

A list of Working Papers on the last
pages

No. 109, 1983

**Capitalist Organization and Nationalis-
tic Response; Social Dynamics in Age
of Schumpeter**

by

William Parker

Paper presented to the IUI Conference on:
The Dynamics of Decentralized (Market) Economies
Stockholm-Saltsjöbaden, Grand Hotel
August 28 - September 1, 1983

Sponsored by:
**The Marcus Wallenberg Foundation for International Cooperation
in Science**
and organized jointly by the Industrial Institute for Economic and
Social Research (IUI) and the Journal of Economic Behavior and
Organization (JEBO).

This is a preliminary paper. It is intended for private circulation,
and should not be quoted or referred to in publications without
permission of the author. Comments are welcome.

December, 1983

April, 1983

William N. Parker: Abstract of paper for Wallenberg Foundation Conference on
the Dynamics of Decentralized Market Economies
to be held in Stockholm, August/September, 1983

Capitalistic Organization and Nationalistic Response:
Social Dynamics in Schumpeter's Century (1840-1940)

Capitalist growth, domestic and overseas, in 'Schumpeter's century' entailed both the expansion of an international price system—partly centralized in the great financial centers—and the formation domestically of large-scale economic organizations. The former was entailed by the 'Smithian dynamic', i.e. the international division of labor and in its wake the international migration of productive factors. The latter was entailed by the 'Schumpeterian dynamic'—technological change and the realization of scale economies both in invention and in production.

The gains from expansion and trade could be realized by the multiplication of small scale economic units within the capitalist countries and across the globe, communicating by price signals (whose efficiency the transport and communications improvements greatly augmented) and linked by product and capital flows employing a partially self-regulating international currency. Such is the version of international capitalism suggested in Schumpeter's essay on Imperialism. In the decades between 1840 and Schumpeter's birth, the economic world could be seen through liberal spectacles, manufactured no doubt in Britain but worn readily by continental statesmen and economists.

But the year of Schumpeter's birth was also the year of the death of Marx (and the birth of Keynes). In The Theory of Economic Development, Schumpeter was to show that the course of capitalist development, whether expanding into new regions or embodying new production functions, never did (or could) run smooth. The Great Depression of prices (1873-1896), the recurrent crises of credit and the tangled mass of what Schumpeter's Business Cycles insisted were overlaid cycles of production and employment accorded with this insight. And in the latter

part of his life, in Capitalism, Socialism and Democracy, Schumpeter revealed the other element implicit in his dynamic: i.e. that modern technological change give some significant competitive advantage to production and decision-making organizations formed without markets between their constituent parts.

Now the international capitalist expansion of the 19th Century (or of today for that matter)—despite its free trade, free capital flows, free migration—remained nevertheless lodged in the national states inherited from the age of Mercantilism. Indeed bourgeois capitalism had depended critically upon sponsorship by such state power to overcome feudal and corporate restrictions on labor movement and on land and commodity markets and to furnish the political organization and military force behind an overseas expansion. Capitalist expansion pushed out against national boundaries and policies; nevertheless, its roots remained fixed in the set of national cultures and the national monopolies of power and violence fixed with increasing specificity in the national states. The health of capitalism depended to a large degree on the extent to which the industrial, mercantile and private financial interests could control the state and either synchronize its policies with those of other liberal states or use its power to support a stimulating rivalry with foreign capitalists.

After about 1890, while Schumpeter was still a little boy (if one can imagine him as such—his self image seemed at Harvard in the late 1930s to be always that of a virile young man) two notable developments surfaced in European society—both deriving from aspects of the Schumpeterian dynamic. These, growing to monstrous shape in the coming decades, blew up the bridges from the liberal era, and barred the way to any simple forward extrapolation from the political and social institutions of the 19th Century onto 20th Century economic development. First, the response to technological change, as Marx had observed much earlier, produced new social groupings. Side by side, with a landless proletariat and beginning to overshadow it, came a white collar class and the beginnings of a technocratic and managerial elite. These grew to a degree separate from the older upper middle classes of the mercantilist monarchies, state bureaucracies, armies, learned professions and church. Along with these there persisted, too, other elements whose interests were not strictly identifiable with those of international capitalistic expansion—owners of real property (both peasants and large estate holders), the skilled artisans and the small scale entrepreneurs, especially in the distributive trades. The outlines of this complex structure of classes, or

'interest groups'—to give them their more modern, politically scientific name—grew more vivid and pronounced as a great struggle shaped up between international capital and the movement which thought it was international—the movement of socialist labor.

Liberal economic policy, whether deriving from a royal bureaucracy, as in Prussia, or from a basis in universal suffrage and mass political parties, began to experience the pressures of these groups. Political scientists in America were to speak later of 'pluralism'—a consensus among power blocs by which liberal democracy was preserved even under forms of 'organized' or 'corporate' capitalism. However, a second development—of the sort which social scientists find it embarrassing to talk about—appeared at a level deep in the consciousness of men and women in the capitalist world. Here again was a critical factor in the making of the modern world which Schumpeter did not blink at, but faced and exposed, although—because, I think, of the limitations of his old-world, essentially elitist perspective—he saw it from a rather oblique and class-biassed angle. In the essay on Imperialism, he identified what he called the atavism of the pre-capitalist aristocratic and military classes as the truly motivating force. In Capitalism, Socialism, and Democracy, he adds another group to the anti-capitalist chorus,—the intellectuals. But he derives the failure of bourgeois capitalism to command the credence and loyalty of its intellectuals from the peculiar and perverse, essentially critical enterprise of intellectual activity itself. If this had been all there was to the matter, liberal capitalism would not have been in very deep trouble.

No. One cannot avoid the observation that presses in from all sides—not only from the upper reaches of the arts, philosophy or the sciences, but from what Schumpeter himself observed to be the 'disintegration of the bourgeois family', from the changing standards, values, behavior patterns by which ordinary men and women led their lives. A tectonic shift was occurring, a great geologic fault appearing in that society and culture which the West had derived ultimately from the Renaissance, as marked and as deep as that which had ended the church-dominated world of the late Middle Ages. Something was missing in the institutions, the thought patterns and the value systems of liberal, rational capitalism even as, feeding upon their continued success in the economic compartment of life, they extended themselves internationally and into all corners of the national life. A spiritual hunger appeared for a level of loyalties, of

community, of solidarity—a level that might lie between the family or the local or occupational interest group and the far reaches of a technocratic world society. Between 1890 and 1950 this hunger fed on what was closest at hand, something already in the popular consciousness, the nation-state.

The allure of nationalism was highest in the new nations, Germany and Italy, where the national ideal, sponsored by romantic bourgeois intellectuals, had created a shelter for all the groups and classes that had been threatened by the French Revolution, by Napoleon and by British mid-century international hegemony. But in all the Western countries the nation appeared not only as a protector against rival nations, but as a kind of divine intercessor between the intimate particularistic local folkways and a bleak, impersonal, rational, technologically advanced international capitalism. Only on some such 'atavistic' impulse can one understand the virulent anti-semitism that did not disappear with the narrow world of the medieval peasant, but infected in varying degrees every level of capitalist society. And it is of no consequence to insist that the nationalism was a factitious one, manufactured by big capitalists to control the rest of the population. It was that, to be sure, and contained within it, by reason of its exclusiveness, the seeds of its own corruption. But as in hypnosis and other forms of manipulative enterprise, the readiness to receive the suggestion must have been there already; the pre-1914 European soil was fertile for Fascism. And if the movement was manipulative at the outset, it soon became very unclear who was the manipulator and who the manipulated.

The three decades of breakdown, bracketed on either end by wars and persecution worthy of the 16th/17th century brought Schumpeter's Century—i.e. the century Schumpeter wrote about—to a close. Large events require large explanations and they must be found in the areas of life, connected to the economic, but lying in fact all around it. It remains now for economic historians to trace how the disturbed social dynamics of the interwar period specifically upset economic decisions and expectations and destroyed the possibility of steady, even if mildly cyclical, growth of the 19th Century variety. But there can be no doubt that Schumpeter in Capitalism, Socialism and Democracy analyzed and foresaw most of the consequences of his dynamic technology for political life in the West. What he did not foresee was the stubborn toughness of the liberal democratic impulse even in societies choked with private power blocs and political interventions. The Schumpeterian dynamic—the possibility of continuous, perhaps

unlimited, productivity growth through the application of new ideas in production may not be limited simply to the manipulation of natural substances and forces for the satisfaction of physical or psychic needs. Organizational forms, too, we all know, are innovations not only in the areas of private capitalism or state socialism but in the great gray area in between. The post-war capitalist economies have shown a wholly different spirit, a very different social and political dynamic from that which rocked them and brought them to ruin in the interwar period. No doubt in Europe this is partly due to the pressures of the two giants who stand on either side and who are no longer, as formerly, withdrawn or asleep. Much is due too to new means of social communication and to the spread of a truly modern and non-national culture among a new generation. Whatever the intellectual and psychological basis, post-war Europe has been alive with complex social and economic experiments which carried it through the decades of miraculous growth and are now being tested in more difficult times.

Schumpeter would hardly have predicted that thirty-five years after his death, a conference on decentralized market economies would have had much to talk about. He would have been surprised, bemused, perhaps ever skeptical, but almost certainly pleased at this evidence of the persistence of the market in the world, (or at least in economists' thinking about the world). And he would surely have been even more pleased at the bold enterprise which has activated this conference, and at the high scientific standards, the model building, the rigor which the succeeding papers will undoubtedly display, now that the looser considerations of history, politics and sociology have been passed in review.

WORKING PAPERS (Missing numbers indicate publication elsewhere)

1976

1. Corporate and Personal Taxation and the Growing Firm
by Ulf Jakobsson
8. Estimation and Analysis with a WDI Production Function
by Göran Eriksson, Ulf Jakobsson and Leif Jansson

1977

15. Pay Differentials between Government and Private Sector
Employees in Sweden
by Siv Gustafsson

1980

25. On Unexplained Price Differences
by Bo Axell
34. Imperfect Information Equilibrium, Existence, Configuration
and Stability
by Bo Axell

1981

36. Energi, stabilitet och tillväxt i svensk ekonomi (Energy,
Stability and Growth in the Swedish Economy)
by Bengt-Christer Ysander
38. Utility in Local Government Budgeting
by Bengt-Christer Ysander
40. Wage Earners Funds and Rational Expectations
by Bo Axell
42. The Structure of the ISAC Model
by Leif Jansson, Tomas Nordström and Bengt-Christer
Ysander
43. An Econometric Model of Local Government and Budgeting
by Bengt-Christer Ysander
44. Local Authorities, Economic Stability and the Efficiency of
Fiscal Policy
by Tomas Nordström and Bengt-Christer Ysander
45. Growth, Exit and Entry of Firms
by Göran Eriksson
52. Swedish Export Performance 1963-1979. A Constant Market
Shares Analysis
by Eva Christina Horwitz

56. Central Control of the Local Government Sector in Sweden
by Richard Murray
59. Longitudinal Lessons from the Panel Study of Income
Dynamics
by Greg J. Duncan and James N. Morgan

1982

61. Var står den nationalekonomiska centralteorin idag?
av Bo Axell
63. General Search Market Equilibrium
by James W. Albrecht and Bo Axell
General Equilibrium without an Auctioneer
by James W. Albrecht, Bo Axell and Harald Lang
64. The Structure and Working of the ISAC Model
by Leif Jansson, Thomas Nordström and Bengt-Christer
Ysander
65. Comparative Advantage and Development Policy Twenty
Years Later
by Anne O. Krueger
67. Computable Multi-Country Models of Production
and Trade
by James M. Henderson
69. Relative Competitiveness of Foreign Subsidiary Operations
of a Multinational Company 1962-77
by Anders Grufman
71. Technology, Pricing and Investment in Telecommunications
by Tomas Pousette
72. The Micro Initialization of MOSES
by James W Albrecht and Thomas Lindberg
75. The MOSES Manual
by Fredrik Bergholm
76. Differential Patterns of Unemployment in Sweden
by Linda Leighton and Siv Gustafsson
77. Household Market and a Nonmarket Activities (HUS)
- A Pilot Study
by Anders Klevmarken

1983

79. Energy Prices, Industrial Structure and Choice of Technology; An International Comparison with Special Emphasis on the Cement Industry
by Bo Carlsson
81. ELIAS - A Model of Multisectoral Economic Growth in a Small Open Economy
by Lars Bergman
84. Monopoly and Allocative Efficiency with Stochastic Demand
by Tomas Pousette
86. The Micro (Firm) Foundations of Industrial Policy
by Gunnar Eliasson
87. Excessive Government Spending in the U.S.: Facts and Theories
by Edward M. Gramlich
88. Control of Local Authority Expenditure - The Use of Cash Limits
by Noel Hepworth
89. Fiscal Containment and Local Government Finance in the U.K.
by Peter Jackson
90. Fiscal Limitations: An Assessment of the U.S. Experience
by Wallace E. Oates
91. Pricing and Privatization of Public Services
by George E. Peterson
94. Job Mobility and Wage Growth:
A Study of Selection Rules and Rewards
by Bertil Holmlund
96. The Machine Tool Industry - Problems and Prospects in an International Perspective
by Bo Carlsson
97. The Development and Use of Machine Tools in Historical Perspective
by Bo Carlsson
99. An Equilibrium Model of Search Unemployment
by James W. Albrecht and Bo Axell
100. Quit Behavior under Imperfect Information: Searching, Moving, Learning
by Bertil Holmlund and Harald Lang

102. Collecting Data for Micro Analysis.
Experiences from the Hus-Pilot Study
by N. Anders Klevmarken
103. The Swedish Micro-to-Macro Model
- Idea, Design and Application
by Gunnar Eliasson
105. Estimation of Wage Gains and Welfare Gains from
Self-Selection Models
by Anders Björklund and Robert Moffitt
106. Public Policy Evaluation in Sweden
by Bengt-Christer Ysander
108. Entry, Industry Growth and the Microdynamics
of Industry Supply
by John C. Hause and Gunnar Du Rietz
109. Capitalist Organization and Nationalistic Response;
Social Dynamics in Age of Schumpeter
by William Parker
110. A Nonwalrasian Model of the Business Cycle
by J.-P. Benassy
111. Disequilibrium Economic Dynamics -
A Post-Schumpeterian Contribution
by Richard Day
112. Schumpeterian Competition in Alternative Technological
Regimes
by Sidney Winter
113. The Industrial Finance Systems; Europe, U.S. and Japan
by Tad Rybczynski
114. The Microeconomics of Organization and Productivity
Change - The Use of Machine Tools in Manufacturing
by Bo Carlsson
115. On the Behavioral and Rational Foundations of Economic
Theory
by Herbert Simon
116. Schumpeterian Dynamics
by Erik Dahmén
117. Micro Heterogeneity of Firms and the Stability of Industrial
Growth
by Gunnar Eliasson
118. The Initialization Process - The Moses Manual, Part 2
by Fredrik Bergholm