
CLASSICS
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Democracy as Method: Joseph A. Schumpeter

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What claim does a former Austrian finance minister have to consideration as a “democratic classic”? Joseph Alois Schumpeter, economist, has never been far from the din of political discussion and argument, and despite the fact that his native tongue was German and that he was already nearing fifty when he moved to the United States in 1932, Schumpeter’s impact—eased by the facility with which he spoke and wrote English—has been greatest in this country. And that impact, even when confined to economics, has always had an important political dimension. Today, though his name may be known to only a few, his influence on public discussion still is felt.

When a report to the Trilateral Commission on “the governability of democracies” complained of an “‘adversary culture’ among intellectuals” as “a challenge to democratic government which is, potentially, at least as serious as those posed in the past by the aristocratic cliques, fascist movements, and communist parties,” it cited Schumpeter in support of its thesis.¹ Samuel P. Huntington (one of the authors of the Trilateral study), Irving Kristol, Daniel P. Moynihan, Daniel Bell, and other so-called neoconservatives have gone often to Schumpeter for

¹ Michael J. Crozier, Samuel P. Huntington, and Joji Watanuki, *The Crisis of Democracy* (New York: New York University Press, 1975), pp. 6–7.

ammunition in their skirmishes with intellectuals on the other ideological side. To employ Schumpeter in this way is ironic since Schumpeter's own influence has been almost completely among intellectuals. Bell himself and neo-Marxist James O'Connor have gone back to an early Schumpeter essay on "the tax state" as the foundation for their own writings on "The Public Household" and *The Fiscal Crisis of the State*, respectively. Bell, too, owes an obvious, if unstated, debt to Schumpeter for his theories in both *The Coming of Post-Industrial Society* and *The Cultural Contradictions of Capitalism*. Another prominent neo-Marxist, Paul Sweezy, was prompted by Schumpeter's theory of business cycles and economic growth to reconsider Marx's economics in *The Theory of Capitalist Development*, while Robert Heilbroner's pessimistic forecasts on the future of capitalism are extensions of Schumpeter's own, and orthodox socialist Michael Harrington's recent *The Decade of Decision* is a Schumpeter-inspired review of the U.S. political economy. And then, of course, there is his assault on intellectuals, which has found such a receptive audience among the intellectuals of the Right.

Schumpeter has indeed had a palpable influence among intellectuals working in several fields during the past forty years and more, but if the current vogue finds him employed as a "hit man" for the neoconservatives, his lasting influence has been elsewhere—in economic theory, obviously, but also (and relatedly) in the development of democratic theory. In the post-World War II years Schumpeter's formulation of a theory of democracy has provided important groups of liberals and conservatives with a conception that has restricted the scope of democratic action. On this score alone Schumpeter deserves our attention, but he deserves it as well because his writing on the relationship between the economy and politics exposes some of the root weaknesses of democracy today.

When Joseph Schumpeter came to the United States to join the Harvard economics faculty, he was seeking time to devote to his scholarly work, which to him meant teaching and writing on the history of economic theory. His *History of Economic Analysis* was still unfinished upon his death, at the age of sixty-six, in 1950.

Schumpeter's European experience had been a mixture of scholarship and practical activity in economics. In 1918 he was a consultant to a socialization commission in Germany, and the following year became finance minister in Austria, a position he held for only a few months. Thereafter, Schumpeter taught in several German universities, lectured widely, and wrote regularly for periodicals of all kinds on current economic affairs. The Harvard appointment offered him

the promise of relief from this activist life and the intellectual leisure he needed for his scholarship.

For the most part, this proved to be the case. Aside from his unfinished *History*, Schumpeter worked on and published his highly influential *Business Cycles* in 1939, and earned a devoted following among Harvard graduate students and colleagues. But these accomplishments were overshadowed by the publication, in 1942, of a book entitled *Capitalism, Socialism and Democracy*, which Schumpeter characterized as “the result of an effort to weld into a readable form the bulk of almost forty years’ thought, observation and research on the subject of socialism.”² It did more than that. In the highly charged atmosphere of debate over the nature of capitalism and socialism and the relationship between them—a debate that included Friedrich A. Hayek’s *The Road to Serfdom*, James Burnham’s *The Managerial Revolution*, and Karl Polanyi’s *The Great Transformation*, all published between 1941 and 1944—it was inevitable that Schumpeter’s intervention would contribute to the fireworks. But what makes *Capitalism, Socialism and Democracy* stand out is that it not only contains in accessible form most of Schumpeter’s important economic theories; it also puts forward a new theory of democracy.

The heart of Schumpeter’s revision is the idea that democracy is no more than a method of government, an “institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote.”³ This definition conveniently dispenses with the problems associated with what Schumpeter calls the “classical doctrine” of democracy, plagued as it is, in his view, by its adherence to the notion of the common good and to the related supposition that people will or ought to act politically with the common good in mind. This presumption is fatally flawed, he argues, because there is no common good upon which everyone could agree, and even if there were one, there would not be agreement as to how to achieve it. Schumpeter expands on this last point by adding that economists have discovered (to their satisfaction, at least) that the area of rational action in which individuals operate is narrowly circumscribed: even when they are dealing within areas where they have experience and knowledge of the factors involved, they often fail to act in such a way as to obtain what they desire (regardless of what it is). How then, he asks, can anyone expect a group of individuals, primarily concerned about their own narrow interests and not always able to figure out how to satisfy them, to carry out the hopes of the classical doctrine and, tak-

2 *Capitalism, Socialism and Democracy*, 3rd ed. (New York: Harper & Row, 1950), p. xiii.

3 *Ibid.*, p. 269.

ing up the reins of government themselves, reason and act for the common good? Schumpeter's doctrine, on the other hand, dispenses with these problems along with the idea of the common good itself; individuals worry about their own individual goods and periodically select groups of elites who carry the burden of government.

Schumpeter's simple redefinition is a tour de force, not least of all because it is so simple, and its consequences are far-reaching. It is not too much to say that American political science over the past twenty-five years has taken its starting point from this reduction of democracy to a method of elite selection.⁴ This means that participation, once the foundation of democratic political theory, dropped out of the academy's definition of democracy altogether. More than that, participation came to be seen as a positive hindrance to the proper and smooth functioning of democracy. "The belief that a very high level of participation is always good for democracy is not valid," is Seymour Martin Lipset's bald summary of the new view.⁵ Consensus rather than conflict became the byword of political science, and the focus of study became the range of interests that could safely be integrated into the system without challenging the status quo.

The emphasis on political elites, together with the deemphasis of participation, led Schumpeter to believe that his theory, unlike the classical doctrine, took into account the crucial role of political leadership in the "real" world. Competing elites shape the political opinions of the electors even as they appeal to them for votes—the narrow interests of the voters meet the interest in getting elected of the politicians. But the actual programs promised or enacted are of less importance for Schumpeter's conception than the means by which the elite come to power; here the means are all that matters for the theory of democracy. Whatever is achieved for the benefit of all is a by-product of the competitive process acted out in the political marketplace, exactly as the so-called Invisible Hand guides the self-interest of each toward the general interest of all in the economic marketplace.

The key to unraveling both the presuppositions and the consequences of Schumpeter's theory as well as the reasons for its influence lies in this analogy between the economic and the political market. To see this clearly, it will be

⁴ The most influential books in this regard are: Robert A. Dahl, *A Preface to Democratic Theory* (Chicago: University of Chicago Press, 1956); Anthony Downs, *An Economic Theory of Democracy* (New York: Harper & Row, 1957); and Seymour Martin Lipset, *Political Man: The Social Bases of Politics* (Garden City, N.Y.: Doubleday & Co., 1960).

⁵ Lipset, *Political Man*, p. 14.

necessary to sketch out Schumpeter's evolutionary view of economic development before returning to the theory of democracy itself.

In his first important work, *The Theory of Economic Development*, published in 1911, Schumpeter opened with an observation on the difficulty involved in isolating "the economy" as a separate theoretical realm for economics:

The social process is really one indivisible whole. Out of its great stream the classifying hand of the investigator artificially extracts economic facts. The designation of a fact as economic already involves an abstraction, the first of the many forced upon us by the technical conditions of mentally copying reality. A fact is never exclusively or purely economic; other—and often more important—aspects always exist.⁶

Economic activity, as such, Schumpeter defines as "the acquisition of goods" through exchange or production. But in line with his proposition that "a fact is never exclusively or purely economic," he knows that this activity is never undertaken from scratch. Rather, a historical dimension is inescapable. Processes of exchange and production are already at hand, bequeathed by previous generations in the form of both techniques and institutions: established markets, manufacturing and agricultural processes, treasuries, tax policies, firms, etc. In this sense, each producer is living off the products of his or her predecessor; the economic life cycle consists of each generation repeating the form of economic life and refining or adding to the techniques and institutions of that process. This circularity is what underlies one of Schumpeter's major contributions to economic theory, his theory of business cycles. One aspect of this theory is of particular importance for his understanding of leadership.

The circular flow of economic life would lead to a stationary economy were it not for the presence of individuals who are able to fashion something new out of the economic materials at hand, either by means of the application of new methods of production—new technology making the production of old goods cheaper, or making possible the production of new goods for new wants or wants not yet exploited—or by reorganizing the already existing methods of production. The potential for change is always present, but only certain people are able to lead the way and realize it—Schumpeter's entrepreneurs. Under capitalism, where the prime interest is profit, the entrepreneurs are turned loose. Not to be confused with the class of capitalists—entrepreneurs may come from any class and need not own the means of production they reorganize—the entrepreneurs provide the kind of leadership that is particular to capitalism, and they have

6 *The Theory of Economic Development* (New York: Oxford University Press, 1961), p. 3.

done their job well, in his eyes. Each spurt in economic development results from the introduction of new techniques in a particular sector—development is therefore uneven within an economy—followed later by a general spread of the technological advances, bringing the economy as a whole back toward equilibrium. The outcome of the repeated spurts engendered by capitalism has been a more “democratic” economy from the point of view of consumption: “It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars, and so on that are the typical achievements of capitalist production, and not as a rule improvements that would mean much to the rich man.”⁷

This process of economic change is an outcome of competition, but not in the usual understanding of a competitive market structure. It does not matter to Schumpeter how many actors there are in a market, but only “the competition from the new commodity, the new technology, the new source of supply, the new type of organization . . . competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives” counts as an explanation for economic development.⁸ Since the entrepreneur’s efforts necessarily lead to temporary monopolies, he defends monopoly against its competitive market critics, noting not only that there never has been anything like perfect competition in the world, but also attributing the late nineteenth- and early twentieth-century heyday of capitalist growth (with its attendant democratization of consumption) to monopolist entrepreneurship. “Creative destruction” is Schumpeter’s paradoxical term for this dynamic force of pressurized innovation. Although the intent is different, his characterization follows the famous lines of the *Communist Manifesto*: “Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones.”⁹ Schumpeter’s entrepreneur is a refinement on Marx’s bourgeois, but the paean to capitalism’s creative destruction remains.

In Marx’s vision, the dynamic nature of capitalism engenders its own destruction by calling up its gravediggers in the proletariat, who will take over capitalism’s refined production techniques and superproductive power. Schumpeter also sees capitalism leading to its own demise, but in a different way and with different consequences. Capitalism, having set the creativity of the entrepreneur loose, destroys the noncapitalist economic forms that preceded it. This is nothing

7 *Capitalism, Socialism and Democracy*, p. 67.

8 *Ibid.*, p. 84.

9 Karl Marx, *The Revolution of 1848*, ed. David Fernbach (Harmondsworth, England: Penguin Books, 1973), p. 70.

new, but Schumpeter adds a twist. From the sixteenth century onward in Europe, the modern nation-state was formed by an alliance of feudal, aristocratic political power with capitalist economic power, he argues. The dynamic creativity of capitalism, aided by the state, destroyed all noncapitalist economic structures, but it also eventually undermined the aristocratic political system that protected it. Schumpeter's idea of the quintessential capitalist figure is the entrepreneur, whose talents lie in economic, not political leadership; the entrepreneur's leadership "does not readily expand, like the medieval lord's military leadership, into the leadership of nations. On the contrary, the ledger and the cost calculation absorb and confine."¹⁰ The political leaders who arose out of the bourgeoisie did so by joining a political class dominated by precapitalist elites—the bourgeois politicians were co-opted into a political culture that was prebourgeois. Because of this, capitalism cannot provide its own political leadership, an absence that was felt only after the decline of precapitalist political classes. Without this protection, capitalism becomes vulnerable to attack. The democratizing effects of the market that Schumpeter lauds, as well as the passage of social legislation predicated on the prior economic advances of capitalism, are not enough to stand as protection on their own, because recognition of these achievements requires taking a "long-run view" that is beyond the capacity of "the masses [for whom] it is the short-run view that counts." The outcome of this conflict between long-term benefits and short-term interests is pessimistically forecast by Schumpeter: "Secular improvement that is taken for granted and coupled with individual insecurity that is acutely resented is of course the best recipe for social unrest."¹¹

This potential unrest is fueled by the congruence of several other trends in the development of a capitalist economy. Creative destruction carries with it the destruction of small-property capitalists, as the rationalizing impulse progressively erodes the family farm, the family-owned firm, and the small proprietor generally. This, taken together with the expansion of stock ownership, destroys what Schumpeter sees as the moral foundations of property. Private property ceases to be a significant aspect of the economic system it brought into being, and with it goes the motivation to stand up in support of the system.

Two other sociological explanations for the decline of support for capitalism are also important in Schumpeter's scheme. In line with the erosion of property, Schumpeter notes the stresses plaguing the family itself, and attributes them to the rationalizing effects of capitalism. Cost accounting, the weighing of benefits and burdens, has penetrated private life, with the result that marriage and child-bearing are seen as requiring too many sacrifices—sacrifices that Schumpeter is

¹⁰ *Capitalism, Socialism and Democracy*, p. 137.

¹¹ *Ibid.*, p. 145.

willing to admit are indeed great in advanced capitalism, reducing them to the bottom line: "Children cease to be economic assets." The result is that an absolutely essential motivation of capitalism is lost, namely, the ethics of "working for the future irrespective of whether or not one is going to harvest the crop oneself."¹²

While the social bases of its support are eroding, capitalism is also imperiled by a Judas of its own creation—the class of intellectuals. The credo of individual freedom, necessary for the existence of the bourgeoisie, is also the protection required by the intellectual. In Schumpeter's reading of history, "If the monastery gave birth to the intellectual of the medieval world, it was capitalism that let him loose and presented him with a printing press."¹³ This opening salvo is followed by an attack on intellectuals for being parasites on bourgeois society; a society that presents them not only with printing presses and cheap books and newspapers, but also with a literate public. As that public becomes transformed by economic processes that undermine the social bases of capitalism, it becomes more amenable to critical ideas, the proliferation of which is the business of the intellectuals. The mass public becomes the patron of the intellectuals, and in turn has its attitudes and opinions shaped by them. At the same time, the growth of the service sector and rising levels of education lead to an oversupply of people—intellectuals in a wider sense—who form the breeding ground of resentment since their expectations outrun their real possibilities within the capitalist system. No bourgeois order can attack the intellectuals without endangering itself, so capitalism must live with its ideological tapeworm.

The pursuit of rationalization undermines capitalism in one more—and most important—way, and that is in the rationalization of innovation itself. If the moral basis of capitalism rests with the property holder, its spirit lies in the entrepreneur, and this pivotal figure begins to disappear with the increasing bureaucratization of the capitalist enterprise. Monopolization, corporate growth, and centralization are part of the normal development of a market economy, and with them, "innovation itself is being reduced to routine. Technological progress is increasingly becoming the business of teams of trained specialists who turn out what is required to make it work in predictable ways."¹⁴ The only vestige of leadership that capitalism is able to produce itself becomes redundant. Reflecting the sociological perspective of his time rather than the archaic wishfulness of today's supply-side economics, Schumpeter predicts that "rationalized and specialized of-

¹² Ibid., p. 160.

¹³ Ibid., p. 147.

¹⁴ Ibid., p. 132.

office work will eventually blot out personality, the calculable result, the 'vision.' The leading man no longer has the opportunity to fling himself into the fray. He is becoming just another office worker—and one who is not always difficult to replace."¹⁵ Entrepreneurial capitalism eventually becomes managerial capitalism, and in Schumpeter's eyes, capitalism without the entrepreneur is no longer capitalism at all. Bureaucratic capitalism—that is, the form of capitalism that Schumpeter saw around the corner forty years ago—is indistinguishable from Schumpeter's conception of socialism, "an institutional pattern in which the control over means of production and over production itself is vested with a central authority—or, as we may say, in which, as a matter of principle, the economic affairs of society belong to the public and not to the private sphere."¹⁶

Between an "advanced" capitalist and a socialist economy there is therefore only a difference in degree, not in kind. In this, Schumpeter followed the lead of European social democracy. He thought a socialist economy could do some things better than its capitalist predecessor: the state's fiscal needs would be met more easily than through taxation (the state would get its revenue "off the top" rather than by first paying out wages and then taxing them); disciplining the labor force would be easier to accomplish with moral suasion, though more force would also be available if that failed; the sphere of contingency surrounding business decisions would be greatly reduced through planning; and, while socialism may not be any more efficient than its predecessor, it could well be *as* efficient. Once the spirit of adventure associated with the entrepreneur had passed, there was little of a purely economic nature to keep Schumpeter, a man of conservative inclination in all aspects of his life, from advocating one system over the other. And besides, advocacy had little to do with it, since economic development itself would determine the outcome. What could be determined is the human response to this transformation—a society could adapt its political and legal system in such a way as to ensure a smooth passage to socialism, thereby assuring the continuation of the values it held, or it could allow this transformation to occur willy-nilly and try to adapt afterward, with the likelihood that the continuity of values would be more difficult. This is where the problem of political democracy enters Schumpeter's picture.

Because he views democracy as a mere method of government, Schumpeter thinks that it is adaptable to a socialist economy. Democracy is a technique; like any other form of technique, it is thought by him to be objective in its nature. But, given his analytical principle that it is difficult to separate out purely eco-

¹⁵ Ibid., p. 133.

¹⁶ Ibid., p. 167.

conomic facts, Schumpeter does tie democracy to capitalism in an important respect; namely, he holds capitalism responsible for the rationalization of social life and the democratic method to be an outcome of that process. The ability to bring means and ends into harmony is the hallmark of what Schumpeter, following in Max Weber's footsteps, calls rationality, and in this sense of the term, economics has pride of place. Capitalism, in particular, advances this process by generalizing monetary units into units of account, making it possible to calculate costs and benefits by a universal measure (double-entry bookkeeping). The capitalist mentality, together with the spread of economic relations throughout the society, converts more and more of life into a field of calculable forces, making it more "rational." Schumpeter is clear about how far this process goes: "The capitalist process rationalizes behavior and ideas and by so doing chases from our minds, along with metaphysical belief, mystic and romantic ideas of all sorts. Thus it reshapes not only our methods of attaining our ends but also these ultimate ends themselves."¹⁷ Far from bemoaning this development, the secular Schumpeter extols it. Science, modern medicine, our view of the universe, our perception of beauty, in short, "all the features and achievements of modern civilization are, directly or indirectly, the products of the capitalist process."¹⁸

Schumpeter considered the attacks leveled at capitalism to be irrational, just as a conception of democracy based on ends is irrational. To safeguard the achievements of capitalism—which, after all, could be preserved by the state capitalism he called socialism—requires a rational form of government, and his notion of how democracy works is exactly the same as his notion of capitalism; hence the market analogy is more than an analogy—it is market democracy that he is talking about. The citizen is now the consumer, choosing between different brands of political parties and politicians the one that best meets the citizen-consumer's needs.

In order for democracy in this limited sense to work, the political system and the economic system must be rigidly separated. The economy, we have seen, is thought by Schumpeter to follow a logic and trajectory of its own. In order for it to continue to function, it must be left to its own internal dynamic. For this reason, Schumpeter is careful to distinguish between democratic management of the economy and economic democracy. The first respects the managerial tasks taken over by the bureaucracy, while the second seeks to challenge the hierarchical nature of the business enterprise. But the separation upon which this distinction is based is a tenuous one. Schumpeter himself noted that the isolation of "the economy" is an analytic exercise—economic "facts" do not appear as such in real-

¹⁷ *Ibid.*, p. 127.

¹⁸ *Ibid.*, p. 125.

ity. Yet his image of the economy, even when he discusses its historical evolution, is curiously apolitical. He recognizes the role played by the state in clearing away traditional practices and social relations so that capitalist markets could flourish, but its role is considered as external to the economy itself. The dynamic of capitalism is therefore depicted in a purely formal way, that is, as the evolution of a market system, fueled by internal processes of technical acceleration, but devoid of struggles over control of the workplace and the establishment of hierarchical management. A state-controlled economy would succeed, in his estimation, to the extent that it too was not political. The democratic method must be held to a rigid and unrealistically narrow conception of government.

Schumpeter's formalistic definition of democracy follows from his formalistic approach to the economy. When he discusses the evolution of the economy, it is with the presupposition that we must center on markets, which are actually only one institutional form to be found in an economy. From this perspective, economic evolution can move in only one direction: from markets seeking to burst the bonds of feudalism to their complete extension over the economy, to the socialist adoption of pseudo-market incentives administered by the state. The link between a formal approach to the economy and a formal approach to democracy is made explicit:

The reason why there is such a thing as economic activity is of course that people want to eat, to clothe themselves and so on. To provide means to satisfy those wants is the social end or meaning of production. Nevertheless we all agree that this proposition would make a most unrealistic starting point for a theory of economic activity in commercial society and that we shall do much better if we start from propositions about profits. Similarly, the social meaning or function of parliamentary activity is no doubt to turn out legislation and, in part, administrative measures. But in order to understand how democratic politics serve this social end, we must start from the competitive struggle for power and office and realize that the social function is fulfilled, as it were, incidentally—in the same sense as production is incidental to the making of profits.¹⁹

The same perspective that abstracts profitmaking out of its historical and institutional context as the archetype of economic activity fails to see that there can be anything other than current models of democratic politics. Democracy as citizenship is beyond the pale of this worldview.

¹⁹ Ibid., p. 282.

Though Schumpeter overstates the case in many respects, his theory of democracy does mirror its actual, tenuous condition that has resulted from a particular kind of economic development. "Creative destruction" has a precise meaning for Schumpeter, but it is also metaphoric. Capitalism, unlike other institutional forms of economy, is predicated on markets, and while Schumpeter downplays the expansion of markets in favor of innovation *within* markets, he still accepts the rationalizing influence of the spread of market relations throughout society. This rationalizing process destroys fixed patterns of ownership and production and compresses history into short-run goals of profit maximization. Schumpeter first describes this process, then casually notes that long-term considerations are beyond the ken of "the masses." With the collapse of tradition, family farms and enterprises, and the family itself assaulted by the cash nexus, there is little ground for establishing a "long-term view."

This applies to social ends as well. Schumpeter acknowledges that the democratic method is acceptable only so long as it proves to be an efficient one for achieving goals that already exist: "No more than any other political method does democracy always produce the same results or promote the same interests or ideals. Rational allegiance to it thus presupposes not only a scheme of hyper-rational values but also certain states of society in which democracy can be expected to work in ways we approve."²⁰ The problem with this, of course, is that the evolution of capitalism as Schumpeter has described it destroys the already existing social institutions that provide ends—religion, the family, community (in both the narrow and broad sense), even the moral basis of property—and is antagonistic to the creation of values, as exemplified by the hostility capitalism demonstrates in its toleration of critical intellectuals. The only long-term goals—they can hardly be termed "values"—that can be provided in this context must come from the unintended consequences of the short-term interests of political leaders, and even that possibility is already undermined by the notion that entrepreneurship is the form of leadership characteristic of capitalism. Where is the political leadership the democratic method promised? Schumpeter rapidly resolves the problem of leadership into the selection of the executive, into "who the leading man shall be."²¹ The revised theory of democracy, rejecting both participation and the idea of a common good, has as its counterpart a theory of political leadership as direction from the top. "Without protection by some non-bourgeois group," Schumpeter notes, "the bourgeoisie is politically helpless and unable not only to lead its nation but even to take care of its particular class interest. Which

²⁰ Ibid., p. 143.

²¹ Ibid., p. 273.

amounts to saying that it needs a master."²² It finds it in the executive-dominated state.

The turn away from participation and toward formal democracy, rooted in the transformations of a centralized, profit-maximizing economy, is no less ominous today. Huntington, in his contribution to the Trilateral Commission report cited earlier, warns that "some of the problems of governance in the United States today stem from an excess of democracy," and the "the effective operation of a democratic political system usually requires some measure of apathy and noninvolvement on the part of some individuals and groups."²³

In an address delivered in 1949 and printed in later editions of *Capitalism, Socialism and Democracy*, Schumpeter observed that "no social system can work which is based exclusively upon a network of free contracts between (legally) equal contracting parties and in which everyone is supposed to be guided by nothing except his own (short-run) utilitarian ends."²⁴ For this reason, Schumpeter thought that socialism's morality could temper the effects of the capitalist economy and provide it with direction. But by the time democratic socialism comes around, the market economy will have gone a long way toward removing the institutional ground for anything other than utilitarian ends. Karl Polanyi, five years before Schumpeter's address, spelled out the consequences of an autonomous market economy in stark terms:

To allow the market mechanism to be sole director of the fate of human beings and their natural environment . . . would result in the demolition of society. . . . Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighborhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed.²⁵

Polanyi saw that Schumpeter's hope for a formal democracy coupled with, but distinct from, an autonomously developing economy was a vain one. The only

²² Ibid., p. 138.

²³ Crozier et al., *Crisis of Democracy*, pp. 113-14.

²⁴ Schumpeter, *Capitalism, Socialism and Democracy*, pp. 417-18.

²⁵ Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1957), p. 73.

way to restore and renew the social fabric is by submerging the economy in the nonmarket social institutions it seeks to destroy.

Today we face the disintegration Polanyi thought impossible. The irony is that the market is advancing in the name of traditional values; it can only destroy them in the end, and along with them, the possibility of a truly genuine, participatory democracy. When democracy becomes nothing more than a method, it becomes particularly vulnerable. Democracy survives as a method at the same time that its cultural foundations wither; without the social institutions that promote democratic values and make possible democratic action, the method of democracy can collapse in a time of crisis for the state and economy. Without the habits of citizenship nurtured by small-scale institutions and fed by the moral values they inculcate, the subject of a formally democratic state has no personal stake in its life or death. Without a vision of the common good and the willingness to pursue it, the slide toward authoritarianism in the guise of leadership is too easy. Schumpeter's theory of the democratic method and accompanying interpretation of economic development expose the tenuousness of the democratic hold on contemporary society, not always in ways he intended. And that is why this former finance minister deserves our attention now.