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## *Schumpeter, Political Economist*

BRUNO S. FREY

### SCHUMPETER SAID EVERYTHING ALREADY

READING Schumpeter's *Capitalism, Socialism and Democracy* (5th Edition, 1976, to be referred to as *CSD*) is a revelation. First published in 1942, it contains the essence of what has been developed in 'public choice', a well developed field with a large number of adherents and a correspondingly large literature, since the beginning of the 1960s.<sup>1</sup> Sometimes called the 'economic theory of democracy', public choice is based on Schumpeter's definition of democracy as

[T]hat 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 (*CSD*, p. 269).

This definition masterfully captures the main features of democracy as seen from the economic point of view. Firstly, democracy is looked at as a method or mechanism for arriving at social outcomes, i.e. it is not defined in terms of outcomes. What matters is that the content is arrived at in a well defined way. Whatever the content of the decision, it has to be accepted as long as the institutional decision-making mechanisms have been observed. The democratic method is seen as one of several different ways of reaching social decisions, and as a very good method when compared to the alternatives (*CSD*, pp. 288-90). Schumpeter thus develops a *comparative theory of*

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<sup>1</sup> Not to mention his contribution to political sociology in the field of imperialism and social classes (Schumpeter, 1918-19, 1927) and the fiscal crisis of the state (Schumpeter, 1918).

*institutions*—something which has been undertaken by modern economic theory only very recently.

Secondly, Schumpeter's definition of democracy makes it clear that this institutional agreement is closely related to *economic* competition. Political as well as economic competition may be more or less perfect, and the properties of the processes observed vary accordingly. If the political entrepreneurs are not free to enter the 'market' for votes, it cannot be expected that the process of translating the people's will into political decisions will work well. Institutional conditions must be established to guarantee that the barriers to entry for both political and economic competitors are minor.

Thirdly, the favourable outcome of the competitive struggle for the people's vote is a *side-product* only, exactly as is the case in the competitive struggle for money. Politicians do not strive for a 'better world'; they struggle to gain power and therewith to satisfy their own utility. This does not mean that politicians are particularly wicked or immoral people (as little as are economic entrepreneurs); they may endeavour to gain power in order to be able to put their own ideas and preferences into practice, but they will only be able to do so if they can attract sufficient votes to be elected into office. Consequently, parties are 'groups whose members act in concert to win power' (CSD, p. 283).

Schumpeter draws two conclusions from this definition of democracy which have been elaborated and stressed in modern public choice analysis:

1. The competitive struggle for votes forces the politicians to adopt a short-run outlook because voters judge their performance and/or promises by their immediate effect. It is thus difficult for politicians to pursue long-term interests (CSD, p. 287). This shortsightedness of the democratic process has been central to the politicoeconomic models developed since the mid-1970s (see, for example, Nordhaus, 1975, or Frey, 1978a).
2. The competition for votes forces the parties to advance positions which closely resemble each other. Schumpeter does not belabour this point but only mentions it as an aside (CSD, p. 283), while in public choice it is one of the most central and most often treated propositions (see, for example, Riker and Ordeshook, 1973).

*Capitalism, Socialism and Democracy* also deals thoroughly with the behaviour of voters, again closely anticipating what was done in public choice 20 years thereafter. Schumpeter again uses the comparative method, confronting the individual's behaviour in politics and in the market. There is little difference in behaviour in the political and economic spheres when local affairs and political issues that directly and unmistakably concern individuals and groups are involved (CSD, p. 260). In general, however, little effort is

made by people to master political problems. In Schumpeter's words, 'the typical citizen drops to a lower level of mental performance as soon as he enters the political sphere' (CSD, p. 283). Public choice theory completely agrees with Schumpeter in his evaluation of the comparative performance of individuals in politics and the market, and attributes it to exactly the same reason: an individual only marginally affects the outcome of political decisions by casting her or his vote, and a reasoned act of voting costs the person much time and effort which he/she is unwilling to expend in this public good context.

Schumpeter realizes, however, that it is well worth participating actively in politics if one has the chance noticeably to influence the decision, and if the policies arrived at can be moulded to one's own advantage. This applies to professional politicians, economic interest groups and idealists as well (CSD, p. 263), as for instance the environmental movement today.

The third major contribution by Schumpeter, and an idea central to modern public choice, is the importance attributed to *constitutional rules and institutions*. Democracy can only function if the vast majority of the citizens observe the 'rules of the democratic game' (CSD, p. 301) and agree on the fundamentals of the institutional structure. Schumpeter stresses that the constitution must limit the power of the state; democracy does *not* mean every aspect of life is subject to political decisions (CSD, p. 292).<sup>2</sup> It has only been in the last few years that this important aspect has been recognized in public choice (see Buchanan, 1975a, 1977, and Frey, 1982).

Besides these three major ideas, *Capitalism, Socialism and Democracy* contains a host of other ideas also common to public choice. One is the importance of the *political entrepreneur*, which makes it possible that 'latent volitions . . . are called to life by some political leader who turns them into political factors' (CSD, p. 270). Non-organized wishes in the population may thus become part of political programmes and actions, such as for example the wishes of the elderly, or environmental concerns. It is noteworthy that it has taken a long time for public choice to recognize this idea (Wagner, 1966). Another idea clearly spelled out by Schumpeter is that *small political units* are important for a working democracy (CSD, pp. 261, 267) because the voters are by nature better informed and have more of an incentive to participate and to assimilate new information. Schumpeter is thus a founder of the economic theory of federalism, now a flourishing field within public choice (see, for example, the contributions contained in Oates, 1977).

Finally, Schumpeter foresaw the idea of *rent-seeking* which has very recently been put forward in the economic literature (Krueger, 1974;

<sup>2</sup> Wright's (1951) criticism of Schumpeter's political philosophy is therefore quite misplaced.

Tullock, 1967; Posner, 1975). He speaks of the 'tremendous loss of energy which the incessant battle . . . imposes on the leading men' (*CSD*, pp. 286–87). Though acknowledging their importance, Schumpeter characteristically does not look at these costs in isolation but rather compares them with the potential costs and losses inherent in *other* social decision-making mechanisms.

## PUBLIC CHOICE DOES NOT NEED SCHUMPETER

In view of the fact that Schumpeter's *Capitalism, Socialism and Democracy* contains the essentials of what constitutes today's public choice, it would be natural to expect him to occupy a prominent place in the field. This, however, is not at all the case. It can, on the contrary, be argued that:

1. To a large extent public choice has been developed *independently* of Schumpeter.
2. Public choice has gone much *beyond* Schumpeter and can therefore learn nothing from him.
3. Schumpeter advances some ideas which according to public choice are *mistaken*.

These three points will be elaborated in the following.

### *Public Choice Has Been Developed Independently of Schumpeter*

This proposition may be tested by consulting the public choice literature.

Turning first to the classic contributions in the field it turns out that Schumpeter is rarely quoted and, if he is, it is more as a standard reference than a direct use and adoption of his ideas. Kenneth Arrow in his *Social Choice and Individual Values* (1951) makes no reference to him at all; Anthony Downs in his most influential book, *An Economic Theory of Democracy* (1957), which can be considered an elaboration of Schumpeter's view of democracy as the competitive struggle for votes, mentions him but twice. Downs (p. 29, no. 11) acknowledges in general terms that he is greatly indebted to Schumpeter for his 'profound analysis of democracy' and mentions the side-product effect of democratic competition; later (p. 284) he repeats this indebtedness again. James Buchanan and Gordon Tullock in their book, *The Calculus of Consent* (1962), concern themselves with the constitutional aspects of democracy along very similar lines as Schumpeter does, but do not quote him in the main text at all. In Appendix 2 on 'Theoretical forerunners', which comprises seven pages, Schumpeter is mentioned in only one sentence, saying that he

'made contributions' (p. 335), but without imparting to the reader at all what these contributions were. Mancur Olson in his book, *The Logic of Collective Action* (1965), quotes Schumpeter twice. In one case (p. 108, no. 30) he suggests that the reader consult him for an opinion differing from Olson's (without saying what Schumpeter's opinion is); in the second instance (p. 159), he refers the reader in general terms to Schumpeter's view of rational behaviour in the market and in politics.

We may summarize by saying that the classic works in public choice (which are themselves referred to in almost all other works in the field) have obviously not relied on Schumpeter's much earlier and original contributions to the subject.

The survey books on public choice present the same picture. Dennis Mueller (1979) notes Schumpeter's 'slight *direct* influence' as a 'curiosity' (p. 1, no. 1). Mueller himself mentions Schumpeter only once and then not directly but rather quoting another author who refers to the fact that Schumpeter found tolerance and democratic self-control important. In comparison, for example, he quotes Knut Wicksell 16 times! Hans van den Doel (1979) mentions Schumpeter four times but in the usual fashion, only in reference to his definition of democracy. Norman Frohlich and Joe Oppenheimer (1978) make no reference to Schumpeter as a political economist, mentioning his theory of the entrepreneur in a purely economic context (p. 68). William Riker and Peter Ordeshook (1973) again do not mention him at all, and I myself (Frey, 1978b) only note him twice, once as an 'unorthodox political economist' (pp. 55–56) and then as a precursor of Downs' vote maximization model (p. 66).

As for survey reviews, such influential papers covering the development and state of public choice as those by Vincent and Elinor Ostrom (1971), Michael Taylor (1971), James Buchanan (1975a) and Tomás Esteve Serrano (1979) completely disregard Schumpeter. It may be concluded that public choice practitioners have developed their field quite independently of Schumpeter and that no immediate influence whatsoever can be detected. If they are aware of his contributions it seems to be *ex post*, i.e. after the theories have been worked out they realize (probably with some surprise) that Schumpeter had already developed the same ideas more than 20 years earlier.

Being myself a case in point, I hasten to add that *nobody* seems to have been aware that Schumpeter developed many of the most central ideas in modern political economy. All biographers stress at length that he was an important sociologist (and even philosopher),<sup>3</sup> but no one seems to note that he also made—if anything—even more important contributions to political science

<sup>3</sup> Thus Samuelson (1951, p. 49) mentions 'sociological hypotheses concerning phenomena on the fringes of politics and economics' (emphasis added); similarly Haberler (1951, pp. 24, 28, 44).

(public choice can be considered to be part of both economics and political science). Thus Wolfgang Stolper in his *International Encyclopedia of the Social Sciences* biography (1968) mentions Schumpeter's definition of democracy among his 'sociological writings' (p. 71), and Reinhard Schäfer in his biography for the *Handwörterbuch der Sozial- und Wirtschaftswissenschaften* (1956) also refers to his definition of democracy but adds immediately that this idea does not count among his noteworthy contributions (p. 156). Among the memorial articles, Wassily Leontief (1950) and Arthur Spiethoff (1949) for example do not refer with even one word to him as a political economist; and even more surprisingly, Erwin von Beckerath (1950) reviews *Capitalism, Socialism and Democracy* at length and most thoughtfully but still manages not to mention his contribution in the field of political economy. The conclusion thus holds that neither the public choice practitioners nor traditional economists do justice to Schumpeter in his role of political economist, and none seems to have taken up his ideas. It is as if he had never written on political economy—and yet we have shown that his work contains much of what is 40 years later an established field of its own.

#### *Public Choice Has Gone Much Beyond Schumpeter*

It can be argued that Schumpeter's contributions are irrelevant from today's point of view because public choice has developed much beyond his work and can therefore learn nothing from him.

It is indeed true that public choice has pushed its analysis of the topics treated by Schumpeter much further. With respect to the competitive struggle for votes, for example, a large literature has evolved (see, for example, Riker and Ordeshook, 1973, Chaps 11 and 12; Frey, 1978b, Chap. 7; Mueller, 1979, Chap. 6) studying in depth what happens under varying objectives (e.g. vote maximization or majority maximization), whether there is an equilibrium for party programmes and, if so, what its characteristics are. How this equilibrium depends on particular assumptions about voting behaviour has also been analysed, in particular what party programmes look like when the citizens abstain from voting. We now know precisely under what conditions the programmes of two competing parties will converge towards the median of the distribution of the voters' preferences. Equal analytical effort has also been devoted to the study of the voters' behaviour (see, for example, Riker and Ordeshook, 1973, Chap. 3; Frohlich and Oppenheimer, 1978, Chap. 5). Under the assumption of utility maximizing individuals, it is shown under what conditions people will vote for a particular party.

Public choice has developed a great deal over the last 10 years with respect to empirical research. Some of the propositions derived analytically have

been subjected to extensive empirical testing, but more importantly a branch has developed—politicoeconomic modelling—which combines formal models with econometric testing. In a sense, Schumpeter's method of closely combining theoretical and empirical analysis has materialized here in political economy; but again, all this took place without him having any direct influence.

*Schumpeter Advances Ideas Which Are Mistaken from the Point of View of Public Choice*

In his *Capitalism, Socialism and Democracy* Schumpeter is at variance with many ideas found in today's public choice. This is not surprising because he loved to be unorthodox and to advance minority views, while public choice under the leadership of American economists has largely degenerated to the application of neoclassical orthodoxy to the realm of political questions. In this context, two of his unorthodox views will be given by way of example.

The first refers to the individual's conceptions of reality and therefore his/her expectations of future events. Schumpeter argues that people may have completely mistaken ideas about the causal relationships that exist in the real world, and that these misconceptions may be kept over a very long period of time. There is thus no mechanism that automatically tends to correct such wrong views. For this he gives an example from the field of public health (*CSD*, p. 259). Generation after generation, people have failed to associate the spread of some of the most severe infectious diseases with their habits of personal and communal hygiene. As long as no such link is established, the objective consequences (including regularly occurring epidemics) will not produce a subjective experience that will correct the mistaken conception. Schumpeter suggests that a correction of wrong perceptions is even more unlikely if people are reluctant to recognize causal relations or where there is some interest which actively agitates against recognizing them.

Schumpeter's view is incompatible with what has received so much attention today under the unfortunate name of 'rational expectations'. According to neoclassically oriented public choice (and general economic) theory, it is not possible for objectively wrong perceptions to be maintained over an extended period of time. The information available on the objective relationships will induce people to correct their wrong expectations such that on the average the errors are unrelated to available information; i.e. all that is profitable to know will be used to make forecasts.<sup>4</sup>

<sup>4</sup> McCallum (1980) and Kantor (1979) give useful surveys of the present state of the rational expectations theory.

Another example of where Schumpeter's views are completely opposite of those of public choice is his evaluation of public bureaucracy. The modern economic theory of bureaucracy—as developed for example by William Niskanen (1975) and Gordon Tullock (1965)—stress that, due to a lack of property rights, which results in limited possibilities for control and in-existent or biased incentives for the individual members, bureaucracy will tend to oversupply the public goods and produce them in an inefficient manner. It has therefore been proposed that public supply should be made by private firms as much as possible, or that the public bureaux should at least be subject to as much competition as possible (see, for example, Niskanen, 1978, 1980).

Schumpeter has a much more positive view of public bureaucracy (*CSD*, pp. 205–10 and 293–94). He actually considers bureaucracy to be the main counterforce to amateurish democratic government! He is well aware that public bureaucracy does not function in an ideal way, but 'the readers should not allow themselves to be unduly influenced by the associations the term carries in popular parlance' (*CSD*, p. 293, no. 6). Schumpeter points to the example of well functioning public bureaucracies in Europe which are based on tradition and whose members are well educated. While public choice stresses the aspect of insufficient control leading to shirking, Schumpeter draws attention to the fact that devotion to work cannot simply be 'hired' by money. Thus he and public choice have quite opposite conceptions of the value of the public bureaucracy.

Thus the conclusions to be drawn by neoclassical public choice would be harsh: that public choice has developed independently of what Schumpeter wrote, and that theoretical and empirical analyses have also gone much beyond the ideas he produced. Furthermore, as it can be easily shown that some of his ideas are at variance with the theoretical structures of today's public choice, they would have to be rejected from that point of view as well. The conclusion would seem to be that Schumpeter today is of no importance for political economy.

## SCHUMPETER HAS MUCH TO OFFER US

The conclusion that Schumpeter is of no importance today has been drawn from the point of view of neoclassical public choice. The question of course arises as to whether public choice is or should be the one and only theoretical framework for political economy. We will argue in this section that once we leave the straightjacket of today's public choice theorizing, Schumpeter's ideas have indeed a great deal to contribute. Four theses will be advanced, the first two concerning his way of thinking about political economy, and the next two concerning matters of content.

*Thesis 1*

*In modern political economy, it is more important to advance new and stimulating ideas than to elaborate single points in great depth.*

This thesis of course runs counter to the present understanding and practice in public choice and in general economics, which are almost exclusively concerned with formally proving or econometrically estimating some small variant of a well established theory. Thus a large part of public choice has in the last 25 years been concerned with proving the possibility or impossibility of preference aggregation when one of Arrow's conditions is slightly changed. Another favourite topic has been to show whether the median voter solution resulting from the competitive behaviour of parties still holds if the assumptions about the parties' or voters' objective functions and the distribution of the voters' preferences are slightly changed. As a result, scientific journals containing articles on political economy—in particular *Public Choice*—have become less and less interesting to read for anybody who wants to know about the real world and the interrelationship between the economy and the polity rather than one more variant of a theorem within a well known theory. The formalistic analysis of some old theory with very few exceptions does not advance our knowledge, and is of little interest for empirical research. Indeed, whenever an interesting new idea does appear—as for example the new voting mechanisms (e.g. Tidemann and Tullock, 1976; Mueller, 1978) or politicoeconomic models—it has been developed *despite* and not because of the existing theoretical structure.

Schumpeter is a political economist who can teach us a quite different way of thinking, one constantly open to new ideas and seriously concerned with the problems of reality. His style of thinking is that of a Schumpeterian entrepreneur in the realm of scientific endeavour. He develops and takes up new ideas, checks and exploits them, pursuing them further until they reach the point where rapidly diminishing returns set in. Moreover, the reader is led through an exploration with an unknown goal—quite unlike much of today's theorizing (for example, that of the Chicago school) where the result is often known before the analysis has started.

*Thesis 2*

*The analysis of grand relationships in political economy is more important than the precise elaboration of some small part of a theory.*

This thesis is again in contradiction to what is current practice in political economy, which in common with general economics almost exclusively

considers the rigour of an argument rather than its relevance. Schumpeter's thinking—though not loose—was certainly not rigorous according to today's standards; he was much more interested in having an approximate understanding of the large questions in political economy. He tried to study the overall relationships existing between capitalism, socialism and democracy—an attempt which would not be undertaken within today's public choice, or only by outsiders.<sup>5</sup>

There are two very simple reasons why the overall relationships must be tackled by political economists even if this is not possible in a rigorous way. Everyone who thinks about political economy, and especially those who undertake formalistic analyses of small theorems, has a quite different concept of these relationships in the back of their minds. But as it is not considered to be 'scientific' to deal with these background assumptions, they often remain very vague and amateurish. To change slightly Schumpeter's phrase quoted in the first section, the typical public choice analyst drops to a lower level of mental performance as soon as he enters the sphere of larger political questions. Anyone who has tried to discuss 'practical' political problems with a specialist in preference aggregation will immediately realize what is meant.

The second reason why political economists should concern themselves with the larger relationships is that ordinary people are aware of the problems involved and quite rightly expect the political economist to be able to make a sensible contribution. If political economists are not able to do so, outsiders will step in and provide answers which are often little more than pure speculation and ideological preconception. Economists should not forget the lesson they were taught when the population became interested in the overall relationship between economic growth, the environment and natural resources: the growth models being developed by economists at that time were wonders of mathematical rigour (see, for example, Stiglitz and Uzawa, 1969; Wan, 1971), but they had nothing at all to say about the problems in which the people were interested, which resulted in outsiders stepping in to offer models such as *The Limits to Growth* (Meadows, 1972) about which the economists were (rightly) rather horrified. Only afterwards did some economists find out that economics *is* able to say interesting things about the topic.

Schumpeter's type of thinking shows that it is possible to deal with the larger questions in political economy in an interesting way. What matters is not so much the answers that result, but rather the fact that such an endeavour is successfully undertaken.

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<sup>5</sup> One of the few examples is Brittan (1975), a financial journalist.

Scientific thinking along his lines will only be possible if the institutions of scientific research are changed. A scholar writing articles in the Schumpeterian tradition—or even Schumpeter himself—would have very little chance today of having a paper published in a respectable journal. It is thus not sufficient to mourn the often unsatisfactory kind of theorizing done in political (and general) economy and to call for Schumpeterian thinking; one must suggest the institutional changes in scientific research necessary to lead to a demand for such thinking.<sup>6</sup>

### *Thesis 3*

*Some of Schumpeter's ideas have not been adequately introduced into modern political economy.*

This thesis will be dealt with by way of examples. Five of Schumpeter's ideas which could be fruitfully introduced into public choice will be briefly described.

#### WAVES OF 'IRRATIONALITY'

Everybody knows that people may under certain circumstances behave quite differently from normal. Moral constraints and civilized modes of thinking, feeling and behaving disappear, and primitive, infantile and criminal propensities take over (*CSD*, pp. 256–57). This is often the case in revolutionary periods, for example in France after 1789 and recently in Iran. Even if the 'waves' are not immoral, but rather ideological, it is of great importance to take account of them in order to understand the political economy. Recent examples would be the rise of radical left-wing political thinking after 1968, and the current conservative movement. It may well be that the final origin of such waves are beyond the grasp of political economists, but certainly their propagation and the reaction to it by the establishment (whether right or left) could be studied. Schumpeter has given some clues in this direction which should be worked out further.

#### ADVERTISING AS THE ESSENCE OF POLITICS

According to Schumpeter, advertising of parties and interest groups is at the core of the competitive struggle for votes (e.g. *CSD*, pp. 263–64, 283). The

<sup>6</sup> The newly founded *Journal of Economic Letters* is hardly a step in the right direction as it publishes nice little theorems rather than new ideas.

'pure' models of party competition developed in public choice have, however, excluded political advertising. Thus the analogy of political and economic competition used in model-building has been taken so far that an essential part of politics has been thrown out. The analysis would be much more realistic if the models contained the element of advertising from the very beginning, which would result in a more interesting study of the role of information in political economy.<sup>7</sup>

#### FRAUDULENT POLITICAL COMPETITION

Schumpeter argues that unfair and fraudulent competition between parties and interest groups cannot be excluded if the analysis is not to end up as an unrealistic ideal (CSD, p. 271). But this is exactly where the axiomatic public choice theory of party competition has come to! The models are based on assumptions which set the stage for 'perfect' competition and which exclude fraudulent elements. As a result, most governments which have ever existed anywhere in the world are excluded from application of the models. Again the difference in thinking between Schumpeter and current public choice is sharp: Schumpeter develops a brilliant thesis (democracy as the competition for votes), but immediately sees that much of reality does not conform to it and that one must study other types of regimes too. Public choice, on the other hand, has taken up the idea and has stuck with it without being much concerned about its reality.

#### POLITICIANS' GROUP INTERESTS

In *Capitalism, Socialism and Democracy* Schumpeter stresses that politicians have become professionals, and they have evolved as a caste of their own. Though they are involved in a game of competition for votes in a democracy, they are at the same time an interest group which fights for its own interests against the rest of the electorate. Looking at political reality it is evident that he has a good point which would be well worth exploring in modern political economy.<sup>8</sup>

#### DYNAMIC PARTY COMPETITION

Schumpeter looks at political competition in the same dynamic framework that he applies to economic competition, namely as an evolutionary process.

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<sup>7</sup> Some attempts are being undertaken within politicoeconomic modelling (see, for example, Palda, 1973).

<sup>8</sup> The only, but quite preliminary, attempt seems to have been made by Wittman (1973).

This aspect has been lost in the models of party competition as developed in public choice; it is not unfair to say that all that which is dynamic in the Schumpeterian sense has been thrown out exactly as was done in the economic general equilibrium models of the Walrasian tradition.<sup>9</sup> Accordingly there is no role accorded to the political entrepreneur in the existing formal models of party competition.<sup>10</sup> This disregard of Schumpeterian dynamics is certainly a great loss for political economy.

#### *Thesis 4*

*Some of Schumpeter's ideas that are rejected by public choice are nevertheless of great interest.*

In the second section of this paper two ideas which were advanced by Schumpeter but which are at variance with the neoclassical public choice view were presented by way of example. The first was Schumpeter's idea that people may have an incorrect concept of reality and thus wrong expectations in the long term; the second was that public bureaucracy, due to a long tradition (at least in Europe), is a well functioning and stabilizing force *vis-à-vis* sometimes amateurish democratic politicians. It may well be argued that his views should be taken much more seriously than they are today, and that his ideas are at least partly correct. Concerning wrong conceptions in the politicoeconomic field, it may be pointed out that often the clues 'in the small' may strengthen conceptions which from a 'large' point of view are mistaken. An example may clarify what is hinted at. If in a planned economy the plans are not fulfilled and the economic performance is disappointing, the adherents of planning will immediately say that such a result is not surprising because the planning has not been strict enough. This will lead to the planning being intensified. If the economic performance continues to be disappointing, the same arguments will be offered again and planning again strengthened, etc. Such a process may go on for a very long time, as is evidenced by many planned economies. An outside, more objective observer might however draw a quite different conclusion from the weak economic performance. She or he may well attribute it to planning and suggest that it be reduced. The same kind of difference between observation 'in the small' and 'in the large'

<sup>9</sup> An aside: It is difficult to understand why Schumpeter, whose main contribution to economics may well be considered to be his discussion of the innovating entrepreneur, 'always' referred to Léon Walras as by far the greatest economist of all time' (Samuelson, 1951, p. 53).

<sup>10</sup> Kramer's paper (1977) deals with the movement to an equilibrium of the programme of two competitive parties faced with the Arrow impossibility theorem, but not with dynamics in an evolutionary sense.

leading to conceptions and expectations which remain wrong in the long run may also hold for a market economy. If its performance is weak, the adherents of the free market ideology immediately argue that this is due to the fact that the natural market forces are not being used enough. If economic competition is then strengthened but the results remain disappointing, they will argue that it is still due to insufficient market competition. A more objective observer, on the other hand, may well come to the conclusion that the weak results may be due to overusing the market and that a certain amount of planning would improve the economic performance. In both the 'planned' and the 'market' economies there are thus forces at work which may for a long time *reinforce* wrong conceptions, leading to increasingly wrong expectations.

Schumpeter's refusal to reject public bureaucracy completely as is currently *en vogue* in public choice is certainly correct. In many instances there is no substitute for hierarchical decision-making and bureaucracy's performance is viewed in too negative terms. Though there are certainly problems with respect to the incentive structure—which he deals with at length (*CSD*, pp. 205–10)—it should not be overlooked that similar problems exist elsewhere in the real world. Bureaucracies in private firms larger than atomistic size are confronted with very similar problems as the public bureaucracy. This is acknowledged by public choice, but it is often seen that one is following the 'nirvana approach' by comparing public bureaucracy with a perfectly functioning atomistic firm under conditions of perfect competition. The actual alternatives in today's world are often various kinds of bureaucracies.

The almost panic fear of some American economists about 'shirking' on the part of public officials seems to be unfounded. Schumpeter rightly points out that the long tradition in European bureaucracies of taking pride in fulfilling one's assigned task is a strong counterweight to the tendencies to be lazy and to shirk. There are moreover many possibilities for reconciling individual interests with the goals of bureaucracy such as the dispensing of titles, orders and decorations, and indirect payments in the form of official residences, the use of yachts, etc. (*CSD*, p. 209).

The arguments advanced in this section are easy to summarize. Schumpeter can still give political economy many fruitful impulses with respect to both his style of thinking and content.

## CONCLUDING REMARKS

Reading Schumpeter, one is at first thrilled by how many ideas that are now part of modern political economy are already contained in his writings (especially in *Capitalism, Socialism and Democracy*). On further enquiry,

however, it turns out that he had no direct influence on the subsequent development of public choice and that today's state of the analysis has advanced a great deal beyond him, both theoretically and empirically. Thus he would seem to be quite outdated from today's point of view. If however the straightjacket of neoclassical public choice is left behind and a more open view of political economy is adopted, it becomes clear that Schumpeter's writings still have very much to offer. Modern political economy could benefit a great deal if his style of thinking were to be adopted complementarily to the others employed, and if some of his ideas about the workings of the politicoeconomic system were to be considered and extended further.

'Read Schumpeter and take up his ideas': this seems to be the logical but quite hopeless battle cry. What matters is that scientific institutions be developed which make it worthwhile for scholars to work and publish in Schumpeter's direction. This is not presently the case—a Schumpeterian innovator is needed.

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