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On the Collapse of Capitalism

A Comparative Study of the Theories of Karl Marx, Joseph A. Schumpeter and Immanuel Wallerstein

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*That so few now dare to be eccentric,
marks the chief danger of the time.
[John Stuart Mill, On Liberty]*

1. Introduction

In 1991 the Soviet Union ceased to exist; even a year earlier Francis Fukuyama claimed the end of history, as such. It seems many incline to regard the system of liberal market economy as a kind of ultimate resolution. Premodern values reappear, capitalism is becoming a natural phenomenon, a self-evident state of society. My essay intends to present three critical theories challenging the hegemony of capitalism, moreover, foreseeing its collapse. The comparative study comprises the arguments of Karl Marx, Joseph A. Schumpeter and Immanuel Wallerstein.

As a matter of fact, considering liberalism an absolute ideology, whose truth value cannot any further be ameliorated (Fukuyama, 1990), contradicts the very essence of John Stuart Mill's concept of liberty.

There is no such thing as absolute certainty. [...] Complete liberty of contradicting and disproving our opinion, is the very condition which justifies us in assuming its truth for purposes of action. [...] In the case of any person whose judgement is really deserving of confidence, how has it become so? Because he has kept his mind open to criticism of his opinions and conduct. Because it has been his practice to listen to all that could be said against him; to profit by as much of it as was just, and expound to himself, and upon occasions to others, the fallacy of what was fallacious. (J.S. Mill, 1989, pp. 22-23)

In accordance with Mill's notion of continuous debate, I find it essential to expose widely held opinions, beliefs to expedient counter-arguments. My essay aims at contributing to a prolific discussion on the future of capitalism, which has long remained a barren field.

Is it possible to assess the future of capitalism at all? It is often said the 'postmodern turn' ended the age of grand theorising, denying us the meta-narratives that used to guide our understanding of the world in which we live. No doubt, all three authors of the theories to be presented here represent milestones in the history of economic theory. Each laid the foundation of a novel direction of thought. Marx,

being chronologically the first primogenitor, exercised significant influence on the other two. Schumpeter is regarded as the forefather of the evolutionist school, while Wallerstein laid the course for a new approach to the world-system. Marx lived in the 19th century; finished his major work, *Das Kapital* in 1867. Schumpeter was born in the year Marx died, 1883. His best known book, *Capitalism, Socialism and Democracy* was first published in 1942. Wallerstein was born 1930; his major three-volume study, *The Modern World-System* was completed in 1995. He is one of the few internationally reputed and theoretically inclined social scientists today who have the boldness of vision, the appetite for transdisciplinary thought and the intellectual fortitude necessary for sustained theoretical coherence of the kind that characterised the foundational work of our 19th century forebears (Hoogvelt-Kenny-Germain, 1999).

Why these three theories? Marx provided the first profound critique of capitalism; his theory represents a turning point in the history of economic thought – its place in my essay is beyond all questions. Schumpeter is one of the few economists who posed explicitly the central question of this essay *Can capitalism survive?* thus presenting a thorough argument why he supposes it cannot. Eventually, among the contemporary conceptions of the capitalist system that foresees its collapse, Wallerstein's theory appears to be the most elaborate. Certainly the list is far from complete. Great many more economists pointed out the inherent problems of capitalism, however, most of them appeal to the corner-stones of Marx's theory. Others approach the upcoming downfall from a social point of view pronouncing the proclivity of the system toward undermining its moral foundations. Fred Hirsch¹ and Max Horkheimer² are to be mentioned here (Hirschman, 1982). Another type of rationale behind the inevitability of changes is presented by the environmentalist. They stress the ecological limits to growth; the radicals envision an ecological Armageddon (Heilbroner, 1970). Since the subject appears to be too large and manifold for a comprehensive treatment here, my study focuses solely on the – for the above reason – chosen economic arguments, excluding ethic and ecological considerations. Nonetheless the present essay lays the foundation of a more comprehensive future analysis as well.

All of the above, – including Marx, Schumpeter and Wallerstein –, draw our attention to the same point but from different angles. All claim capitalism cannot tide on unchanged. All believe in our capacity of changing the dying system. The system that reproduces inequalities, oppresses and exploits certain classes of the society and regions of the world-system can indeed be altered – they aver. For a long time in human history it was not so apparent. The social, political and economic order under which men and women were living was taken for granted. Among the people of those idyllic times many of course were poor, sick, or oppressed, and consequently unhappy, nevertheless most tended to attribute their unhappiness either to concrete and fortuitous happenings – ill luck, ill health, the machinations of enemies, an unjust master, lord or ruler – or to remote, general and unchangeable causes, such as human nature or the will of God (Hirschman, 1982). The theories of Marx, Schumpeter and

¹ Hirsch, Fred: *Social Limits to Growth*, Routledge & Kegan Paul, London and Henley, 1978

² Horkheimer, Max: *Eclipse of Reason*, Oxford University Press, New York, 1947

Wallerstein suggest that the social order is perfectible thus unhappiness can in fact be diminished. They believe the collapse of capitalism leads us to a more liveable society.

In the following, I shall present the arguments of Marx, Schumpeter and Wallerstein anticipating the collapse of capitalism. I am focusing on the questions *why* and *how* the current economic system is going to fall down according to each theory. The essay does not intend to engage in any kind of general discussion of the selected authors' work; there is no place for a general comparison of their theories either. In like manner, any sort of assessment, evaluation, or critique of the arguments would exceed the limits of my study. What is next then? First, relying on Albert O. Hirschmann's treatise (1982), the chosen theories are to be positioned among the major theses of economic thought concerning market society. It is followed by a one by one presentation of the arguments. Finally I shall put forward an analytical comparison of the three theories.

The self-destruction thesis

As noted above, for a long time in human history the social, political and economic order was taken for granted – this is the so-called premodern era. In the course of the French Enlightenment the idea of perfectible social order arose. At about the same time, the Scottish moralists emphasised the unintended effects of human actions and decisions arguing that the best intentioned institutional changes might lead, via those unforeseen consequences, to all kinds of disastrous results. Hirschman asserts, after the French Revolution, four modern theses developed from these two propositions, each comprising ideas about the likely economic and non-economic (moral, social, political) dynamics of market society (1982, p. 1464). However, there was an almost total lack of information between the conflicting theses, hence intimately related intellectual formations unfolded at great length, without ever taking cognisance of each other – he adds (p. 1464).

In the following I shall sum up briefly his flow of argument. According to the *doux-commerce thesis* of the eighteenth century, the market and capitalism were going to create a moral environment in which a good society as well as the market itself were bound to flourish³. Soon there was to arise, in counterpoint, the *self-destruction thesis* which asserts that, to the contrary, the market, with its vehement emphasis on individual self-interest, corrodes all traditional values including those on the basis of which market itself is functioning. Next, the *feudal-shackles thesis* demonstrates instead how capitalism is coming to grief, not because of its own excessive energies, but because of powerful residues of pre-capitalist values and institutions. This thesis is in turn contradicted by the demonstration that calamitous results follow from the absence of a feudal past implying that a feudal background is a favourable factor for subsequent democratic-capitalist development. Hirschman calls it the *feudal-blessings thesis*⁴. Thus we end up with a position that is in obvious conflict with the initial *doux-*

³ Montesquieu and Sir James Steuart expected that the expansion of the market would restrain the arbitrary actions and excessive power plays of the sovereign. Thomas Paine adds in *The Rights of Man* that „commerce is a pacific system, operating to cordialise mankind, by rendering Nations, as well as individuals, useful to each other” (p.215).

⁴ Above all, he refers to Louis Hartz's classic book, *The Liberal Tradition in America* (1955). Hartz puts forward that the Americans having been 'born equal', without any sustained struggle against the 'father', that is the feudal past, America is deprived of what

commerce thesis, for, in the latter, the market and self-interested behaviour are viewed as a benign force that is in fact destined to emancipate civil society ‘from feudal shackles’. The schematic chart hereunder makes it easier to perceive the relationship between the various theses.

Dominance of Market vs. Influential Persistence of Pre-capitalist Forms: Their Effects on Market Society		
Hirschman's Tableau Idéologiques	Positive Effects	Negative Effects
Dominance of Market	<i>Doux-commerce thesis</i>	<i>Self-destruction thesis</i>
Influential Persistence of Pre-capitalist Forms	<i>Feudal-blessings thesis</i>	<i>Feudal-shackles thesis</i>
Arrows indicate flow of argument in Hrishman's treatise		

In the following part of my essay, I present the primary theory of the *inherent economic problems thesis*, namely that of Karl Marx. Next, I shall sum up the argument of Schumpeter which is a unique combination of the *inherent economic problems* and the *moral downgrade* theses. Last but not least, Wallerstein's complex theory – comprising all the three aspects of the *self-destruction thesis* – is exposed to view.

2. Karl Marx

The Marxian project

Marx was the first and foremost philosopher who felt that his job was not merely to interpret and analyse society but also to promote changes he considered desirable. As a partisan advocate of change, he does not differ from Smith, Ricardo, or J. S. Mill. In contrast to the classical economists, however, Marx advocated not small, marginal changes in the society and economy but a fundamental revolution.

Since Marx is popularly associated with the economic systems of socialism and communism, people often assume that he wrote about these systems. Nothing could be further from truth. Marx studied the operation of capitalist economies and analysed its problems that, he believed, could not be remedied by economic policies, or by other actions to make the system work better, because they were essential characteristics of capitalism. In all the vast literature produced by Marx and his collaborator, Friedrich Engels, there are only a few vague references to how a socialist or communist economy is to organised (Colander–Landreth, 1989, p. 162). Marx's primary aim was to lay bare the laws of the dynamics of capitalism. In order to understand capitalism's laws of motion he discovered and his meditation upon the

Europe has in abundance: social and ideological diversity. But such a diversity is one of the prime constituents of genuine liberty (pp. 140-142). The lack of ideological diversity stimulates the ever present tendencies toward a 'tyranny of the majority' inspired by America's 'irrational Lockianism' (p.11) or its 'colossal liberal absolutism' (p. 285).

collapse of capitalism I shall briefly sum up his theory of history, theory of value, and the notions of exploitation and alienation.

Theory of history

Marx saw capitalism just as one phase of an historic process that all economies move through. Human economic activity, Marx noted, began in hunting and gathering societies. Then people settled down and formed agricultural communities, which shortly developed into feudal economies. Feudalism, in turn, was transformed into capitalism due to the rise of businessmen who engaged in small-scale manufacturing and who traded goods both domestically and internationally. Capitalism, as I shall detail subsequently, contains the seeds of its own destruction too, as inevitable conflicts develop with changes in the forces of production. With the fall of capitalism a new set of relations of production will emerge, which Marx calls socialism, and socialism will finally give way to communism.

Theory of value and the notion of exploitation

One crucial characteristic of capitalism, according to Marx, is that it exploits individual workers. To understand the notion of exploitation, it is necessary to understand Marx's analysis of the value of any good. Following Ricardo, Marx adopted a labour theory value. This theory held that the value of any good depended upon the amount of labour spent producing it. This could be either direct labour, which is current work effort, or indirect labour, which is the amount of labour that went into making the machinery that was used in producing the goods.

Marx divided the value of all goods into three categories – constant capital, variable capital, and surplus value. Constant capital referred to the machinery, plants, and equipment used up in the production, a notion similar to the today concept of depreciation. Variable capital refers to the current wage bills, or what workers are paid to help produce goods. Lastly, Marx defined surplus value as the value of a product over and above wage and depreciation costs. It is similar to the more familiar notion of profit. Marx provided a second perspective on surplus value. He noted that the essence of capitalism was to take money (M), use this money to buy things (labour and machines) that could produce some commodity for a greater amount of money (M')⁵. Surplus value could thus also be defined as the difference between M' and M . Marx held that the appropriation of surplus value by the owners of capital constitutes exploitation.

Exploitation was made possible by the fact that workers had to offer their services or work effort because they owned no capital and could not support themselves in any other way. Through their daily efforts, workers created something of value. They produced goods and machinery that could help produce even more

⁵ By the way this reveals another chief characteristic of capitalism. As opposed to precapitalist societies in which human goods were produced for their use value that is for consumption by the producer; under capitalism commodities are produced by the capitalist not for their use value but for their exchange value that is for profit.

goods in the future. But workers did not receive the full value of everything they produced. Some of the value they created was taken by their employer in the form of surplus value. At the beginning of the workday, workers produced enough goods so that the sale of these items would pay for their wages plus wear and tear on the machinery used in production. For the rest of the day, however, labourers worked to enrich their employer. (Pressman, 1999, p. 49)

In fact, it is the very essence of capitalism that enforces and maximises the exploitation of workers not the evil character of capitalists. Competition among firms compels each one to lower costs, increase profits, hence exploit its workers as much as possible. Firms unable to do so will invariably go out of business. Only those exploiting their workers to the fullest extent possible will survive; other firms will cease to exist due to their high costs of production. Competitive capitalism thus guarantees that workers live on the edge of subsistence being exploited to the maximum extent.

Alienation

A second major characteristic of capitalism Marx noted is that it creates alienated workers. Alienation has four aspects. First, under capitalism workers become alienated from how they produce. Marx held that human beings were naturally creative and wanted to control and shape their environment. However, as opposed to the view of Adam Smith, the division of labour did not promote dexterity and skills, rather it transformed the production process into simple, monotonous tasks. Work became boring and had no meaning except as a source of income; it destroyed the creative, emotional, aesthetic, and intellectual potential of the worker (Braverman, 1974). Thus, rather than work being an integral part of human life, this aspect of alienation leads to the familiar aphorism “life beginning when work ends”.

A second reason for the alienation under capitalism is that workers lose control over the goods they produce. The individual craftsman, Marx noted, could take pride in what he produced. For the assembly line worker, however, this is not the case. These workers are not responsible for producing the final product and can take little pride for the small part they played in producing it. In addition, the capitalist system leads inexorably to the production of cheap and shoddy merchandise. Capitalists always seek to produce at the lowest possible costs. Again, survival is at stake. One way to cut costs is to cut corners. Thus quality tends to suffer, and workers tend to turn out cheap junk that they can take no pride in having made. By losing control over the means of production workers become alienated from what they produce.

A third reason for the alienation is related to above described notions of surplus value and exploitation. In spite of working all day hard, workers always and only receive subsistence wages. Their efforts only improve the absolute position of the capitalists, but they cannot ameliorate their own standard of living. Accordingly, the relative position of the worker worsens as a result of working hard. The standard of living for workers remains at the bare minimum necessary for survival, while capitalists increasingly become wealthier. This characteristic of capitalism stems from the fact that capitalists monopolised the means of production.

Finally, Marx contended that under capitalism the labour power of the worker becomes the property of the capitalist employer. The worker is thus alienated from himself or herself. There is a loss of individual freedom and self-respect; employment becomes a form of slavery for the worker. (Pressman, 1999, p. 51)

The inherent problems of capitalism and the growing pressure

Alienation and exploitation of workers lead inevitably to a class struggle between capitalists, who own the means of production, and workers, who do not. This struggle, Marx thought, would lead to the destruction of the capitalist system when the pressures on workers became too great. Competition among capitalists assures the continuous building and rise of such pressures. Marx presented three distinct forces being integral parts of capitalism that would eventually result in the self-destruction of system.

First, capitalism is essentially about taking fortunes and using them to create larger fortunes. Large fortunes are desirable since they bring power and prestige. Each capitalist is always under the pressure of competition thus anyone trying to stand still would quickly be forced out of business by competitors, lose prestige and power, and have to seek employment as a worker – that is be exploited and alienated.

Second, capitalism is characterised by an unending drive towards monopoly and economic concentration. Monopolists make huge profits in contrast with the firms in a competitive environment who tend to compete their profit away. Besides evading competition, large firms are able to achieve economies of scale further reducing the costs of production. All firms, therefore, desire to become large and be monopolies. The process of competition crushes the weak and the small, or they become absorbed by the big and the strong. Furthermore, to remain competitive a firm has to constantly improve worker productivity, but technological improvements require increasing amounts of capital. Larger and larger firms are needed to supply this rising capital requirement. The increasing centralisation is furthered by the development of a credit system and of the corporate form of business organisation. Corporate capitalism is characterised by the fact that:

[...] enterprises assume the form of social enterprises as distinguished from individual enterprises. It is the abolition of capital as private property within the boundaries of capitalist production itself. Transformation of the actually functioning capitalist into a mere manager, an administrator of other people's capital, and of the owners of capital into mere owners, mere money capitalists. (Marx, 1926, Vol. 1, p. 516)

Marx's view, then, is that capital accumulation, economies of scale, the growth of credit market, and the dominance of the corporation in business organisation would lead to the concentration and centralisation of capital into fewer and fewer hands. These tendencies towards monopoly would result in the bankruptcy of small firms by large ones hence small businessmen and women would soon become workers of large monopolies thus an increasing amount of people would come to resent monopolies.

A final force leading to the demise of capitalism is the tendency for profit rates to fall. Accumulating more and more wealth is a central characteristic of capitalism. Competition forces firms to buy and apply more and more efficient machinery. Consequently, the production process comes to rely on relatively more capital and relatively less labour. The profit rate though equals total profits divided by the initial monies put out to produce goods. In Marx's terminology, the rate of profit equals the ratio of surplus value to constant plus variable capital. Since surplus value comes from exploiting workers, using more machinery and fewer workers can only reduce surplus value and the rate of profit.

The tendency to replace labour with machinery also increases unemployment.⁶ This 'reserve army' of the unemployed helps to keep wages down and counters the tendency of the rate of profit to fall.⁷ At the same time, higher unemployment and lower wages lead to greater social unrest. It is this, more than anything else, that will help bring about the end of capitalism. These many pressures on the capitalist system, Marx believed, would continue to build until the system is finally destroyed. As he writes:

The mass of misery, oppression, slavery, degradation and exploitation grows; but with this there also grows the revolt of the working class, a class constantly increasing in numbers, and trained, united and organized by the very mechanism of the capitalist process of production [...] The centralization of the means of production and the socialization of labor reach a point at which they become incompatible with their capitalist integument. The integument is burst asunder. The knell of capitalist property sounds; the expropriators are expropriated. (1957-62, Vol. 1, p. 929)

In sum, In sum, according to Marx, capitalism carries within itself the "seed of its own destruction". Inherent properties of the system, such as competition, the tendency to concentration of capital, and the falling rate of profit would bring, with the help of an ever-more conscious and combative proletariat, the socialist revolution. Workers being increasingly exploited and alienated are to unite under the theory of Marx and sweep away the oppressive system thus history may advance to a higher stage: socialism.

3. Joseph A. Schumpeter

Schumpeter, similarly to Marx, aimed at developing a comprehensive socioeconomic theory of evolution. In his preface to the Japanese edition (1937) of *The Theory of Economic Development* he notes:

⁶ Marx mentions an indirect recruitment to reserve army of unemployed too. Children finishing school and housewives who desire to enter the labour market as their family responsibilities change find that jobs are not available and enter the ranks of the unemployed.

⁷ The size of the reserve army and the level of profits and wages vary with the business cycle. During periods of expanding business activity and capital accumulation, wages increase and the size of the reserve army diminishes. This increase in wages leads ultimately to a reduction in profits, to which the capitalist reacts by substituting machinery for labour. The unemployment created by this substitution of capital for labour pushes down wages and leads to a rise in profits.

It was not clear to me at the outset what to the reader will perhaps be obvious at once, namely, that this idea and this aim [i.e. presenting a theory of economic change] are exactly the same as the idea and aim which underlie the economic teaching of Karl Marx. In fact, what distinguishes him from the economists of his own time and those who preceded him, was precisely a vision of economic evolution as a distinct process generated by the economic system itself.

For Schumpeter economics was all about change. He studied both short-run economic fluctuations and long-run tendencies of capitalism. In these studies he identified three different cycles occurring simultaneously: the approximately 40-month Kitchin Cycles, the 10-year Juglar Cycles, and the Kondratieff waves, lasting 45 to 60 years.

Though Schumpeter was primarily an economist, yet one who had extraordinarily wide interests in the social sciences and made important contributions to sociology and political science, as well as to the history of economic thought. Respectively, his theory of evolution is a *tour de force* of economic and sociological analysis. In *Capitalism, Socialism and Democracy*, his major work analysing the unfolding perspective of capitalism, Schumpeter expounded with great verve, brilliance and lucidity, the various elements of Marx's social theory, mingling high praise with severe criticism, and then undertook what is, in effect, a profound sociological analysis of the decline of capitalism, one part of which derives from his theory of entrepreneur, another from the Marxist conception of the gradual 'socialization' of the economy, and more particularly from Hilferding's idea of 'organized capitalism' as the most recent stage of development (from the introduction by Tom Bottomore to: Schumpeter, 1987).

Accordingly, in order to fully understand capitalism's perspective Schumpeter put forward it is worthwhile to sketch his notions of innovation and entrepreneur. Afterwards, I shall sum up in brief points the prominent characteristics of capitalism that, he believed, would lead to its self-destruction.

Innovation and entrepreneur

In his early work, Schumpeter (1911) held that invention was determined by non-economic forces and could not be understood through studying economics. In his major work (1942) he argued that innovation was shaped by economic forces inside the large firm. Although throughout his life, Schumpeter refused to believe that innovation was a rational activity; instead he thought it was a creative activity that could neither be explained nor understood as the result of rational thinking processes. The agent of innovation and invention was the entrepreneur.

Unlike many of his contemporaries, Schumpeter did not believe that entrepreneurs merely hired resources in order to produce goods and meet consumer demand at minimum cost. Rather he thought that entrepreneurs were individuals willing to take risks. As such, they were the key force causing capitalist economies to grow; on the other hand, if the entrepreneurial spirit was destroyed or severely hindered, capitalism would quietly transform itself into socialism.

For entrepreneurs to succeed, Schumpeter held that they had to mould and shape consumer tastes. In contrast to other economists, who saw firms responding to consumer tastes, Schumpeter argued that:

the great majority of changes in commodities consumed has been forced by producers on consumers who, more often than not, have resisted the change and have had to be educated up by elaborate psychotechnics of advertising. (1939, Vol. 1, p. 73)

Consumer preferences do not lead to production and innovation; rather innovation leads to new goods and services that consumers either reject or develop tastes for. (Pressman, 1999, p. 107)

The creative destruction of capitalism

“Can capitalism survive? No. I do not think it can.” – read the first sentences of the second chapter of *Capitalism, Socialism and Democracy* (1987, p. 61). Subsequently, Schumpeter limits the efficacy of his prognosis:

Analysis [social prognosis], whether economic or other, never yields more than a statement about the tendencies present in an observable pattern. And these never tell us what will happen to the pattern but only what would happen if they continued to act as they have been acting in the time interval covered by our observation and if not other factors intruded. “Inevitability” or “necessity” can never mean more than this. (1987, p. 61)

In essence, Schumpeter thought that Marx was right in believing that socialism would replace capitalism⁸. However, rather than being destroyed by its failures, as Marx predicted, Schumpeter believed that capitalism would be destroyed by its many successes.

Schumpeter thought that creative destruction was one main reason for the success of capitalism. Capitalism is not only about successful innovation; destroying old and inefficient processes and products is an essential characteristic of it as well. This replacement process makes capitalism dynamic and causes incomes to grow rapidly. Problems arise, however, because smaller firms are constantly being replaced by larger firms. Through this process, managerial bureaucrats, rather than innovative entrepreneurs, come to run the firm. These managers are employees rather than owners. They prefer a steady income and job security to innovation and risk-taking. As a result, capitalism loses its dynamic tendency towards innovation and its spirit of continual improvement and change.

Schumpeter also saw potential problems stemming from the fact that capitalism requires rational calculation and logical choice from all participants. This leads people to develop a sceptical and critical frame of mind.

[...] capitalism creates a critical frame of mind which, after having destroyed the moral authority of so many other institutions, in the end turns against its own; the bourgeois finds to

⁸ See COMPARISON for more profound contrasting of Marx and Schumpeter.

his amazement that the rationalist attitude does not stop at the credentials of kings and popes but goes on to attack private property and the whole scheme of bourgeois values. (1989, p.143)

In addition, because capitalism is so successful at increasing incomes, it can support a large number of middle-class intellectuals. With much free time on their hands, these individuals will criticise the capitalist system and push for measures that enhance the economic role of government bureaucrats. Resentment against the income inequalities that make capitalism possible will also be strong among intellectuals, and they will push for measures that try to keep incomes equal. These actions will reduce the incentive to take risks and innovate.

Finally, Schumpeter thought that capitalism undermines the family. Capitalism is all about satisfying individual wants, while the family requires sublimating one's desires and compromising. The family, however, is important for capitalism because it is a main reason for saving. Families save so that if anything happens to the main breadwinner, other family members will be provided for. By undermining the motivation to save, capitalism destroys its own foundation – the capital needed for future growth.

In any event, the decline of capitalism does not entail the emergence of socialist society, and Schumpeter's view of socialism as the "likely heir apparent" is based upon an argument to the effect that economic process tends to socialise itself. The scheme of modern social development within which he conducts his analysis has three stages, which we might describe as entrepreneurial capitalism, organised or bureaucratic capitalism, and socialism⁹. The transition from one stage to the next comes about as a consequence of economic changes, among which the most important are those which create the large business corporation based upon modern science and rational administration.

4. Immanuel Wallerstein

Wallerstein is particularly known for his development of the world-system approach to study social evolutions, a perspective which transcends disciplinary boundaries in the social sciences and develops an historical analysis of the formation and operation of the modern world-system. Wallerstein stresses that his approach is perspective, not a formal theory (Hoogvelt-Kenny-Germain, 1999). It challenges the dominant analysis of the world for the last 100-150 years protesting about the

⁹ It should be noted that Schumpeter defines socialism only as an economic system, as „an institutional pattern in which control over means of production and over production itself is vested with a central authority – or [...] in which, as a matter of principle, the economic affairs of society belong to the public and not to the private sphere”. He puts aside any discussion of the cultural aims of socialism, referring in a somewhat cavalier fashion to what he calls the „cultural indeterminateness of socialism”. In consequence, there is no place in his analysis for a consideration of socialism as a class movement which seeks to abolish or attenuate class differences, and so achieve greater social equality and a liberation of the mass of the people from the constraints imposed by ruling classes. Schumpeter is concerned only with the economic reorganisation of society, and when he asks whether socialism can work, what he means is whether it can be economically efficient and productive.

cleavages that have been predominating the social sciences¹⁰ thus attempting to open up discussions where it have been closed.

The novelty of Wallerstein's perspective is that the essential unit of his analysis is the world-system not the state. He points out that investigating states separately, thus considering them autonomous, inevitably leads to the failure of any analyses since, above all, it is their *relation* that determines each country's social transformations and course of development. A world-system, as Wallerstein defines, is the sum of people constituting one system of division of labour. Accordingly, a world-system consists of interdependent units of production.

He further describes:

Our approach is a statement about the longue duree. It is an argument about how historical systems function and therefore how the modern world-system, which is only one possible historical system, has functioned. It is very much an analysis of the modern world.

All historical systems are living organisms – he holds. Each undergoes three phases: genesis, normal operation and crisis.

In the course of human history, Wallerstein claims, three sorts of systems have appeared – two of which have been world-systems. *Minisystems*, being chronologically the first but still existing, are tiny, temporary systems not capable of resisting natural disasters and the conquest of world-systems. Within six generations, they either break up or melt into a world-system. World-systems are of two sorts: world-empires and world-economies. Both are characterised by a single system of labour and a diverse cultural system, but the former has a common political system too. Furthermore, *world-empires* rest on redistribution¹¹ and rational bureaucracy¹². All of the *world-economies* that existed in the past either broke up or transformed into a world-empire by having been conquered by another ethnical group. Ancient Rome, Egypt, and China provide such examples. The only exception is the *capitalist world-economy*.

The capitalist world-economy

The genesis of the capitalist world-economy can be dated from 1450 and was completed by 1640 (Wallerstein, 1974). By our present time, it has essentially expanded to the whole Earth. The prime characteristic of the capitalist world-economy results from the fact that it lacks a common political system, i.e. the surplus value produced can only be divided up by the market. Consequently, the capitalist system produces for the market and seeks maximum profit.

Wallerstein accepts Marx's notion of exploitation but extends it to a macro level. He holds that the micro antagonism of labour and capital shall be extended by the

¹⁰ First, he rejects the 'past-present' cleavage i.e. the distinction between history dealing with the past and economics, sociology and political science dealing with the present. Second, he rejects the cleavage of 'civilised-barbarian'; third, the cleavage emerging from the liberal theory, the triadic separation of 'state-market-civil society' distinguishing political science, economics and sociology respectively.

¹¹ confer Károly Polányi

¹² confer Max Weber

macro antagonism of centre and periphery.¹³ It makes no sense to analyse European economies by themselves since they are dependent on peripheral economies and vice versa. Furthermore, the micro and macro systems are interdependent too. Due to the inherent tendencies of capitalism, depicted by Marx, the expansion of the system is a must. Essentially it is not a geographical expansion, even if this is often the case, but one related to labour and market. The expansion further integrates the central states¹⁴ and diminishes the political autonomy and integrity of the peripheral ones. Unequal exchange between the centre and the periphery polarises the capitalist world-economy and, as a result, reinforces nationalist movements in the latter. Inevitable conflicts arise between the dominant and the subordinate countries. In the following, I shall sum up the insoluble long-term problems the capitalist world-economy has to face according to Wallerstein.

The terminal crisis of the capitalist world-economy

Wallerstein believes the modern world-system, which has prevailed for several centuries, is now entering a phase of terminal crisis. In particular, he explores the mounting obstacles to the processes of capital accumulation in the modern capitalist economy, pointing to three long-term insoluble problems.

One of these arises from the innate cyclical downturns of capitalism¹⁵. In a downturn¹⁶ new effective demand needs to be created. New demand can be created by increasing the portion of surplus that is going to some segment of the world population that was not receiving it before so that they can buy things. It results in higher wages, but that reduces actual total global profits. As a compensation new people shall be pulled to the labour market who will come in at extremely low wages. Certainly these people come from poor rural areas that are largely outside the market system. They are ready to become labourers at extremely low wages since this represents in fact a better economic deal than the one they already have. However, Wallerstein claims, after about 25 years or so, these newly urbanised people are going to cotton on to political realities of the world and realise that they could get more money by organising in some way. Thus the cycle begins again. Over 500 years the real wage level has been constantly rising which is now leading to a crunch since there are not many people left to be de-ruralised.

Externalising costs is another way to make profit – Wallerstein asserts. The costs of pollution and ecological destruction cannot, – and rarely intended to –, fully be covered. The potential damage to the geosphere is worse and worse. As with de-ruralising, we are running out of trees to cut down and streams to pollute. Any attempts to reverse the process would be extraordinarily expensive, if possible at all. The capitalist world-economy would not put up with such a major profit squeeze..

¹³ As a matter of fact, it was not Wallerstein who first exposed to view the antagonism of the centre and the periphery but he was the first to put it in a systematic historical context.

¹⁴ The prime source of integration is the common Christian culture.

¹⁵ confer Kondratieff waves

¹⁶ or phase B of the Kondratieff wave

Wallerstein sees no way of avoiding an ecological Armageddon within the framework of a capitalist system.

Finally, the process of democratisation of the world, which was meant as mode of appeasing the insurgent masses, generates huge costs and leads to the so-called fiscal crises of states. 150 years ago people were happy to have three years of primary education; but then they wanted secondary education, and now they demand university education for everybody. Furthermore, it is used to be only 10 countries that wanted such goods, but now people in China, India, and Brazil have similar demands. The democratisation of the world arises huge costs of education, health and social security that results in another major squeeze of profit.

Moreover, Wallerstein points out that there is a general decline in the legitimacy of the state, which in itself is another major obstacle to the accumulation of capital. The withdrawal of legitimacy in the state structures is primarily a result of disillusionment with the antisystemic movements. Antisystemic movements – for instance socialist, communist, or national liberation movements – appeared about 150 years ago and began to demand a more egalitarian world. When these emerged, they were weak but gained strength bit by bit. In their different ways, they all staged a debate in the second half of the 19th century about strategy. These debates were won by those who advocated: first take power in the state – that is get control of the police, the army, and the state structures generally – and then change the world. Wallerstein calls it the *two-step strategy*. Between 1945 and 1970 these movements came to power indeed, however, it appeared that they could not change to world. 1968 was about the disillusionment with the two-step strategy which by now led to a true anti-statism. The decline of belief in progress is another source of anti-statism. The present movements are not convinced of a predestined glorious future ahead of them as their 19th century predecessors had a sense that history was on their side. This global shift of attitudes is not serving the capitalist system at all because it removes the major control on popular upsurges. What is more, strong states are vital for capitalism in order to be able to accumulate capital.

Wallerstein already observes two consequences of anti-statism further undermining the system. One is that states cannot guarantee the safety of citizens so everybody decides to get protection himself. It is a cumulative process gradually leading to the general refusal to pay taxes. The second phenomenon Wallerstein terms *groupism*. People put their faith in a certain group, let it be an ethnic, racial, religious, local community or the Mafia, as opposed to legitimating the state as something protecting them. These groups are defensive by definition and look warily at each other. Even by aggressive means are they ready to protect themselves. Wallerstein predicts a period of enormous political struggle.

As above mentioned, one of the central features of capitalism is how it has polarised the world. As a consequence, Wallerstein points out, the 'North' has to face three different kinds of protest which it has no real way of handling.

One he calls the *Khomeini* option. Essentially, it is the total refusal of the rules of the inter-state system. States choosing this option declare radical alterity. Wallerstein believes that the inter-state system can handle one such state but ten Irans could not be contained.

The *Saddam Hussein* option is neither fundamentalist nor irrational. It is calculating and militant; very much similar to the Bismarkian option. In the next 20 years, as Wallerstein predicts, the USA will not be able to contain the nuclear, biological and chemical armament of an increasing number of countries. Again, the present world-system could not restrain five Saddam Husseins.

Next, Wallerstein draws our attention to the demographic polarisation of the world. Whereas the population of the North is decreasing, in the South it is going up. It furthers the economic polarisation since fewer and fewer people in the North are earning a greater percentage of the world's total economic value. What follows inevitable are flows of population. Wallerstein calls it the *individual* option. The so-called illegal immigration is already massive and it can only be expected to become larger. The immigrants are either given political, economic and social rights in the Northern countries or become 'dangerous classes' like in the 1820s and 1830s the urban workers were in France and Great Britain. The former cannot be financed by the present system; the latter is likely to lead to political struggle.

Finally, there is a growing dissatisfaction with IMF and the international monetary system in general. Blaming the 'Asian crisis' on governments which just two years earlier were said to be models for everybody else discredited both the IMF and the US Treasury. Then they prescribed policies, which were the standard IMF monetary proposals, that further strengthened anti-systemic movements. Not only those directly suffering from the IMF recommendations protest but people like Jeffrey Sachs, Henry Kissinger, George Schultz and George Soros too. The fright of major 'capitalists' like Soros reveals the adverse tendencies of the world-economy.

How is then the capitalist world-economy going to collapse according to Wallerstein? Obviously he provides no clear-cut scenario. All he says is that the three major obstacles to capital accumulation plus the emerging anti-statist attitude pushes the system to its limits.

If you reach these critical moments in a system when there is a tremendous oscillation, you come to a situation where there are two solutions to any given equation. You can either go in one direction or the other. This is called bifurcation. You cannot predict which way it will go, but what you can say is that this is a situation in which a little push will in fact determine the outcome; except that we do not know who is doing the pushing and we cannot predict what pushes will be made. So, on the one hand, this is a terribly dark situation with an uncertain outcome and, on the other, it is one in which political activity can have far more significance than in normal times [...] This is a dangerous period, an unpleasant period, even an awful period, but it is also a politically creative and important era out of which in 50 years from now we will have a new system or systems, singular or plural, which will not be capitalist but will perhaps be better and perhaps worse. (Hoogvelt-Kenny-Germain, 1999)

The final push could be the realisation of either the Khomeini, the Saddam Hussein or the individualist option.

5. Comparison of the perspectives

The last part of my essay attempts to compare the prospects of capitalism Marx, Schumpeter and Wallerstein put forward. First, I shall point out the similarities of their *approach* to the object of their analysis. Next, analogies and common points are to be presented as regards the *factors* leading to the collapse of capitalism. Finally, I shall expose to view some of the *differences* focusing strictly on the perspectives of capitalism and avoiding any sort of general comparison of the teachings of Marx, Schumpeter and Wallerstein.

The approach

All the three theories presented above intend to analyse a complex phenomenon, namely the forthcoming collapse of capitalism. All discard the boundaries and cleavages of scientific disciplines in the belief that the object of their interest requires *transdisciplinary* approach. Not only merge they economic, sociological and psychological aspects but offer singular holistic perspectives. Marx rejected the individualistic methodology of the orthodox economic theory realising the inevitable failure of any analyses trying to understand the whole by the examination of its parts. Wallerstein categorically disclaimed the cleavages of social sciences, that is (1) the distinction between history dealing with the past and economics, sociology and political science dealing with the present, (2) the cleavage of 'civilised-barbarian' i.e. discriminating anthropology from oriental studies, and (3) the triadic separation of 'state-market-civil society' – emerging from the liberal theory – distinguishing political science, economics and sociology respectively.

Another central characteristic of the chosen theories is their *historical* approach. None of them claim to be universal, applicable to all times. All three stick firmly to the analysis of its times drawing conclusions from only observable tendencies. Accordingly, they see capitalism as just one phase of an historic process that, sooner or later, is going to give place to another system. Undoubtedly, the historical horizon of their analyses is rather broad. Their outlook is a *long-run* vision in which "a century is a short run" (Schumpeter, 1987, p.163).

The factors

All the three perspectives hold that *inherent* factors lead to the final demise of capitalism. For Marx, Schumpeter and Wallerstein the coming of collapse is no surprise but a logical consequence of the essential characteristics of capitalism. All three identifies a universalising tendency of capitalism, an unending drive to go beyond its limits. As a matter of fact, the factors contributing to this tendency are both causes and effects. It is not a one-way causal process Marx, Schumpeter and Wallerstein perceived, rather they revealed a complex system of *interactions*. What are the inherent factors all of them identified?

i., Competition

Presumably the most fundamental is competition. In order to be precise, it is *the tendency to eliminate competition* – and its means – what Marx, Schumpeter and Wallerstein primarily identified. Nearly all the other factors can be deduced from this proclivity of capitalism. What are the means of reducing competition? Exploitation, concentration and centralisation of capital, constant innovation, rational calculation, externalising costs, et cetera.

Nonetheless, the endless struggle for the elimination of competition can never reach completion. As soon as competition withers away entirely, capitalism will come to an end as well. Referring to dialectic, competition is the thesis and the counterforces are the antithesis. To complicate matters, not only forces acting against competition are digging the grave of capitalism but competition itself. The unending expansion of system, the increasing alienation of workers, the constant development of technology and the polarisation of the world are direct consequences of competition.

ii., Concentration and centralisation

Another inherent tendency of capitalism contributing to its self-destruction, that all three authors identified, is the concentration and centralisation of capital. Although, as above noted, it can be deduced from competition, the concentration of capital is itself prime mover of several other factors that lead to the downfall of capitalism. What are these? The development of immense corporations increases the number of subordinate people, furthers the exploitation and alienation of workers, enlarges the reserve army of unemployed, severely hinders the entrepreneurial spirit, contributes to the polarisation of the world and invigorates antisystemic movements.

Marx, no less than Schumpeter and Wallerstein, perceived capital accumulation to occur irregularly, in bursts, with cyclical consequences. The recurring crises of capitalism foreshadow its demise. The cyclical fall of profit rate and the de-ruralisation of the semi-periphery number the days of the system.

iii., Growing hostility

All three authors envision a growing resentment of the system. Marx observed the increasing misery of an increasing number of proletariat. Schumpeter perceived the emergence of a critical middle class, whereas Wallerstein identified antisystemic and antistatist movements both in the centre and the periphery. Moreover, not only hostility grows but the support of capitalism diminishes as well. As a result of capital concentration, the ownership and management separates which lead to the disappearance of the “specifically proprietary interest” and, thereby, the evaporation of “moral allegiance” for industrial private property (Schumpeter, 1987, p.156). Eventually, nobody is left who really supports capitalism as did the small-scale owner-managers.

Differences

i., The transition

Marx and Wallerstein hold that the above detailed inherent tendencies are insufficient for the collapse of capitalism. They anticipate a final, decisive thrust that will eventually sweep away the system. Marx envisioned a proletarian revolution whereas Wallerstein offered three possible scenarios: the Khomeini, the Saddam Hussein, and the individualist option. In their view, capitalism needs to be overthrown, it will not transform itself automatically.

As opposed to this, Schumpeter believed in the silent transition of the system. Why? Primarily due to the immense success of capitalism he noticed. Schumpeter rejected the notion of class struggle instead he regarded the entrepreneurial spirit as the main drive behind the growth of capitalism. The working class, he observed, tends more to trade unionist and petty bourgeois aspirations rather than uniting to overthrow the system. Schumpeter foresaw the silent socialisation of capitalism.

Wallerstein combined the perspectives of Marx and Schumpeter claiming capitalism will indeed be overthrown though not by the proletariat but some peripheral forces.

ii., The progress of history

Marx, Schumpeter and Wallerstein all revealed tendencies that not only lead to the destruction of capitalism but also create the conditions for another, coming system. However, the determinedness of their vision of history varies. Marx held that history progresses to an absolute point, communism. With the fall of capitalism a transitory system, which he called socialism, will emerge, and socialism will finally give way to communism, a world in which no classes exist. Schumpeter view of history was slightly less deterministic. He did not declare the approach of an absolute society. All he claimed is that capitalism shall inevitably be replaced by an economically more efficient society, namely socialism. Schumpeter identified a transitory phase too: between entrepreneurial capitalism and socialism he observed bureaucratic capitalism. As for Wallerstein, he avoids predicting anything definite. In fifty years from now a new system or systems will emerge – that is all he says. What sort? Not capitalist that is the only thing sure but he does not dare to assert whether it will be better or worse. Apparently, Wallerstein rejects the idea of progressive history.

Questions still unanswered

Is capitalism going to collapse then? When? How? Marx and Schumpeter sketched the perspectives of their own times. Can the present economic system still be called capitalist or is it rather a mixed economy? Is the market really self-regulating?¹⁷ How is capitalism able to survive if there is no such thing as 'invisible hand'? To what extent is competition essential for market societies? It appears that national governments can do little about the elimination of competition driven by the mergers

¹⁷ confer Karl Polányi

of transnational companies. Are the increasing reduction of competition and concentration of capital leading to the demise of capitalism? Is hostility towards the system really increasing or the anti-globalisation movements represent only a dissatisfied minority? The list of questions is infinite: open-minded discussions on the nature of capitalism shall not cease.

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