanied by identification of its

3. “The capitalist continually tries to get the better of competition by incessantly introducing new machines, . . . producing more cheaply, and new division of labour in place of the old. . . . If, now, by a greater division of labor, by the utilisation of new machines and their improvement, by more profitable and extensive exploitation of natural forces, one capitalist [increases productivity and creates extraordinary profits], [his] privileged position. . . . is not of long duration; other competing capitalists introduce the same machines, the same division of labor. . . . On the basis of [the] new [lower] cost of production [and associated lower prices], the same game begins again. . . . We see how in this way the mode of production and the means of production are continually transformed, revolutionised. . . .” [Marx, *Wage Labor and Capital*, in Elliott, 1980, Ch. 2].
contradictory features and prognoses of its future demise. This is certainly true, although whether this sharply separates the analyses of Marx and Schumpeter is open to question, for economic contradictions take on a different cast when examined from a creative destruction perspective (see the following section).

More important here than differing perspectives on capitalism's performance are alternative perceptions of its social relations. The difference is not primarily that of the classificatory schema itself, i.e., that Schumpeter writes of "entrepreneurs," while Marx writes about "capitalists." A resurrected Marx could easily agree that not all capitalists are equally adept in the exercise of the entrepreneurial-innovative function and that "a man without wealth, but with energy, solidity, ability and business sense" may become a capitalist, bringing "an unwelcome number of new soldiers of fortune into the field and into competition with the already existing individual capitalists," expanding capitalism's social base, and enabling it to "recruit ever new forces for itself out of the lower layers of society," thereby solidifying its rule [cited in Balinky, 1970, p. 89, italics added]. On his part, Schumpeter made it clear that successful entrepreneurs become capitalists (or landowners), while unsuccessful ones presumably become workers or managers [Schumpeter, 1961, pp. 78–79]. Similarly, Marxian capitalists and Schumpeterian entrepreneurs share important elements of conduct and motive. The successful Marxian capitalist, like his Schumpeterian entrepreneurial counterpart, presumably embodies a significant "will to found a private kingdom," a "will to conquer," and a "joy of creating" [Schumpeter, 1961, p. 93]. The Schumpeterian entrepreneur presumably embodies a passionate drive for enlargement of profits and power that closely rivals that of the Marxian capitalist. Certainly, neither is perceived as a hedonistic maximizer of utility from consumption goods.

4. Marx and Engels "sang a veritable hymn of praise to the glory of capitalism in their Communist Manifesto, which nevertheless sounded its knell... [Their] poetic description of the achievements of the capitalist mode of production serves only to underline still more strikingly the contradictions which it at the same time engenders... Marx sees no contradiction between acknowledging and emphasizing this 'historically necessary mission' of capitalism and constantly pillorying whatever is exploitative, inhuman, and oppressive in it. Marx keeps in view all the time the[se] two contradictory aspects of capitalist historical reality..." [Mandel, 1971, pp. 56–57, 110].

5. Schumpeter: "[I]n no sense is his characteristic motivation of the hedonist kind [i.e.,] capable of being satisfied by the consumption of goods... Hedonistically, the conduct which we usually observe in [entrepreneurs] would be irrational" [1961, p. 92]. Marx: "Use-values must therefore never be looked upon as the real aim of the capitalist. The restless never-ending process of profit-making alone is what he aims at... [the] boundless greed after riches, [the] passionate chase after exchange value..." [1906, pp. 170–71].
The key difference between Schumpeter and Marx may best be described as follows: Each begins with a simple model of exchange economy. Although the institutional details are different, each is characterized by private property, market exchange, and competition, but in each the perceived essential properties of capitalism are missing. The first stage of the analysis specifies the economic behavior of such a simple exchange economy. The second stage incorporates the perceived essential properties of capitalism and inquires into the prospective effects on economic behavior of this capitalist modification of the institutional structure. (A third stage, examined below, analyzes the transformation and socialization of capitalism's institutions, e.g., from competition to monopoly.)

In Marx's version of the (pre-capitalist) exchange economy, there are no separate classes of capitalists and landowners. Work and ownership coalesce. The artisans, merchants, and independent peasants, who own their own means of production and work for themselves, exchange their commodities, but do not employ the labor power of a separate, propertyless proletariat. The absence of a capital-labor class division precludes the creation of surplus values from the employment of labor power in production, while competitive pressures conduce to the elimination of pure economic profits in exchange. In Schumpeter's simple model of exchange economy, broadly similar conclusions are reached, but through a different institutional structure. A capital-labor relation exists, but the capitalist-employer is "capitalist" in name only, for he is devoid of or precluded from exercising crucial capitalist-entrepreneurial functions. Pure competition distributes wages and rents to workers and landowners on the basis of the value of the marginal product of labor and land, respectively. Perfect competition operates with a vengeance. "Everyone has equal access to 'capital.' Under these circumstances, clearly, no surpluses can accrue to employers of labor; for if they did, the laborers would themselves turn employers and compete the surplus away" [Sweezy, 6. Succeeding discussion extends and applies to a comparison of Marx and Schumpeter a mode of exposition developed most effectively by Meek in an earlier discussion of Marx [1967, pp. 99 ff].

7. More precisely, for Marx, "simple commodity production" is perceived as a distinctly different, pre-capitalist mode of production from capitalist economy. Although similar, in embryonic form, to capitalism in certain respects, it is perceived to lack fundamental defining properties of capitalism, as described in the next paragraph [see Elliott, 1978]. Schumpeter's simple model of the exchange economy is nominally capitalist (in Marxist terms) in its institutional structure, but lacks certain properties crucial to its real-world, dynamic character. Although a useful methodological device for each—Meek aptly called it a "mythology" [1967, p. 98]—the distinction for Marx also held important historical significance.
1953, p. 277; and Schumpeter, 1961, pp. 30 ff.). The "how" of production is a simple matter of production technology and resource prices; the "what" follows readily from adaptation to market demands.

What are the differentiating properties of capitalism, and how is the model of the behavior of the exchange economy modified by incorporating those properties? For Schumpeter, the "differentia specifica" of capitalist economy is provision of credit by banker capitalists to entrepreneurs to finance innovative investment [1961, pp. 69–70]. This enables entrepreneurs to bid resources away from other uses to new, innovative activities. By incorporating new technologies, sources of supply, etc., innovations create surpluses of revenues over costs. Competition tends to eliminate these surplus values, but innovation re-creates them.8

For Marx, surplus profits are certainly generated (prior to their elimination through competition) by the process of innovation, as is described pointedly in Wage-Labour and Capital [see footnote 3]. But capitalism's surplus values are fundamentally created and sustained through the class division between capitalist employers and workers and the accompanying capitalist "class monopoly" of the means of production, with the resulting differential, generated within production itself, between the value of labor power and the value of output [Medio, in Hunt and Schwartz, 1972]. Why doesn't competitive exchange eliminate these differentials? First, the real wage is kept below the level of the value of the output by the pressure of the reserve army of the unemployment, which alternately rises during cyclical depressions, falls during cyclical expansions, and rises again with labor-saving inventions stimulated by rising wages during booms. Second, competition rages within the capitalist class itself, generating strong pressure (not merely enticement) to innovate, thereby decreasing costs and raising national income above the value of labor power. But competition does not extend easily to the process of becoming a capitalist. It is easy for capitalists and small businessmen to become workers. Millions do so through the process of bankruptcy, especially during depressions. But, because both technology and credit availability favor the large, established firm, it is difficult for workers to become businessmen, much less major capitalists. Consequently,

8. Thus, Schumpeter defends Marx's conclusion (and his own) under dynamic conditions: "Surplus values may be impossible in perfect equilibrium but can be ever present because that equilibrium is never allowed to establish itself. They may always tend to vanish and yet be always there because they are constantly recreated" [1950, p. 28].
although competition tends to adjust commodity prices (other than labor power) so as to equalize profit rates among different sectors, it is not sufficient to eliminate aggregate surplus values. As was already noted, this would require "equal access to 'capital'" and perfectly free interclass (not merely interindustry) mobility—conditions inconsistent with Marx's perception of capitalism's fundamental institutional structure and behavior.

**CAPITALISM'S ECONOMIC DYSFUNCTIONS FROM A CREATIVE DESTRUCTION PERSPECTIVE**

Many who might otherwise accept broad similarities between the Marxian and Schumpeterian visions of capitalism's creatively destructive properties balk at the thought of drawing parallels between their respective analyses of capitalism's dysfunctional properties. After all, did not Marx sharply delineate contradictory and dehumanizing features of the capitalist system, and incorporate these features as strategic elements in the impending drama of capitalism's prospective demise and supercession? And did not Schumpeter, on his part, explicitly reject the hypothesis of capitalism's "breaking down under the weight of economic failure"?

The answer to these questions is, most assuredly, "yes." And yet, the popular conclusion of a virtual Marx-Schumpeter dichotomy is unpersuasive, because it is countervailed by other powerful similarities that emerge more clearly when capitalism's dysfunctional propensities are assessed from a perspective of creative destruction. Differences between Marx and Schumpeter concerning capitalism's dysfunctions take on a different hue when "bathed in [creative destruction's] penetrating light." The net conclusion is that differences between the two are substantially less than is popularly supposed. Although by no means identical, their respective views on this subject on balance are closer to one another than that of either was to any other prominent system of socioeconomic thought.

As for Marx, his analyses of capitalism's dysfunctions never blinded him to its "positive" aspects, as summarized tautly in his 1847 draft outline subsequently published as *Wage Labour and Capital*:

9. In the third stage of their analyses, differences between Schumpeter and Marx on the generation of surplus values decrease. For Schumpeter, the shift to "trustified capitalism" makes it increasingly difficult for workers to become capitalists. Thus, competition does not work as smoothly to eliminate surplus values. For Marx, increasing barriers (e.g., factory legislation) are placed on expanding "absolute surplus values" by increasing working hours, stimulating greater emphasis on expanding "relative surplus values" through innovation and technological improvements.
If one says "positive aspect of wage labor" one says "positive aspect of capital," of large-scale industry, of free competition, of the world market... without these production relations neither the means of production—the material means for the emancipation of the proletariat and the foundation of a new society—would have been created, nor would the proletariat itself have taken to the unification and development through which it is really capable of revolutionising the old society and itself [Marx and Engels, 1976, p. 436].

Indeed, capitalism's dysfunctional features themselves serve as cause as well as effect of its development process, and certainly do not repudiate its creative success. Alienation of the worker from his product, the work process, and his tools and means of production, although brought to a peak under capitalist auspices, establishes and reinforces capitalists' dominion over labor and production, and gives them the power and incentives to expand their own wealth and thereby to develop society's productive forces. Exploitation of surplus values from workers, although systemic to capitalism and a "miserable foundation" for wealth [Marx, 1973, p. 705], "is capitalism's means of creating an economic surplus, distributing the surplus to a politico-economic elite, and investing the surplus and generating economic growth" [Elliott, 1978–79, p. 6]. Recurrent capitalist depressions are the "most striking form in which advice is given [capitalism] to be gone and to give room to a higher state of social production." Still, by annihilating a large part of existing capital values, they "violently" lead capitalism back to the point where it is able to go on "fully employing its productive powers without committing suicide" [Marx, 1973, p. 750]. Monopoly and centralization of capital, although reinforcing and intensifying capitalism's proclivities toward alienation, exploitation, and cyclical depression, (i) enable rapid expansion in the scale of operations and, thereby, dramatic large-scale investment projects (e.g., railroadization) which would be impossible through mere growth of existing enterprises; (ii) by "accelerating and intensifying the effects of accumulation" hasten "revolutions in the technical composition of capital" [Marx, 1906, pp. 688–89].

Although capitalism's dysfunctions contribute significantly to its eventual demise, they are insufficient, either as preconditions for or as transition to the new society. Other elements, notably economic development and working class solidarity and resolve to build the new society, are also necessary. Further, Marx's vision of growing economic contradictions should not be characterized as simply another (radical) diagnosis of failure in capitalism's "economic engine." We may agree with Schumpeter that Marx visualized an impending period of system decay, i.e., a "more or less prolonged historical period...[in which] capitalism would begin to work with increasing friction and display
the symptoms of fatal illness" [1950, p. 41]. Still, Marx did not suggest either secular stagnation or a stationary state. "In a real sense it can be said that Marx's entire theoretical system constitutes a denial of the possibility of indefinite capitalist expansion and an affirmation of the inevitability of the socialist revolution. But nowhere in his work is there to be found a doctrine of the specifically economic breakdown of capitalist production" [Sweezy, 1956, pp. 191–92]. Advanced capitalism à la Marx would certainly be a less creative and more tense society to live in. Still, despite Marx's occasional apocalyptic statements [1906, pp. 534, 836–37; and 1973, pp. 749–50], it is discordant with his overall view to ascribe capitalism's impending demise as emanating uniquely or specifically from some imminent moment of final "economic breakdown" per se. Capitalism's death and socialism's birth, in Marx's perspective, is pushed by the class struggle and pulled by institutional change as well as propelled by more strictly (and increasingly severe) socioeconomic contradictions [Elliott, 1976, 1978–79, and 1980, Chs. 7–8].

Turning to Schumpeter, the most direct starting point is to observe that, although he differed from Marx on details (notably concerning such long-run tendencies as increasing cyclical intensity and increasing "immiserization" of labor), he never denied the existence of any of Marx's major dysfunctional features of capitalism. Alienation, class struggle, surplus values, cyclical crises, depressions, unemployment, inequality in wealth, power, and income, and monopoly and centralization of capital are all woven into Schumpeter's analysis. Thus, Schumpeter's rationale for capitalism is not burdened by the need to disprove the broad contours of Marx's critique. Nor is it constrained by a perspective that admits the practical relevance of some dysfunctional properties (e.g., exploitation, unemployment, monopoly), but insists that "in principle" they would not exist in ideally functioning, perfectly competitive markets.

Instead, Schumpeter confronts Marx directly. First, whatever its dysfunctional proclivities, capitalism has been an immense success. Second, dysfunctional propensities actually perform a creative function in industrialization. Third, capitalism shows no likelihood of imminent breakdown "under the weight of economic failure." To illustrate, consider cyclical depressions, inequality and surplus values, and monopoly [1950, pp. 63–106].

In Schumpeter's analysis, cyclical fluctuations are no barrier to economic growth. Indeed, growth results from a cyclical development process, in which depressions are, largely, a "normal" and healthy period of absorption of the bunching of innovations during the pre-
ceeding prosperity. Further, contractions eliminate inefficient, non-innovating businesses, as new products and methods replace the old in a "perennial gale of creative destruction" [1950, p. 85]. Similarly, surplus values are the normal result of innovations. Because of tremendous uncertainties involved, i.e., the possibility of failure and the likelihood of competitive encroachment in the event of success, the lure and occasional realization of extraordinary profits may well be the price society pays for the evolutionary contributions of its entrepreneurial leaders. Further, in practice capitalism reduces inequality: by increasing opportunities for entry into the ruling strata relative to earlier, more class-bound societies; by the creation of mass-produced products that especially benefit working masses; and by philanthropy and social legislation underwritten by capitalist growth. As for monopoly, innovation does create a monopoly position for the innovating firm. But because of the tendency for innovations to spread, by imitation and extension to allied fields, the industrial pioneer's monopoly position is only temporary. The possibility of temporary retention of above-normal innovative profits may well stimulate greater technological improvement, and practices that protect these temporary monopoly positions may be the price for technological progressivity and higher growth rates. In short, although the content and emphases are different, the analyses of capitalism's dysfunctional properties in Marx and Schumpeter share important common elements. For both, capitalism is tremendously creative and successful. Its dysfunctional propensities actually serve as cause as well as effect of its development process. And whatever its tendencies toward system-decay, it is not in danger of imminent economic collapse.

**CREATIVE DESTRUCTION II:**

**CAPITALISM'S TRANSFORMATION AND SOCIALIZATION**

Thus far, "creative destruction" has referred to the revolutionizing process whereby the new product or method displaces the old. But Schumpeter describes a broader process for which the expression also seems appropriate, namely one wherein capitalism, through its creative success, leads on to its own destruction and prepares the way for a socialist economic system to supercede it. In this broader sense, "creative destruction" is also common to both Marx and Schumpeter. Differences, as well as similarities, between the two visions may be
conveniently summarized by interweaving commentary on Marx into Schumpeter’s organizational format.\textsuperscript{10}

\textit{Obsolescence of the Entrepreneurial Function}

In entrepreneurial capitalism, innovations are embodied in new firms. But in “trustified capitalism,” the “competitive economy is broken up by the growth of great combines... and the carrying out of new combinations must become in ever greater measure the internal concern of one and the same economic body. The difference so made is great enough to serve as the water-shed between two epochs in the social history of capitalism” [Schumpeter, 1961, p. 67]. The large corporation, with its research departments, automatizes economic progress, making the social function of the entrepreneur, as the innovative outsider, increasingly obsolete. Consequently, the positions and incomes of the active entrepreneurs and those portions of the “entire bourgeois stratum” dependent upon them evaporate. Because capitalist enterprise, “by its very achievements, tends to automatize progress, we conclude that it tends to make itself superfluous—to break to pieces under the pressure of its own success.” In the end, the giant corporation “ousts the entrepreneur and expropriates the bourgeoisie as a class...” [1950, p. 134].

For Marx, capitalism is characterized by a de facto class monopoly of the means of production even under competitive conditions. It is difficult (though not impossible) for workers to become capitalists, whether infused with heroic entrepreneurial spirit or not. However, as Marx turns to the stage of corporate, big business capitalism, a Marxian counterpart to Schumpeter’s point emerges, and the differences between the two perspectives subside. Schumpeter’s basic point is not that entrepreneurship becomes obsolete, but that, as innovation becomes increasingly automatized, entry of new blood into the mainstream of business activity, much less circulation into the ruling circles of society, becomes increasingly difficult. Although a resurrected Marx would insist that this is difficult enough to begin with, he would presumably agree that it becomes much more so as production and innovation become more concentrated and centralized. In short, for both Marx and Schumpeter the large corporation, a product of capitalist development and technology, renders the economic and social position of the small-scale, competitive firm and its associated small bourgeoisie increasingly obsolete. Consequently,

\textsuperscript{10} For a fuller examination of Marx’s analysis of creative destruction, per se, in contrast to those aspects particularly relevant to comparisons between Marx and Schumpeter, see Elliott [1976, 1978–79].
economic power and social position become more heavily concentrated and centralized in the hands of the established capitalist and corporate elite, and the small capitalist (Marx)-entrepreneurial (Schumpeter) escape routes from working class life are increasingly closed off, reducing the solidarity of capitalist rule.

Destruction of the Institutional Framework

For Schumpeter, capitalism's very economic success undermines its institutions though the development of the large corporation, notably atomistic competition and private property. As for competition, the argument that monopoly power reduces economic performance, quite apart from its accuracy, "misses the salient point." Even if large-scale firms were managed with angelic perfection, the elimination of small-scale producers and consequently their "dependents, henchmen, and connections" profoundly affects the political structure and reduces political support for capitalism [1950, p. 140]. "Here of course," Schumpeter observes, "Marx scores" [1950, p. 140]. "He not only predicted the emergence of big business; he visualized industrial concentration as part of the logic as well as the factual pattern of the accumulation process" [1950, p. 34]. In short, Marx, like Schumpeter, did not perceive the "concentration and centralization of capital" as perversion of an ideally competitive state, but as the logical consequence of competition itself in the industrialization process. Further, for Marx no less than for Schumpeter, some of the most profound consequences of big business, corporate capitalism were socio-political, and monopoly was perceived to play a strategic role in capitalism's creative destruction and prospective demise [Marx, 1906, pp. 836–37].

As for private property, here the intellectual distance between the two is quite small. According to Schumpeter, the "separation of ownership and management" in the large-scale corporation has resulted in the disappearance of the "specifically proprietary interest" and the "evaporation" of the "material substance" of property—its "visible and touchable reality"—and, thereby, the evaporation of "moral allegiance" for industrial private property. Eventually, nobody is left who really supports capitalism as did the small-scale owner-

11. The sociopolitical implications of monopoly are described in even more pointed terms in the writings of the later Engels who argues, for example, in Socialism: Utopian and Scientific, that because of trends toward monopoly and the large scale corporation, exploitation is becoming "so palpable that it must break down. No nation will put up with production conducted by trusts, with so barefaced an exploitation of the community by a small band of dividend-managers" [in Elliott, 1980, Ch. 7].
managers of the nineteenth century. "Thus the modern corporation, although the product of the capitalist process, socializes the bourgeois mind..." [1950, p. 156]. Moreover, the "bureaucratization of economic life"—an "inevitable complement" to both democracy and modern economic development—is stimulated by and within the large-scale corporation [1950, p. 206]. This immensely simplifies the transition to a socialist "bureaucratic apparatus" by establishing new modes of managerial responsibility and executive selection that are "not without an appreciable measure of rationality" and that "could no doubt be reproduced in a socialist society" [1950, pp. 206–07].

In Marx's roughly comparable interpretation, the (emerging) industrial corporation is itself a product of capitalist development. Its growing economic role emanates from capitalism's enlarging appetite for investment funds with large-scale production and accumulation. But the corporation has profound effects on the capitalist property system, notably a "transformation of the actually functioning capitalist into a mere manager... and of the owners of capital into mere owners..." and an "abolition of the capitalist mode of production within capitalist production itself, a self-destructive contradiction, which represents... a necessary transition to... social property outright..." [Marx, 1909, pp. 516–517, 519]. Thus for Marx, like Schumpeter, bureaucratized corporate capitalism is a "phase of transition to a new form of production." It aims at the "expropriation" of small-scale, individual production, although it appears as the centralization of capital and "appropriation of social property by a few..." [Marx, 1909, p. 520]. Moreover, it "establishes a monopoly in certain spheres and thereby challenges the interference of the state. It reproduces a new aristocracy of finance, a new sort of parasites in the shape of promoters, speculators and merely nominal directors; a whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation. It is private production without the control of private property" [Marx, 1909, p. 519].

Marx supplements his analysis of corporations with a parallel description of worker cooperative factories, which are perceived to evolve out of capitalist industrialization, are facilitated by the development of the credit system, and, like corporations, are a form of "transition from the capitalist mode of production to the associated one,..." [Marx, 1909, p. 521]. Thus, the credit system, itself effect as well as cause of capital accumulation and capitalist development, generates a transformation and socialization of capitalist property relations eventually "turning over into communism" [cited by Nicolaus in "Introduction" to Marx, 1973, p. 55].
Destruction of the Protecting Strata

Both Marx and Schumpeter perceive capitalism in the dominant Western European model as emerging out of feudalism, and the surge to dominance of the industrial bourgeoisie as emanating from the creatively destructive impact of an industrializing capitalism on pre-capitalist values, institutions, and class positions. Adapting Marx’s classic analysis of the nineteenth century British Constitution, Schumpeter further argues that the industrialist, outside the economic arena, is “rationalist and unheroic.” He lacks the “mystic glamour” that “counts in the ruling of men” [1950, p. 137]. He requires an aristocratic class to protect him, to manage the affairs of church and state and leave him “unfettered” to carry out his revolutionary economic leadership. For Schumpeter, the landowning aristocrats were “partners of the capitalist stratum, symbiosis with whom was an essential element of the capitalist schema” [1950, p. 139]. Thus, capitalism’s very success in removing pre-capitalist institutions and classes leaves the bourgeoisie “politically helpless” and unable “to take care of its particular class interest...” [1950, p. 138]. Although Marx would no doubt disagree that capitalists are “politically helpless,” he would presumably agree that the “romantic glory” of the aristocracy, which to some degree lingers on as a residual ideological vestige as its economic base is transformed by industrialization, may facilitate capitalism’s consolidation, and yet that the “necessary victory of the capitalist... [and] the final ruin of the old aristocracy...” [Marx, 1964, pp. 113, 143] removes yet another barrier in the historical process of movement toward post-capitalist society. Still, Marx believed that the working class was able to exploit conflicts between capitalists and landlords, as illustrated by developments in the 1840s. Manufacturers had courted working class support for repeal

12. Marx described the British Constitution as “an antiquated and obsolete compromise made between the bourgeoisie, which rules in actual practice, although not officially, in all the decisive spheres of bourgeois society, and the landed aristocracy, which forms the official government.” Through the Reform Bill of 1831, the bourgeoisie “gained general political recognition as the ruling class, but only on the condition that the whole business of government... remained the guaranteed domain of the landed aristocracy” [Marx, 1974, p. 282]. The agents of this compromise are the Whigs, who function as the “aristocratic representatives of the bourgeoisie...”. In exchange for a “monopoly of government and the exclusive possession of office,” they assist the industrial and commercial middle class in conquering those concessions to its class interest which have become “unavoidable and undelayable” [Marx, 1974, p. 250].

13. Marx writes of “the aristocratic condition of land-ownership which reflects a romantic glory upon its lord... and puts the workers on the estates... in directly political... relations of respect, subordination and duty” to the lord [1964, pp. 114–15].
of the Corn Laws. With the repeal, the working class "found allies (e.g., for new social and factory legislation) in the Tories panting for revenge" [1906, p. 311].

_Growing Hostility and Social Classes_

According to Schumpeter, although Marx analyzed capitalism in economic terms by a "bold stroke of analytic strategy," he defined it sociologically, in terms of the class dominance of capitalists. Thus, by an "ingenious tautology," the full realization of working class interests requires the supercession of capitalism, and socialism in turn is perceived as an economic society dominated by the working class [1950, p. 19]. Schumpeter rejected this interpretation of the relations between social classes and economic systems partly because, like Lenin, he believed that working class interests, _if_ left alone to develop spontaneously, tend more to trade unionist and petty bourgeois aspirations. The Schumpeterian worker aspires not to overthrow the capitalist, but to extract more from him through shrewd bargaining or to escape from him through small-scale entrepreneurial or business activity. However, (i) workers are not left alone to develop class interests spontaneously, and (ii) other factors, emanating from the capitalist evolutionary process, stimulate class struggles and growing hostility toward capitalism. As to (i), capitalist evolution "produces a labor movement" and "the rise of the labor interest to a position of political power and sometimes of responsibility" [1950, p. 153; and 1939, II, p. 697]. In conjunction with corporations, labor unions have collectivized the labor market, thus socializing capitalism's institutional structure. Also, intellectuals have often invaded labor organizations and labor politics, providing "theories and slogans" (e.g., class war), and radicalizing the labor movement, "eventually imparting a revolutionary bias to the most bourgeois trade-union practices . . ." [1950, p. 154].

Marx's different but related commentary on these points would be that capitalist development contributes directly to working class organization and solidarity. Capitalist power, cyclical crises, and monopoly stimulate the establishment of labor unions as protective devices in the economic struggle to keep wage rates up, while improvements in transportation and communication centralize the class struggle, making it increasingly political in character. Indeed, the "real fruit" of the class struggle lies in the increasing political unity and organization of the working class rather than in specific wage negotiations [Marx and Engels, 1976, p. 493; and 1974b, pp. 224–29]. The socialist intelligentsia, Marx would presumably agree, thrive on
criticism and are given wide opportunities to “nibble at the foundations of capitalist society” through freedom of public discussion as well as improved means of communication [Schumpeter, 1950, p. 151], and play a guiding and educative role in the development of working class organization. However, Marx was committed to a view of the working class “as the decisive force charged with the social transformation of society” [Leonhard, 1974, p. 87]. For Marx, no amount of theorizing or organizing by an intelligentsia (or body of professional revolutionaries) can substitute for working class solidarity and resolve to “effect its interests in a general form” [Marx to Bolte, cited in Padover, 1971, p. 61].

As to (ii), Schumpeter’s basic point is that capitalism, by its own evolution, stimulates hostility and class struggles beyond those emanating from capital-labor relations. Some examples are capitalism’s self-destruction, noted earlier, of its own institutional framework; the fact that although capitalism’s basic rationale (economic progress) rests on long-run considerations, “[f]or the masses, it is the short-run view that counts,” and in the short run, inequalities, surplus values, and unemployment “dominate the picture” [1950, p. 145]; and capitalism’s creation of a “New Middle Class,” which, together with farmers and small businessmen, may constitute a majority of the population, and whose interests and attitudes, though often different from those of the working class more narrowly conceived, are generally just “as hostile to the interests of the bigger and big bourgeoisie” [1939, pp. 697–99].

For Marx, the basic class struggle of advanced capitalism is, of course, that between the large bourgeoisie and the working class. Given this fundamental conflict, there are related conflicts, problems, or sources of disenchantment, several already enumerated. As for short-run problems versus long-run rationale, one suspects that if Marx could directly confront Schumpeter, he would contend that the cat had been let out of the bag, for what is the long-run rationale if it is not capitalism’s “positive” or creative properties, and what are short-run problems of depression, etc., if not capitalism’s dysfunctional properties?

Public Policy and Social Change

When Marx and Schumpeter turn to public policy and social change their respective arguments show striking parallels, despite important differences of emphasis and perspective. First, each believed that the capitalist state, under the pressure of “social reformers” (Schumpeter) or the class struggle (Marx), may engage in social
legislation and reform, provided that such policies do not constitute "significant interference with the capitalist process" [Schumpeter, 1950, p. 69], or, phrased negatively, that the consequences of not providing concessions to the working class "are sufficiently dangerous to the stability and functioning of the system as a whole" [Sweezy, 1956, p. 249].

For Marx, the best single example was a bundle of reforms comprised of "factory legislation," i.e., restriction of working hours, sanitation regulation, child labor laws, and education. These reforms, which were as much the product of nineteenth century capitalist development as its technology and industry,14 constitute genuine concessions to working class interests; departures from a laissez-faire, market-oriented economy and movements toward as well as portents of the socialist society to come; and a practical school for the political education of the working class [Marx, 1906, Ch. 10]. To this list Schumpeter added ample unemployment compensation, care for the aged and the sick, public health, collective goods of various kinds, and limited public ownership. In the United States, Schumpeter observed, the "better part of the task could even now be accomplished without undue strain on the system" [1950, p. 70, italics added].

Second, however, none of these reforms constitutes a social revolution or radical transformation of the capitalist system. Both Marx and Schumpeter expected this to happen. For Schumpeter the transformation of, plus hostility toward, "trustified" capitalism combine to give birth to public policies incompatible with it, "policies which do not allow it to function" [1939, p. 1038], either through the imposition of injurious financial burdens on the capitalist-entrepreneurial sector or the alteration of the institutional environment so as to excessively constrain industrialists' power and autonomy. As illustrations, Schumpeter cited developments during the New Deal, notably burdensome income, corporation and estate taxes, labor legislation, public utility regulation, and anti-monopoly policies. The injurious effects of these programs on private investment and innovation were heightened by the rapidity, hostility, and anti-business spirit with which they were enacted, and the overzealous, tactless

14. According to Marx, factory legislation partly constituted concessions to curb social tensions and working class fervor "that daily grew more threatening ..." [1906, p. 263]. More significantly, they represented increasing recognition by capitalists of a class interest in collective action to sustain the labor force and its capacity to produce and reproduce itself, that is, to prevent intensity of unregulated exploitation by individual capitalist employers, the collective effect of which could potentially unduly sap the health and life of workers and thereby threaten the viability and continuity of the capitalist system itself [Marx, 1906, Ch. X, esp. pp. 310–30].
manner in which they were administered [1939, pp. 1038 ff.]. "Faced by the increasing hostility of the environment and by the legislative, administrative and judicial practice born of that hostility, entrepreneurs and capitalists—in fact the whole stratum that accepts the bourgeois scheme of life—will eventually cease to function" [1950, p. 156].

Although from a Marxian perspective the reference to the New Deal would appear premature and misplaced, the general character of the Schumpeterian vision of the role of public action under late-stage capitalism has a strong counterpart in the Communist Manifesto. There, Marx and Engels present a three-stage model for social revolution and transition to socialism. The first step is for the proletariat to "win the battle of democracy" and achieve political supremacy. In advanced democracies such as the United Kingdom and the United States, this follows essentially, though not automatically, from genuine universal suffrage. The second step is to engage in measures that in themselves appear "economically insufficient and untenable" (most of which, indeed, have been implemented in modern industrial societies) but that make "despotic inroads on the rights of property," and that, "in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionising the mode of production" [Marx and Engels, 1976, p. 504]. The third is to transfer the physical means of production, by degrees, to worker-state control.

Although brief, this strategy is sophisticated. It satisfies Schumpeter's interpretation of Marx's revolution as differing "entirely, in nature and in function, from the revolutions both of the bourgeois radical and of the socialist conspirator. It is essentially "revolution in the fullness of time" [1950, p. 58]. It also bears a striking resemblance to Schumpeter's vision of capitalism's final death-knell. The "moment" of the revolution is a dynamic period of transition in which socialization of the means of production occurs fairly late in the process. "Private industry will be allowed to continue to exist surrounded by such a climate of economic and political arrangements that it will slowly... have to transform itself." Public measures which challenge capitalist-corporate autonomy and wealth "will slowly ease private industry out... by gradually creating the economic conditions

15. For a contemporary application of this kind of strategy, see Gorz's distinction between "reformist" and "nonreformist" reforms [1967].
which will make the further existence of private industry economically unviable” [Avineri, 1968, p. 206].

Capitalist Transformation and Socialization

Capitalism’s “tendency toward self-destruction” [Schumpeter, 1950, p. 162], which, for Marx, is associated with tendencies toward system-decay and, for Schumpeter, “may well assert itself in the form of a tendency toward retardation of progress” [1950, p. 162], embodies for both a process of transformation and socialization. For Schumpeter, the various factors discussed earlier—“objective and subjective, economic and extra-economic. . . reinforcing each other in imposing accord. . . [—] make not only for the destruction of the capitalist but for the emergence of a socialist civilization. . . . The capitalist process not only destroys its own institutional framework but it also creates the conditions for another” [1950, p. 162].

But “transformation,” Schumpeter adds, may be a better word than “destruction.” Capitalism, he suggests in a 1928 article, is “in so obvious a process of transformation into something else, that it is not the fact, but only the interpretation of this fact, about which it is possible to disagree. . . . Capitalism. . . creates, by rationalizing the human mind, a mentality and a style of life. . . .” which is not only “incompatible with its own fundamental conditions, motives and social institutions,” but which provides the preconditions for a socialist future [1951, pp. 71–72]. Capitalism’s self-destruction does not simply provide a “void” in which virtually anything might happen. Instead, “things and souls are transformed in such a way as to become increasingly amenable to the socialist form of life.” In short, the capitalist “economic process tends to socialize itself—and also the human soul” in that “the technological, organizational, commercial, administrative, and psychological prerequisites of socialism tend to be fulfilled more and more” [1950, pp. 168, 219]. The same factors that explain capitalism’s coming demise also “strongly point to socialism as the heir apparent” [1950, p. 61].

On this overall theme of capitalism’s transformation and socialization, there are strong parallels in Marx’s writings. Beyond specific examples already cited, notably corporations, workers’ cooperatives, labor unions and labor politics, and factory legislation, the following passages from the Grundrisse are illustrative:

[T]he material and mental conditions of the negation of wage labour and of capital, themselves already the negation of earlier forms of unfree social production, are themselves results of its [capitalism’s] productive process [p. 749]. [The capitalist
mode of production] is itself fleeting, and produces the real conditions of its own suspension [pp. 541–42]. [Capitalism's "historic destiny" is fulfilled] when the severe discipline of capital, acting on succeeding generations, has developed general industriousness as the general property of the new species—and, finally, when the development of the productive powers of labour, which capital incessantly whips onward with its unlimited mania for wealth, ... have flourished to the stage where... wealth require[s] a lesser labour time of society as a whole, and where the labouring society relates scientifically to the process of its progressive reproduction... [p. 325]. [The universalist tendency of capital [will, at a] certain stage of its development, allow itself to be recognized as being itself the greatest barrier to this tendency and hence will drive towards its own suspension [p. 410]. (Italics and material in brackets added.)

Similarly, in the often-cited "expropriators are expropriated" passage of Capital, socioeconomic dysfunction and system-decay provide the rhetoric and revolutionary class struggle the drama, but the bulk of the analytic thrust of the argument is comprised of a twofold model of capitalist transformation and socialization. First centralization of capital, "accomplished by the action of the imminent laws of capitalistic production itself," stimulates technological, social, organizational, and administrative preconditions of socialism, notably:

The co-operative form of the labour-process, the conscious technical application of science, the methodical cultivation of the soil, the transformation of the instruments of labour into instruments of labour only usable in common, the economising of all means of production by their use as the means of production of combined, socialised labour, the entanglement of all peoples in the net of the world-market, and this, the international character of the capitalistic regime [1906, p. 836].

Second, along with monopoly, misery, and exploitation "grows the revolt of the working-class, a class always increasing in numbers, and disciplined, united, organised by the very mechanism of the process of capitalist production itself" [1906, pp. 836–37, italics added], thus providing organizational and psychological bases for working class solidarity and action in making the transition to and building the new society.

Certainly, there are important specific differences between the two visions, especially concerning this second aspect of Marx's analysis. As noted, Marx makes the working class the agent of social transformation, whereas Schumpeter explicitly disconnects Marx's linkage between socialism and the labor movement.16 Throughout this section, we have noted other particular differences. In addition,

16. According to Schumpeter, "the labor movement, though often allied with socialism, has remained distinct from it to this day... the labor movement is not essentially socialist, just as socialism is not necessarily laborite or proletarian" [1950, p. 310].
Marx, in the *Grundrisse*, delves more deeply and specifically than Schumpeter into the prospective transformative effects of science, technology, and automation upon productivity, leisure, the composition of labor, and the character of work [Marx, 1973, pp. 705 ff.; and Elliott, 1978–79]. On the overall theme of capitalism’s future, however, the parallels are again quite striking. Marx’s vision is far from one of simple economic failure, while Schumpeter’s analysis, no less than Marx’s, is one of transformation and socialization as well as destruction based on economic success. At one point, Schumpeter revealingly recognizes the broad similarity with Marx’s analysis, indeed minimizes the differences between the two perspectives. “In both these respects [transformation and socialization] Marx’s vision was right. We can also agree with him in linking the particular social transformation that goes on under our eyes with an economic process as its prime mover.” Further, in the end “there is not so much difference as one might think between saying that the decay of capitalism is due to its success and saying that it is due to its failure” [1950, p. 162]. At the very least, parallels and similarities are sufficient to temper significantly the popular myth of a sharp dichotomy and unbridgeable gulf between these two heroic perspectives on the internal dynamic of modern capitalist society.

In closing, we should note two final overall parallels and one major caveat. First of the overall similarities is that Schumpeter’s analysis of capitalism’s prospects is “not pure economics, of course,” but economics “seen in a wide context and with a broad historical horizon.” The combination of economic theory, politics, sociology, and history, which is Schumpeter’s “major characteristic” [Stolper, 1979, pp. 69, 64], is strikingly similar to Marx’s endeavor “to unite economic history, sociology and economics in a kind of ménage à trois….” [Meek, 1967, p. 101]. Second, Schumpeter’s vision, like Marx’s, contains no timetable. Its constituent elements, “while everywhere discernible, have as yet nowhere fully revealed themselves.” Superficial “temporary reverses” on the “surface” may easily mask “the tendency toward another civilization that slowly works deep down below.” The Schumpeterian outlook, no less than the Marxian one, is a long-run vision in an accounting system in which “a century is a ‘short-run’…” [1950, p. 163].

The major caveat, of course, is that the comparative commentary in this paper has focused exclusively on the vision(s) of capitalism’s creatively destructive properties and preparation for socialism, where parallels between Marx and Schumpeter are strongest. In ideological commitment, in the details of their respective technical analyses of
the behavior of the capitalist economy, and in their perceptions of
the socialist future, differences in perspective are both clear and
significant.17

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17. Brus [1975, p. 17] summarizes this latter point, deserving of a separate paper
in its own right, aptly as follows: “Whilst in its understanding of socialism as a product
of historical development Schumpeter’s conception displays a number of points of
resemblance to the Marxist position as most generally understood, in its actual defini-
tion of socialism and the problems connected with it there is a clear difference to be
seen. . . . The resemblance concerns the aspect of continuity (of socialism in relation
to capitalism) whereas the differences relate to the aspect of negation; in Schumpeter
this aspect barely exists, whereas in the Marxist conception it is at least of equal im-
portance.”

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