

He adopted an elite model of politics which treated the possession of income and the manipulation of material goods as just two possibilities within a more complex typology of power resources and political techniques.

Third, both Laski and Lasswell took for granted that political life would be organised 'from above' through the activities of political establishments organised into elites and parties. However, they had radically different attitudes towards individualism and activism on the part of ordinary citizens. Laski was a great supporter of active citizenship and the free expression of opinion at all levels. Such active citizens could all too easily become classified as, to use Lasswell's term, 'agitators'.

Lasswell argued that agitators had failed to resolve certain childhood experiences in a satisfactory manner. They were trying to work out their personality problems in the public arena. When popular participation in politics increased between the wars he suggested it was due to the widespread existence of 'damaged personalities'. In 1835 Tocqueville had treated the high level of active citizenship he found as a sign of considerable maturity and strength. In 1935 Lasswell considered that high levels of participation were an indication of immaturity and weakness. Something had changed.

Schumpeter and Hayek

The challenge from Vienna

During the early part of the twentieth century the social sciences were beginning to provide new techniques and justifications for intervention by the state in society. Laski's form of political science drew upon Marx and envisaged wholesale social engineering. Lasswell borrowed from Freud and worked on schemes for intervening at the level of the individual. The claims of social science were given credibility by the power of both its major clients, the state and big business.

Justification of intervention had to relate to its contribution to achieving the goals of capitalist democracy. A consensus was beginning to emerge within the American and British capitalist democracies that the crucial test of economic and political arrangements was their capacity to produce decent living standards for the vast majority of the people. 'Decency' in this context meant reasonable availability of material and cultural goods, sufficient leisure and income to enjoy them, and a degree of choice with respect to consumption and use of free time.

The consequences of increased intervention could be judged in terms of a trade-off between individual liberty and social progress in respect of living standards. Joseph Schumpeter and Friedrich A. Hayek both calculated the losses and gains produced by this trade-off. As will be seen, they arrived at conflicting conclusions.

In 1944 Friedrich A. Hayek's book *The Road to Serfdom* (1976a) was published. Harold Lasswell's teacher, Charles E. Merriam, reviewed it in the *American Journal of Sociology*. He did not like its contents:

The author [wrote Merriam] vigorously denounces any and all forms of planning, expresses his reservations about mass democracy, and holds as suspect 'conscious social control.' . . . The author blandly brushes aside all the many forms of city planning, state planning, regional planning, national planning, with one stroke of his pen. Since the socialists have employed the term 'planning' it must be placed on the black list But this is not argument, academic or

nonacademic. It is, indeed, a piece of arrogance On what meat does this our Caesar feed . . . ?

(Merriam 1944: 234)

Merriam objected strongly to an approach so deeply suspicious of administrators: 'The only home of freedom in the Hayek philosophy is the market place His root error lies, of course, in the assumption that the essence of the political is violence, while that of the economic is freedom of choice' (234).

It would be unfair to both Hayek and Merriam to suggest that this review of *The Road to Serfdom* indicated the considered views of either man on the nature of capitalist democracy. However, it does reveal the intense feelings provoked by Hayek's work. Merriam was upset at planners being lumped together with 'socialists', especially in a book which had made the *New York Times* best seller list and been summarised in the *Reader's Digest*.

When Merriam and Hayek appeared together on a University of Chicago Round Table radio broadcast in April 1945, hostilities broke out once more. Merriam sharply corrected Hayek: 'It must be a disappointment . . . to have a man, an American planner, tell you that we do not use your word in that sense and that we do not like the way you push it on us.' Merriam was referring, indirectly, and not quite pleasantly, to the fact that Hayek was a recent immigrant from Europe, whose style retained some distinctly Germanic features. Hayek was not put down. Shortly afterwards he retorted: 'I am saying that people like you, Merriam, are inclined to burden democracy with tasks which it cannot achieve, and therefore are likely to destroy democracy' (quoted in Karl 1974: 291-2).

Hayek's intervention in the debate on capitalist democracy was one aspect of the highly influential contribution of Viennese intellectuals to Anglo-American scholarship. Joseph Alois Schumpeter, whose pessimistic conclusions about the future of capitalism were set out in *Capitalism, Socialism and Democracy* (1981), first published in 1942, provided no greater comfort to academic experts like Merriam and Lasswell. Many social scientists from Chicago University and elsewhere believed that their political and governmental involvements were a means of promoting true democratic values in an increasingly complex urban industrial society (Smith 1988). Hayek's 'new conservatism' cast serious doubt upon their methods. Schumpeter's 'new realism' undermined belief in the attainability of their goals.

Hayek and Schumpeter were both children of the Austro-Hungarian Empire which perished in the First World War. Schumpeter was born in Moravia (now part of Czechoslovakia) in 1883. After studying law at the University of Vienna he carried out research in economics at the

London School of Economics. Following this he held a number of positions, including professor of political economy at the University of Graz, treasury secretary in Austria's first republican government in 1919, and president of a private bank in Vienna. Following a subsequent period as professor at the University of Bonn, Schumpeter left in 1932 to take up a chair at Harvard, where he remained till his death in 1950.

One of Schumpeter's old Harvard pupils, Paul A. Samuelson, remembered him as 'urbane and cynical' with 'something of the outsider about him. Except that Schumpeter was not Jewish, he shared some of the insecurities and strengths of those other Moravians, Freud and Mahler' (Samuelson 1981: 12). Schumpeter worked very hard, but adopted the pose of a nonchalant denizen of cafe society: 'He always had time for a cup of coffee at the disreputable Merle Cafe across from the Harvard Yard, and a spare hour in which to suffer fools gladly' (1).

Hayek was a different kettle of fish. He was born in Vienna in 1899 to a family of scientists and academics. By 1929 he had the position of *privatdozent* in political economy at the University of Vienna. Two years later he was invited to lecture at the London School of Economics. Lionel Robbins later recalled his arrival: 'I can still see the door of my room opening to admit the tall, powerful, reserved figure which announced itself quietly and firmly as "Hayek"' (quoted in Craver 1986: 21). Later that same year Hayek was appointed professor of economic science and statistics in Robbins's department. It was from this English base that Hayek launched his critique of current political tendencies in *The Road to Serfdom*. He later moved to Chicago (1950-62) where he published his sequel *The Constitution of Liberty* (1976b). His subsequent appointments were at Freiburg (1962-7) and Salzburg (from 1974). Hayek was awarded the Nobel Prize in Economics in 1974.

Hayek and Schumpeter both perceived a strong drift towards socialism within capitalist societies during the 1930s. In the late 1930s, Schumpeter argued that the very success of capitalism was leading to its self-destruction. Centralist socialism, the socialism of the Russian experiment, was the most likely candidate to succeed capitalism. A few years later, Hayek argued that socialistic tendencies in modern institutions were threatening capitalism with stagnation and failure.

Schumpeter devoted his energies to describing as accurately and rationally as he could the economic, political and social tendencies which he believed were occurring. In an era when fear of economic depression was widespread, he pointed out the enormous material gains that had been achieved and were likely, in his view, to continue to be achieved. By contrast, Hayek concentrated upon identifying as accurately and rationally as he could what had been lost as a result of current political tendencies. In a period when optimism about the potential of planning within national economies was relatively high he pointed out the great

losses in personal liberty which had, he believed, occurred and which, he thought, were likely to continue to occur.

Unlike Schumpeter, Hayek lived to see the full flowering of American global economic and political power during the 1950s. He laid his bet not upon socialism but upon 'the unknown civilization that is growing in America' (to quote the dedication in *The Constitution of Liberty*).

Innovation and the entrepreneur

Schumpeter combined the talents of economist and historical sociologist. However, his professional identity was firmly located in economics. Indeed, he believed that the specialised knowledge of the competent professional economist was destined to play a key role as planning acquired increasing importance. Under socialism, the economist would be indispensable (see Perman 1985).

Schumpeter's economic analysis is to be found in his *Theory of Economic Development* (1934), originally published in 1911, and *Business Cycles* (1939). The basic assumptions of his historical sociology are found in *Imperialism and Social Classes* (1951), which contains two essays. The first, on 'the sociology of imperialisms', first appeared in 1919. The second, on 'social classes in an ethnically homogeneous environment', was first published in 1927. The two streams of analysis came together during the Second World War in *Capitalism, Socialism and Democracy*.

Schumpeter criticised his predecessors, Marx being the main exception, for treating business cycles

as a phenomenon that is superimposed upon the normal course of capitalist life and mostly as a pathological one; it never occurred to the majority to look to business cycles for material with which to build the fundamental theory of capitalist reality.

(Schumpeter 1963: 1135)

To summarise Schumpeter's approach very briefly, he focused upon disruptions of the stationary state or 'circular flow' (Schumpeter 1934: 61) caused by the exploitation of new opportunities for profitable investment. Competition was assumed to be sufficiently imperfect to provide high profits to whoever was first in a new field. These surges of enterprise were closely associated with an expansion of credit, inflation in money supply and rising prices. Overproduction and recession followed, but not before new levels of productivity had been established.

No attempt will be made here to describe in any detail Schumpeter's 'theoretical, historical and statistical analysis of the capitalist process' (to quote the subtitle of *Business Cycles*). However, at its centre was the dynamic part played by the innovating entrepreneur backed up by

credit advanced from the banking system. Innovation was more than mere invention. It included not only 'the introduction of new commodities' but also

Technological change in the production of commodities already in use, the opening up of new markets or of new sources of supply, Taylorization of work, improved handling of material, the setting up of new business organizations such as department stores – in short, any 'doing things differently' in the realm of economic life.

(Schumpeter 1939: 84)

It was evident to Schumpeter that innovation was 'at the center of practically all the phenomena, difficulties and problems of economic life in capitalist society' (87). One reason for this was that innovations did not occur smoothly, continuously and incrementally, but came bunched up together in time and with highly disruptive effects. As a consequence economic evolution was 'lopsided, discontinuous, disharmonious by nature'. 'The history of capitalism was 'studded with violent bursts and catastrophes' which disturbed existing structures 'like a series of explosions' (102).

Schumpeter was not referring to the Marxian model of revolutionary class conflict associated with changes in the mode of production. The agent of change was the entrepreneur, who might be the founder of an industrial firm, a salaried employee or an important shareholder. It was 'leadership rather than ownership that matters'. The failure to see this and to recognise 'entrepreneurial activity as a distinct function *sui generis*' (103) was a fault common to the classical economists and Karl Marx. Two points were relevant. First, the entrepreneur did not, strictly speaking, risk his own money. The person who saw the opportunity to innovate had to obtain capital before the opportunity could be seized. If this person was also a capitalist he could invest his own money. This, however, was only one possible case. In many cases, credit was obtained from finance houses or other sources. As for the innovator, 'qua entrepreneur he loses other people's money'.

Second, entrepreneurs did not form a social class. Those who were successful might succeed in joining the capitalist class, but they came initially from all social classes. Their families might be artisans, aristocrats, professionals, peasants or whatever. Schumpeter added that this was 'a fundamental piece of the sociology of capitalism and of bourgeois society' (104). It derived from his earlier work on capitalism and social class to which we now turn.

The aristocracy and bourgeois society

Schumpeter's two essays on imperialism and social class, respectively,

examined the contrasting life styles and life interests of the aristocracy and the bourgeoisie. In 'The sociology of imperialisms' he argued that imperialist movements in late nineteenth- and early twentieth-century Europe and America were not deeply rooted in contemporary capitalism. They were not an emanation of the bourgeoisie. Instead, they were the last fling of a declining aristocracy. Far from being an intrinsic characteristic of the capitalist mode of production and the civilisation that went with it, contemporary imperialism was a mixture of political catch-phrases and vested interests that went against the grain of bourgeois society.

Disraeli had recognised that the British public were not prepared to make sacrifices for the empire. They treated imperialist policy as 'a toy, as a political arabesque'. Foolishly, Joseph Chamberlain took imperialism seriously and marshalled all his resources, including 'a consummate propaganda technique', behind this policy. In response, 'England rejected him' (Schumpeter 1951: 17).

Imperialism had its true place in earlier societies which did not regard making war as a painful disruption of peaceful private pursuits. In ancient empires like Egypt and Persia the nation was organised for war. In such cases the society realised itself in plunder and combat, activities which gave full rein to lust and avarice. As late as the time of Louis XIV, the state was, first and foremost, a war machine. The nobility, confined to 'flirtation, sports and court festivities', yearned for military action: 'Any war would do' (76).

Modern imperialism drew upon this atavistic heritage. At first sight this argument is similar to Veblen's discussion of the predatory instinct. A major difference, however, is that in Schumpeter's scheme of things, the entrepreneur wore a lounge suit rather than a suit of armour. In other words, instead of adopting feudal standards of behaviour, the entrepreneur undermined them. As the leaders of successful economic enterprises increasingly dominated society, so did the guiding principles of their 'actions, desires, needs, and beliefs' (87).

Intellectuals, professionals, industrial workers and rentiers all helped to build a new 'specialized, mechanized world. Thus they were all democratized, individualized and rationalized . . . the marks of this process are engraved on every aspect of modern culture' (88-9). Pure instinct was driven into the background. Business competition absorbed all the energies previously available for war.

Some established entrepreneurs favoured protective tariffs, a concomitant of imperialism, in order to avoid adapting to increased competition from abroad. They typically found allies among non-capitalist groups left over from the old society, especially large landowners. A complementary formation was the alliance between bankers and industrialists within organised or 'trustified' (107) capitalism. In this case,

cartelisation of the domestic economy was combined with export of surplus capital.

Although he recognised the existence of imperialist tendencies, Schumpeter argued that beneath 'export-dependent monopoly capitalism' the 'real community of interest among nations' would never disappear: 'Deep down, the normal sense of business and trade usually prevails' (Schumpeter 1951: 111). Imperialism was not a structural imperative but 'the fruit of political action'. Schumpeter concluded that it was '*a basic fallacy to describe imperialism as a necessary phase of capitalism, or even to speak of the development of capitalism into imperialism*' (118; original emphasis).

Class formation processes were tackled more directly in the essay entitled 'Social classes in an ethnically homogeneous environment'. At the base of Schumpeter's approach was the assumption that the family rather than the individual was 'the true unit of class and class theory' (148). Over time, families moved up and down within classes and sometimes crossed class boundaries. Movement into a class or out of one was, paradoxically, both an exceptional event and a normal one. Like a birth or a death within a family it did not happen every day but was far from unexpected.

The position of families within classes and classes within societies very much depended upon the performance of their members. This aspect was crucial to Schumpeter who placed great emphasis upon qualities of management and leadership: 'hard-headed and practical shrewdness in the management of a given position plays a very great part' (151). For example, it mattered *how* profits were used as well as how big they were: '*surplus value does not invest itself but must be invested*' (155; original emphasis). The capacity to innovate was a great help to a family on the make.

A class such as the aristocracy or the bourgeoisie – Schumpeter paid little attention to the proletariat – was constantly being judged by society according to two criteria: the relative significance of the social function it carried out and the degree of success with which it performed that function.

As has been noted, the function of the aristocracy had been to make war. It had provided expert mounted fighters prepared for chivalry. From the late fourteenth century onward, this function had been whittled away. The state had imposed its power through a new administrative machine. The feudal order had been undermined by commerce. Courtly ways corrupted the vigour of the warrior class. By nestling close to the state the aristocracy retained wealth and influence even though it had lost its old function. New functions, especially staffing the state administration and running their estates, cushioned the decline of this class, but at the cost of undermining the knightly ethos. The aristocracy became entangled

in the cash nexus and acquired a 'calculating, private-economic' attitude towards property (Schumpeter 1951: 200).

By the early nineteenth century, the bourgeoisie had managed to install itself and its values in a dominant position within society. Unlike the aristocracy, this new class had constantly to repeat the successful performance that enabled it to acquire its position. On the other hand, however, unsuccessful families dropped out of the bourgeoisie so quickly that this class was less damaged by an accumulation of failures than the aristocracy had been. Unfortunately, there was another side to this coin. Unlike its predecessor, the bourgeoisie was denied the prestige that went with having been 'the supreme pinnacle of a uniformly constructed social pyramid', 'lord and master of every sphere of life', and 'physical power incarnate' (201). These assets in the hands of the aristocracy could still be exploited in industrial society since 'The modern industrialist is anything but such a leader' (220). This comment looks forward to *Capitalism, Socialism and Democracy*.

Marxian theory and socialist politics

In *Capitalism, Socialism and Democracy* (1981), Schumpeter was in debate with Karl Marx. He admired the way Marx had been able to combine a great work of positivistic social science with a subtle appeal to extra-rational cravings. As a sociologist he had managed to produce an 'analytical strategy which linked the fate of the class phenomenon with the fate of capitalism in such a way that socialism became . . . by definition, the only possible kind of classless society, excepting primitive groups' (19). In a similar way, he had bound together his economics and his sociology by identifying the economic category of 'labour' with the sociological category of 'proletariat' (45).

As an economist, Marx had made an important contribution to understanding business cycles. His idea that capitalist evolution would catastrophically burst asunder capitalist institutions cleverly combined 'a *non sequitor* with profound vision' (42). However, despite the predictions of violence sometimes made by Marx and his successors, including the theorists of imperialism, Marx himself had been 'much too strongly imbued with a sense of the inherent logic of things social to believe that revolution can replace any part of the work of evolution'. Beneath 'the fantastic glitter of dubious gems', Marx's work carried 'a distinctly conservative implication' (58).

European socialist parties benefited from the serious damage done to the prestige of national ruling classes by the First World War. Many of them entered government faced with the unexpected task of helping to administer not a socialist, but a capitalist society. They had not anticipated 'The bourgeois victim turning to the socialists for shelter' (365). This

experience strengthened the practical commitment of socialists to the capitalist invention of democracy.

The Second World War was shifting the balance still further away from the old ruling class towards socialism. After this war, Schumpeter predicted, Anglo-American global rule would take the form of 'Ethical Imperialism'. Europe would be dominated by 'laborite or Social Democratic' (373) governments. The wartime regime of high taxation, inflation and bureaucratic controls would persist. Many contemporary socialists would dislike it. In fact, it was likely 'to present fascist features' (375).

Schumpeter enjoyed shocking his conservative readers by saying capitalism was doomed. At the same time, he told his radical readers that Marx had got it wrong. Nevertheless, socialism seemed inevitable. Schumpeter was well aware that this outcome might be at the expense of certain freedoms. A great deal would depend upon the quality of leadership available and the extent to which people understood the true character of capitalism, socialism and democracy.

Can capitalism survive?

Can capitalism survive? No, I do not think it can The thesis I shall endeavour to establish is that the actual and prospective performance of the capitalist system is such as to negative the idea of its breaking down under the weight of economic failure, but that its very success undermines the social institutions which protect it, and 'inevitably' creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent.

(Schumpeter 1981: 167)

Fifty years of capitalist growth before the late 1920s were likely to be succeeded by another half-century of growth. The relative distribution of income did not vary much over time. However, the standard of living of the poorer sections of the population benefited disproportionately in the course of growth. This was because growth was stimulated by spurts of innovation which produced 'avalanches of consumer goods' (68) for the mass market. Capitalism had succeeded not in 'providing more silk stockings for queens, but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort' (67).

This brilliant performance was made possible by two factors. First, the efficiency with which capitalism rewarded enterprise and penalised failure. And second, the effects of a remorseless process of 'creative destruction' (83). Innovations in technique, product, supply sources and organisational methods successively created then destroyed institutional forms and economic practices. Price competition was overtaken

by competition between rival commodities, materials and processes.

Monopoly and oligopoly aided this process. They provided protection for the innovating company, allowing it to resist raids by imitators eager to snatch the benefits of inventiveness without bearing the costs. Investment opportunities were unlikely to diminish. Entrepreneurs who scanned their horizons would find plenty of scope for further innovation. The frontier was not closed: 'The conquest of the air may well be more important than the conquest of India was' (Schumpeter 1981: 117).

The civilisation of capitalism was systematic, rationalistic and individualistic. It was also anti-heroic, pacific and devoted to the satisfactions of the private sphere. Business folk were 'inclined to insist on the application of the moral precepts of private life to international relations' (128).

At the heart of capitalism was the bourgeoisie. The dynamism of this class depended upon its successful entrepreneurs. Their function of generating innovation gave meaning and purpose to both the bourgeois class and the capitalist system. Unfortunately, the rationalisation and bureaucratisation which accompanied capitalist growth were having a disastrous effect upon the entrepreneur.

Innovation was becoming routinised. Technological progress was being undertaken by committees, bureaucratic departments and teams of trained specialists. Force of personality was less important now that people were getting used to the idea of change. Innovation was becoming depersonalised. This 'affects the position of the entire bourgeois stratum' since 'the bourgeoisie . . . depends on the entrepreneur and, as a class, lives and dies with him' (134).

Another source of weakness was 'the destruction of the protecting strata' (134) which had provided political shelter for the bourgeoisie. Typically, the bourgeois 'wants to be left alone and to leave politics alone'. Fortunately, the aristocracy carried out the task of political leadership in capitalist societies. They brought to capitalism the mystery and glamour which financiers and industrialists lacked: 'The stock exchange is a poor substitute for the Holy Grail' (137). Ironically, the success of capitalism progressively undermined the social position of the aristocracy. For a while the bourgeoisie even felt sufficiently safe to attack the position of its social betters. However, 'without protection from some non-bourgeois group, the bourgeoisie is politically helpless . . . it needs a master' (138). The final collapse of feudalism would presage the end of capitalism also.

The demise of capitalism was helped along by the steady displacement of small businesses by advancing oligopoly. The old arena of relatively free competition had been inhabited by proprietors with a strong commitment to the values of private property and freedom of contracting. As they went out of business, they became less reliable supporters of the

capitalist system! Their passing witnessed 'the evaporation of what we may term the material substance of property – its visible and touchable reality' (Schumpeter 1981: 142).

In these circumstances, the social atmosphere of capitalism was becoming more hostile to the capitalist. Erosion of the final remnants of feudalism loosened the discipline tradition imposed upon the strong residue of popular irrationality.

Unfortunately, capitalism was unable to generate a strong emotional attachment to itself. On the contrary, it had cultivated a spirit of criticism. The intellectual was, in large part, a creature of capitalism. Ironically, the intelligentsia increasingly turned its weapons upon capitalism itself, often adopting the language of socialism.

Finally, the bourgeoisie was losing its faith in the family as a focus of emotional and material investment. Fewer opportunities were available to establish new industrial dynasties. The life of the home was being displaced by the restaurant and the club. Wife and children 'fade out from the moral vision of the businessman' (160). As it lost function and prospects, the inner self confidence of the bourgeoisie was ebbing away. The demise of capitalism might take as long as did the passing away of feudalism – perhaps another century, at least. But, as far as Schumpeter was concerned, the writing was on the wall.

Can socialism work?

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

(Schumpeter 1981: 167)

(By socialism, Schumpeter meant '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 the private sphere' (167).) As will be seen, for Schumpeter the expansion of the public sphere at the expense of the private was a far less ambiguous criterion of socialism than the rule of 'the people'.

In spite of the fears of Hayek and others that socialist bureaucracy would be confronted with an unmanageably complex task (185), Schumpeter accepted that socialism was viable as an economic system. It would be able to make many savings, including the abolition of the leisure class of idle rich. It could dispense with the costs of competition within the national economy. Planning would avoid the costly side effects of manipulating interest rates. Instead of the endemic struggle between the

capitalist state which needed taxes and a propertied class defending its profits, socialism would permit a smooth administration of resources. Energies would no longer be lost in defending the sanctity of the private sphere against intrusions from the public realm. The division between the public and private spheres was, in fact, the 'outstanding feature of commercial societies'. With the sole exception of local self-government the two spheres were 'to a great extent manned by different people . . . and organised and run on different and often conflicting principles, productive of different and quite incompatible standards' (Schumpeter 1981: 197).

Relatively little remoulding of the capitalist culture would be required within the successor socialist regime. Farmers, factory workers and office clerks would all be working much as before. The special talents of the bourgeoisie should not be wasted if this was avoidable. Even in a more bureaucratic system it would be possible to satisfy individual egotism by giving marks of personal prestige to high performers. More generally, discipline would be reinforced by the moral authority of the regime. Everyone would be familiar with the economic logic underlying the system. In any case, 'A strike would be mutiny' (215).

Such a programme depended upon a society being mature enough to undertake the transition to socialism with relatively little disruption. England between the wars had given signs of being such a society. Its ruling class were able and adaptable, its people 'state-broken' (229). By contrast, America during the New Deal was decidedly unready.

Socialism was economically viable – under certain conditions. But would it be democratic? Before answering this question, Schumpeter tackled the prior issue: what *is* democracy? The 'classical doctrine' (250) assumed that individual wills might be co-ordinated by rational means so as to arrive at a common will. This common will would specify the most appropriate means to achieve the common good. But public opinion was, in many respects, irrational. Compromise between conflicting wills was not easy to achieve. In any case, while ordinary people were very well informed about their immediate interests at home and at work, when they ventured into public affairs 'the sense of reality is . . . completely lost' (261). The classical doctrine survived for historical and ideological reasons but it did not describe reality.

Schumpeter proposed another model of democracy. The main contribution of the people, he suggested, was to choose their representatives in parliament from the different teams that were presented to them by the political parties. It was the task of the elected representatives to provide support for a government which would do the actual job of governing. In effect, democracy involved competition between politicians for popular votes.

Schumpeter recommended this model on several counts. First, it emphasised democracy as a method of electing representatives without

reference to the content of political goals. The latter aspect of the classical doctrine was confusing since the 'common good' could in theory be achieved by non-democratic means. Second, Schumpeter's model emphasised leadership and accepted the role of the latter in generating a 'Manufactured Will' (Schumpeter 1981: 270). Third, the model took into account the interaction of sectional interests competing to shape opinion. Fourth, the competitive process of selecting political leaders was acknowledged. Fifth, the model gave an important place to freedom of discussion. Sixth, leaders might lose power through the withdrawal of popular support through the ballot box. And seventh, emphasis was placed upon the will of the majority, a more realistic notion than the will of 'the people'.

There was a clear analogy between the market – 'there exists no more democratic institution than a market' (184) – and the democratic political system. The people responded to initiatives taken by competing bands of political salespeople. Parties were liable to change policies in the same way a department store might rearrange its shop windows. They regulated political competition in the manner of a trade association within the market. A lot of energy went into promoting the product. 'The psychotechnics of party management and party advertising, slogans and marching tunes, are not accessories. They are of the essence of politics. So is the political boss' (283). These phenomena which so shocked Ostrogorski were re-invested with legitimacy in the work of Schumpeter.

Returning to the question of whether socialism could be democratic, Schumpeter argued that democratic and non-democratic versions of socialism were both viable. If a democracy were to exist, certain conditions had to be fulfilled. Politicians of high quality were needed, preferably from a stratum used to public life. Democracies should be self-limiting in the sense that they should not try to control too large an area of life. They needed strong and efficient bureaucracies to complement them. There should be a spirit of democratic self-control and moderation.

Capitalist societies were well-equipped to provide some of these conditions, especially in view of the bourgeois preference for a 'parsimonious state' (297). Socialist societies aspiring to be democratic would have to learn to distinguish between bureaucratic management, which would need to extend throughout the social order, and political management which should impose strict limits upon its reach over people's lives. Democracy should not be allowed to interfere with competent administration at the level of the factory. Balancing democracy outside the factory and authoritarian discipline within it would be a delicate task. Indeed, 'As a matter of practical necessity, socialist democracy may eventually turn out to be more of a sham than capitalist democracy ever was' (302). This was a conclusion which would have appealed to Friedrich von Hayek.

The road to serfdom

Hayek shared with Schumpeter an interest in business cycles and a preoccupation with the evolutionary tendencies which lay behind the advance of socialism. For example, he agreed with Schumpeter that 'the working class as a whole benefited from the rise of modern industry' (Hayek 1954: 27). However, unlike Schumpeter, who wove his economics and his historical sociology into the argument of *Capitalism, Socialism and Democracy*, Hayek consciously put aside 'problems of pure economic theory' (1976a: v) to write *The Road to Serfdom*. This was to set him on a trail which later led to *The Constitution of Liberty* (1976b) and the three volumes of *Law, Legislation and Liberty* (1973-9).

Hayek perceived a different kind of evolutionary process from the one recognised by Schumpeter. For the latter, evolution was driven by inventive genius, a combination of reason and imagination. For Hayek, the springs of change were unknowable, the limits of reason closely circumscribed. He wanted the learning processes of each individual to be allowed to proceed unhindered so that society as a whole could benefit. Paradoxically, in this last respect Hayek's approach was rather similar to that of one of his opponents, Harold Laski - except that Laski wanted the fruits of individual experience to be harnessed for the benefit of humankind through the state rather than through the market as was Hayek's way.

Murray Forsyth (1988) has pointed out that the metaphysical basis of Hayek's concept of man and the human mind is best understood by an examination of *The Sensory Order* (1952). Briefly, Hayek is shown to be a monist whose

emphasis . . . is on the fundamental sameness of all kinds of mental activity, conscious and unconscious, and on their reducibility to a physical mechanism. The human being is an animal organism wholly absorbed in adapting to the environment in order to survive. Human thinking is a constantly changing pattern of the nervous system, part reactive and part calculatory, that enables the human being to achieve this end by incessantly grouping and re-grouping indeterminate environmental impulses.

(Forsyth 1988: 24)

At first sight, such a human being hardly seems worth rescuing from serfdom. In fact, the point was not that men and women were too noble to be subjected to dictatorship. It was, rather, that no man or woman was noble enough to exercise that kind of rule over others. This thought, presumably, lay behind the attack on planners which so upset Charles E. Merriam.

Schumpeter and Hayek interpreted the depression of the 1930s in very

different ways. Schumpeter stressed the element of continuity. He argued that despite the depression, capitalism would continue to grow, lifting up standards of living for all. Sometime in the future it would transform itself - smoothly, almost unnoticed - into socialism. By contrast, Hayek argued that in Britain, at least, 1931 represented a radical change of direction. Until that date *laissez-faire* had prevailed, even though it had been dispensed with in other European societies such as Germany, Italy and Russia. The individualism of the *laissez-faire* era had produced a flowering of economic enterprise and science. Standards of comfort and security increased to levels previously unimagined. So did expectations.

People acquired a 'new sense of power over their own fate' accompanied by a dangerous delusion: 'With the success grew ambition. . . . What had been an inspiring promise seemed no longer enough, the rate of progress far too slow; and the principles which had made this progress possible in the past came to be regarded more as obstacles to speedier progress, impatiently to be brushed away, than as the conditions for the preservation and development of what had already been achieved' (Hayek 1976a: 13).

Deluded by the achievements of liberalism with its spirit of individual freedom, as early as the 1840s many Europeans had turned towards socialism as a means of supposedly getting something even better. Hayek's definition of the term 'socialism' was broadly the same as Schumpeter's. He meant by it the abolition of private enterprise in favour of a central planned economy. Ironically (again this recalls Schumpeter), 'the very success of liberalism became the cause of its decline' (14). However, the transition from liberal capitalism to centralist planning was interpreted by Hayek in terms quite different from those of Schumpeter.

The latter expected the transition to occur some time in the future within mature capitalist societies as an outcome of monopolistic or oligopolistic tendencies which diminished the function of the heroic entrepreneur. Hayek, by contrast, argued that the transition had been underway since the 1840s, though delayed in Britain until the 1930s. It took the form not of a natural process of evolution but of a deliberate and disruptive process of social engineering. Inappropriate principles were applied by human beings who had a misguided sense of their own abilities. Socialism involved 'a complete reversal of the trend we have sketched, an entire abandonment of the individualist tradition which has created Western civilisation' (15). Attempts at social engineering were based upon a misunderstanding of society. Democratic socialism was unachievable. You could not plan for freedom. The more decisions that were taken by a central planning body, the less freedom you left individuals to plan their own lives. A much better course was to permit competition to flourish within 'a carefully thought-out legal framework' (27). Market prices provided individuals with the information they needed

to regulate their actions. Government should have a clear but strictly limited role: to inhibit restrictive practices; maintain health and safety standards; enforce the law on private property, freedom of contract, corporations and patents; and fill in the gaps where markets could not provide necessary or highly desirable services such as road signposting and pollution control.

Technological advance and the development of more complex industrial structures did not make socialist planning – for Hayek all central planning was ‘socialist’ – inevitable. In fact, centralised planning was developed in Germany from 1878 onward when this industrial society was much ‘younger’ than Britain, still the flag-bearer of liberalism a half-century later.

The collective frustration of experts and specialists supplied political support for central planning. Unfortunately, they ignored the fact that the many desirable and possible social improvements they envisaged in aggregate could not be achieved all at once. None of them had the knowledge necessary to allow their various schemes to be effectively coordinated. In this respect planning could not match the performance of market competition. The price system allowed entrepreneurs to exploit the benefits of the division of knowledge ‘by watching the movement of a comparatively few prices, as an engineer watches the hands of a few dials’ (Hayek 1976a: 36).

A comprehensive social plan had to specify a hierarchy of goals. For this purpose a ‘complete ethical code’ (43) was needed. However, modern western morality completely failed to provide this. There were bound to be fundamental disagreements over planning in a democracy. Hayek had no enthusiasm for Laski’s solution to this problem which was, as he understood it, ‘that a socialist government must not allow itself to be too much fettered by democratic procedure’ (47). Nor was Hayek keen on the implications of leaving matters of detail to the experts. Schumpeter had argued that a clear distinction between (relatively restricted) political control and (more far-reaching) bureaucratic control was desirable in a socialist political order. Hayek thought this gave far too much leeway to the prejudices of professionals and bureaucrats. Democracy was valueless if it sanctioned arbitrary power. The only form of democracy worth preserving was one which brought peace and freedom. ‘If “capitalism” means . . . a competitive system based on free disposal over private property, . . . only within this system is democracy possible’ (52).

The real choice was between a system where who gets what was decided by a few people (the planners) and one where it was determined by two factors: the distribution of ability and enterprise on the one hand and the play of unforeseeable circumstances on the other. The planned society replaced the influence of property – relatively unoppressive because it was divided among several people – with the unitary authority

of an omnipotent state. Planning undermined the widespread habit of fatalistically accepting life’s hard knocks. The experts claimed to be in control and could be blamed when things went wrong.

Quoting Lasswell’s catchphrase, Hayek argued that under a socialist regime, the planners determined in detail ‘who gets what, when, and how’ (Hayek 1976a: 81). If they pursued social justice, this boiled down to the imposition upon everybody of a minority view of what was fair and proper. The planners would decide the functions and rewards of specific groups and individuals, discriminating between them according to standards of fairness which, ironically, derived from the old market-based society. Indoctrination and propaganda would be used to persuade the population at large to accept the planners’ idea of distributive justice.

Resentment at the way socialist planners favoured the working class had caused a counter-movement among the petit bourgeoisie and service class. This resentment had fed into national socialism and fascism. These movements harboured no illusions about the possibility of combining planning with democracy. They were not inhibited by the liberal inheritance of individual freedom which still influenced the socialist ideal. The tendency towards nastiness within planned societies was encouraged by the need for consensus among their bureaucrats and henchmen. This was cultivated more easily among the less well educated, especially if a simple message was drummed into their heads. Unity was most effectively created by attacking an out-group and cultivating aggressive nationalism. A distinctive morality developed based upon the assumption that the ends of the government justified any effective means. The leader was to be obeyed at all costs. Personal morality should not resist the will of the state.

Hayek suggested that Britain in the mid 1940s, with its socialist tendencies, had a strong resemblance to Germany fifteen years previously, just before the rise of Hitler. Many Nazi supporters had begun as supporters of socialism before discarding its liberal and internationalist aspects. It was essential to restore faith in the Victorian values of Britain, rather than imitate German ideas and methods.

Hayek’s prescription for social health included proper respect for the rule of law and a better understanding of the market. The law should not be a means of actively reshaping society. Its rules and penalties should be universal and predictable in their application. However, its effects on specific individuals and groups in particular circumstances should be unknown and unpredictable as far as the lawmakers were concerned. In that sense, justice should be blind. The detailed content of the law was less important than the fact that everyone should know the rules and adapt to them in making their own plans.

Within the market free individuals made choices about their use of scarce resources. Through these choices they decided what to regard as

marginal and what to treat as priorities: 'This is really the crux of the matter. Economic control is not merely control of a sector of human life which can be separated from the rest; it is the control of the means of all our ends . . . in short, what men should believe and strive for' (Hayek 1976b: 68-9).

The constitution of liberty

Hayek's positive ideas about how capitalist democracies should be understood were developed further in *The Constitution of Liberty* (1976b). He distinguished between two traditions of freedom. The French tradition made 'flattering assumptions about the unlimited powers of human reason' (Hayek 1976b: 55). It placed high value upon systematic social organisation and the directive powers of the state.

The English tradition placed greater emphasis upon the accumulated wisdom produced through trial and error in the course of social evolution. This approach was 'empirical and unsystematic' (54). It valued the spontaneity of human adherence to moral rules attuned to inherited institutions and unconscious habits. Such rules adapted themselves gradually as society developed. They illustrated the undesigned non-rational substratum in which rational action was grounded.

Hayek favoured a negative view of freedom as the minimisation of coercion upon the individual. Such coercion as there was should, as far as possible, be the province of the judge enforcing the rule of law rather than the state imposing its commands. Individual freedom went with individual responsibility for your actions within the relevant sphere which was, typically, a local and limited one. Individual fulfilment depended upon finding a specific niche which allowed you to use your own special talents. Finding that niche was one of the tasks of a free individual.

The individual's knowledge of the world was very restricted. The aggregate knowledge of society was far from complete. In the absence of information we could not 'plan' an investigation of the unknown. The element of chance and the unexpected was vital to Hayek's model of society. It allowed for discoveries which increased our knowledge. Individual freedom which permitted people to make their own decisions and mistakes maximised the chance that such discoveries would be made.

One of the dangers of despotic rule established by majority vote was that the sphere of experiment in thought and action would be very limited. Hayek cited the career of Joseph Chamberlain (444) as an illustration of the danger of demagoguery. Democracy was of value only as a means to the end of individual freedom. It was vital that opinion formation should be independent of government. In the long run democratic processes of discussion would raise levels of popular understanding and knowledge.

In practice, advanced knowledge was acquired first by a select group

and gradually filtered down to the rest of society. The same was true of the material advantages of industrial civilisation. An echelon pattern was typically established in which the rich and highly educated took the foremost position. In Britain, all classes profited from the existence of 'a rich class with old traditions [that] had demanded products of a quality and taste unsurpassed elsewhere' (Hayek 1976b: 47-8). In Hayek's view, the leisure class had a positive role to play in setting high standards and leading the way in experimenting with new things: 'even the successful use of leisure needs pioneering' (129). The rich were an 'advance guard' (130). He opposed egalitarian policies of redistributing wealth.

The ambition of establishing a meritocracy was also based upon a delusion. As consumers, we typically paid for results without enquiring how easily they were achieved. People were rewarded for the value to others of their performance, not the personal merit they deserved as individuals. People did not 'deserve' rewards just for trying hard or being well qualified. In any case, the bureaucracy needed for measuring personal worthiness and matching individual merit to individual reward would be intolerably intrusive. Such a strategy would directly contradict the goal of minimising the coercive powers of the state.

State coercion was to be discouraged since it involved 'the control of the essential data of an individual's action by another'. It could be 'prevented only by enabling the individual to secure for himself some private sphere where he can be protected against such interference' (139). The rights of the individual could be translated into rules about the content of this private sphere. As far as possible, state coercion should be restricted to measures which discouraged coercion by others, prevented avoidance of proper contracts, or established penalties. Such penalties should be either predictable (such as taxation) or contingent and therefore avoidable (such as the sanctions of the criminal law). Hayek had no sympathy with the attacks made by socialist lawyers and political scientists, including Laski, upon this limited concept of the rule of law. The latter supported a positivist doctrine of the law which turned it into an instrument of state administration.

Finally, Hayek identified a new danger. The era of socialism had been from 1848 to 1948. Socialism, he argued, was being replaced by a new enemy: the welfare state. The peril stemmed from the fact that although welfare bureaucracies seemed to be merely performing a social service, in practice they 'constitute an exercise of the coercive powers of government and rest on its claiming rights in certain fields' (258). The planners and bureaucrats were still busily chipping away at individual freedom. Both in terms of its method and its goals, which included the redistribution of wealth through progressive taxation, the welfare state should be resisted strongly.