

Economic Sociology and the world political economy: Schumpeter on imperialism

(DRAFT VERSION, 15/05/2007)

José Ricardo Barbosa Gonçalves and Maria Alejandra Caporale
University of Campinas, Brazil

Introduction

This paper aims to discuss some contemporary aspects of the analysis of Joseph Schumpeter on state, capitalism and imperialism. Taking into account his ideas in the light of the Neo-Marxists, the following key-questions emerge: It is possible to think that imperialism is justified only by interests of economic nature? Which are the interests of the capitalist economies to enhance imperialist policies?

For Schumpeter, modern imperialism could not be thought taking into account only the economic factors. In 1919, in relation to the prognosis of modern imperialism, Schumpeter wrote: “ The precapitalist elements in our social life may still have great vitality; special circumstances in national life may revive them from time to time; but in the end the climate of the modern world must destroy them. ..Whatever opinion is held concerning the vitality of capitalism itself, whatever the life span predicted for it, it is bound to withstand the onslaughts of its enemies and its own irrationality much longer than essentially untenable export monopolism – untenable even from the capitalist point of view. Export monopolism may perish in revolution, or it may be peacefully relinquished; this may happen soon; but one thing is certain- it *will* happen. ...This will immediately dispose of neither warlike instincts nor structural elements and organizational forms oriented toward war- and it is to their dispositions and domestic interests that, in my opinion , much more weight must be given in every concrete case of imperialism than to export monopolist interests, which furnish the financial ‘outpost skirmishes’- a most appropriate term- in many wars. But such factors will be politically overcome in time, no matter what they do to maintain the war machine forever primed for action. And with them, imperialism will wither and die”.¹

In Schumpeter’s interpretation the empires have a military, warlike dimension; a dimension of power and subordination based on the defense of a national objective. Thus, he attributed to the empires a political dimension where the interests involved reveal the proper social structure of the nation. Considering the foundations of imperialism, Schumpeter pointed out its atavic character. In his words:

¹ Schumpeter, J. *Imperialism and Social Classes*. p. 130.

“It is not within the scope of this study to offer an ethical, cultural, or political evaluation of this process. Whether it heals sores or extinguishes suns is a matter of utter indifference from the viewpoint of this study. It is not the concern of science to judge that. The only point at issue here was to demonstrate, by means of an important example, the ancient truth that the dead always rule the living’.²

His historical understanding leads to a study on *imperialisms*. Schumpeter explored their characteristics since the old age until capitalism, suggesting that the differences among them could be explained considering the correlation of forces of the groups or classes produced by the national social structures. In short, the historical beddings of his analysis of imperialism are centered on the specificities of the social structures. As a result, his interpretation of the imperialisms is an attempt to apprehend the nature of the empires, their common features: the empires exist while a national logic of conquest and military power prevails.

Our aim is to develop the specificities that Schumpeter took into account to understand the dimensions of modern imperialism. In his *Sociology of Imperialism* (1919) Schumpeter moved forward to the interaction of economic and non-economic factors in the analysis of social processes considering the construction of an “*economic sociology*” in the study of imperialism in history. The previous 1912 book, *Theory of Economic Development* had presented a vision of “socio-cultural development” that was characterized a comprehensive economic and sociological analysis of the process and effects of economic development. In order to think the economic phenomena is necessary to comprehend the social dimensions, in his own words:

“Economic sociology covers, in first place, the facts of the economic behavior, from which the economists forge certain hypotheses, and secondly, the institutions that characterize the economic organization of the studied societies”³

Consequently, when we look for further analysis upon the economic factors and the normative institutions of economic activity that can be found in the situations of imperialism, the implications to the economic analysis are related to the specification of the details of the institutional structure of the economic process. When coping with the articulations that Schumpeter established to understand the dimensions of modern imperialism, the key-question about the nature of capitalism emerges. Capitalism turns out to be a way of living, as well as imperialism. Modern imperialism is a particular capitalist way of living that is overwhelmed by pre capitalist features because of its historical foundations.

² Schumpeter, J. *Imperialism and Social Classes*, p. 130.

³ Schumpeter, J. *Historia da Análise Econômica*, vol. 1, p. 206.

The specific form of apprehension of the mechanisms of the economic process suggests that Schumpeter neutralized the problem of the accumulation and exploitation in the capitalist system. In the interwar period, Schumpeter's writings give an answer to the Marxist debate on imperialism. For Schumpeter the capitalism system has a logic of its own and the logic of modern imperialism does not tend to be subordinated to the economic conditions. In fact, in Schumpeter's view, there could be emphasized the critics to the Neo-Marxists on behalf of his belief that the Marxist interpretation on imperialism turned out to be tautological as it depends on the premises that found the theory of accumulation and the theory of social classes.

Nevertheless, Schumpeter attracts our attention as he put at the core of his discussion the idea of development based on innovations. In his approach, he substitutes the idea of extended reproduction by the idea of development, the qualitative jump that is associated to structural change. He has a vision on development⁴: the process of development is related to rupture, disequilibrium; it shakes the social structure. As a matter of fact, in Schumpeter's understanding, the imperialistic, nationalistic and militaristic capitalism that would dominate in the XX century would be deprived of its full potential of innovation and accumulation since its historical features would turn out to express the subservience of groups of interests to the autocratic states. In fact, Schumpeter affirmed that the capitalist expansion – the process of creative destruction- could be blocked by the action of groups that organize the national economy in function of the achievement of their specific and not legitimized interests.

I- **Imperialism and the economic process**

When thinking about the debate between Schumpeter and the Neo-Marxists, one striking point is how Schumpeter camouflages the financial question. The recognition of its importance is founded in his opinion about Rudolf Hilferding and his *Financial Capital*: Schumpeter believed that Hilferding must be remembered mainly as the author of reference of the Marxist group. In his understanding, the main interest of the Neo-Marxists was the imperialism and the analysis of the collapse of capitalism. In last instance, Schumpeter constructed a reply in which the financial logic of the capital appears neutralized. In short, Schumpeter justified the imperialism by means of the permanence of pre-capitalist features and disregards imperialism as the logic of financial capital.

⁴ Schumpeter, J. *Teoria del Desenvolvimento económico*, p.234-235.

For Hilferding capitalism for its proper nature extends the production scales, transforms the structure technique and deepens the social division of the work. The accumulation is above all a process of control of the social capital by great blocks of private capital. This process of centralization of capital assumes the monopolist form and is structurally tied with the development of the credit system because of its capacity of mobilization and centralization of liquid resources in increasing scale. The development of credit system is also the origin of the expansion of the financial assets that start to have proper circulation and valorization. Thus, two historical aspects of the development of the credit system are reinforced: the mobilization and centralization of liquid capital and the fictitious valorization of capital. The financial capital -centralized and liquid – is the reference to the study of imperialism.

In fact, Schumpeter neutralized the problem of capital accumulation. The circular flow corresponds to a picture of the economic process in the capitalist system, preserved the relations of Walrasian general equilibrium in a context of market economy, private property, division of labor and perfect competition. In his words,

“*General equilibrium* exists if every household and every firm in the domain under research is individually in a state of equilibrium in the sense of Léon Walras. It is only this last concept that matters for us”.⁵

The economic process is constructed on interests that express the rationality in the action of the agents in the process of appropriation of nature when economic activity is guided by the satisfaction of needs. The structure of production is articulated to a way of living. In his model, besides the economic factors (land, labor); he emphasized the existence of economic actors such as enterprises, families but not social classes.⁶ The functioning of the economic mechanism is based on routine conditions: how much and what to produce are questions which answers are guided by the rule of continuity. Thus, the stability of the system elapses of the rule of rational behavior that tends to preserve the social structure and the way of living.

In this context, the production process is understood while combination of existing factors (land and labor) whose participation in the income distribution depends on productivity. In the process of price and quantity determination, the money is neutral in terms of production decisions and functions as the common denominator of monetary prices and means of exchange.⁷ In this

⁵ Schumpeter, J. *The Analysis of Economic Change*, p. 6.

⁶ Schumpeter, J. *História da Análise Econômica*, vol. 1, p.218

⁷ Schumpeter, J. *Teoría del Desarrollo Económico*.

economic process the existence of credit is not necessary. Schumpeter did not link the productive capital to the financial capital as a common feature of the economic capitalist process; as a result, his position is undoubtedly a reply to Hilferding and Lenin that subordinated the industrial to the financial capital.

The process of “growth” means incremental changes for unit of time that can be absorbed without perceivable riots in the evolution of the system, as for example the increase of the population.⁸ However, Schumpeter's theory of economic development is constructed on two theoretical assumptions: the general interdependence among individual transactions under the state of circular flows static conditions; the distinction of the dynamic state by the presence of entrepreneurs and the emergence of innovative activities and their clustering outcomes. The result is a pattern of economic development that is perceived as a series of business cycles.

Schumpeter offered an interpretation of the economic trends that gives emphasis to the qualitative transformations in order to define the main forces underlying the historical development process based on cyclical industrial changes.⁹ Under a dynamic view, the indeterminate elements appear with the emergence of innovative individuals. The element “time” is introduced and the analysis of the economic changes is tied with the inclusion of other concepts: innovation, entrepreneur, profit and credit.¹⁰ The historical and irreversible change happens by means of the innovation in industrial and commercial life,

“ Obviously the face of the earth would look very different if people, besides having their economic life changed by natural events and changing it themselves by extra-economic action, had done nothing else except multiply and save. If it looks as it does, this is just as obviously due to the unremitting efforts of people to improve according to their lights upon their productive and commercial methods, i.e. to the changes in technique of production, the conquest of the new markets, the insertion of new commodities, and so on. This historical and irreversible change in the way of doing things we call “innovation” and we define: innovations are changes in production function which cannot be decomposed into infinitesimal steps ”.¹¹

⁸ The outside factors do not explain the economic change as Schumpeter observed “... we shall disregard not only wars, revolutions, natural catastrophes, institutional changes, but also changes in commercial policy, in banking and currency legislation and habits of payment, variation of crops as far as due to weather conditions or diseases, changes in good production as far as due to chances discoveries, and so on. These we shall call *outside factors*. It will be seen that in some cases it is not easy to distinguish them from features of business behavior” (*The Analysis of Economic Change*, p. 3).

⁹ Schumpeter, J. *The Analysis of Economic Change*, p.2. He suggested as more realistic to suppose the existence of many kinds of cycles rolling on simultaneously:

“... practically every economic fluctuations must be historic individual and cannot be amenable to explanation but by minute historical analysis of the innumerable factors actually at work in each case. In other words, in order to understand business cycles we must first of all acquire what we termed historical experience of the way in which economic life reacts to such disturbances.”

¹⁰ Schumpeter, J. *Teoría del Desarrollo Económico*.

¹¹ Schumpeter, J. *The Analysis of Economic Change*, p.7

The transitory nature of monopoly prices and of the interest rate is based on the process of innovation and expresses that some key-concepts to the understanding of capitalism work as exceptional conditions in the discontinuous process of structural change. In the circular flow, productions flows without profits, the idea of profit turns out to emerge with the entrepreneur.¹² In this frame, the credit system appears to be a weapon to propeller competition of innovations. However, differently from Hilferding, Schumpeter does not present the functioning of the credit system as result of the transformation of the inactive monetary capital in active monetary capital, that is to say, he does not reveal that the credit system is expanded by the proper process of capital accumulation. In Schumpeter, the credit expansion turns out to be *ex nihilo* in the process of creative destruction. Capital is the advance of power purchasing of money; the nature of the social relation is not reinforced as the supply of credit is function of the category of individuals that he called capitalists.¹³ The banks are the capitalists *par excellence*.¹⁴ However, the rate of interest has not an usual conception as it is associated to innovation. As a result, the interest rate is not autonomous; it is decisively linked to productive credit and development and emptied from its monetary nature.

Old industries are rendered obsolete by a process of "creative destruction". As the new industries compete with established ones for labor, materials, and investment goods, they drive up the price of these resources. The old industries cannot pass on their higher costs because demand is switching to new products. As the old industries decline, the new ones expand because imitators, with optimistic profit expectations based on the innovator's initial success, continue to invest. The prosperity provokes reactions on the part of the old firms provoked by the income growth.¹⁵ The multiplying effects of the increasing demand and the induced investments based on the expectation of maintenance of growth at the observed taxes (accelerating effect) characterized the underlying mechanisms to the innovative investments. The secondary wave is characterized by a set of phenomena that obey a distinct logic; it associates the phenomenon of investment to speculation, that is to say, to a mechanism of anticipation to the full effects of the primary wave. Although such phenomenon involved the formation of expectations, Schumpeter questioned the necessity to verify the real "theoretical status" of uncertainty in a theory of the economic cycle.¹⁶ As a result, it can be

¹² Schumpeter, J. *Teoría del Desarrollo Económico* p. 86

¹³ Schumpeter, J. *Teoría del Desarrollo Económico* p. 80 and 127

¹⁴ Schumpeter, J. *Teoría del Desarrollo Económico* p. 84

¹⁵ Schumpeter, J. *Business Cycles*, pp.121-123.

¹⁶ Schumpeter, J. *Business Cycles*, pp 116-117.

said that the mechanism of formation of expectations appears as an independent element in his theoretical picture.

When dealing with speculation, Schumpeter extended the speculative nature to the expansion of credit in the secondary wave. He generalizes the possibility of indebtedness among the consumers (in the expectation of whom its incomes will remain steady or it ties will increase) and among the traditional firms (which had expanded the lines of production in the expectation of a continuous increase of the demand). In this context, the credit can acquire an unproductive nature since the link to the productivity profits disappears and the high indebtedness could fragilize the proper structure of credit. The absence of productive profits would turn more difficult the survival of the oldest firms oldest in the case of falling aggregate demand and prices. In this direction, the premise is that the speculative phenomenon appears linked to the traditional firms that increase their investments in the expectation of bigger future profits that result from the induced effects of the primary wave. Thus, the motivation of return in the old traditional firms contrasts with the motivations of the “innovative entrepreneur”. Besides, the unproductive credit and the generalized error (clusters of errors) that result from the extreme optimism that characterize the secondary wave do not constitute necessary elements to understand the existence of the cyclical phenomenon.¹⁷ The cyclical reversion is associated with the exhaustion of the expansive breath of the innovations and the disappearance of profits with competition. The system comes back to the stationary state, the circular flow. In his words,

“ .. the waves of prosperity always do arise whenever a neighborhood of equilibrium is reached “from below” and (that) they always do taper off into a new neighborhood of equilibrium...”¹⁸

Schumpeter believed that capitalism has a proper logic: circular flows and cycles of development are part of the economic process. He identified the instability with the impacts of innovation, idea that contrasts with the position held by Hilferding that reinforced the power of the centralized liquid capital to provoke systemic instability as the financial calculation of the great companies overwhelmed business fluctuations. Schumpeter is aware of the transformations of the big business related to the organized markets of investment and the changes in the forms of wealth – its dematerialization. Nevertheless, he did not articulate this process with the centralized credit system, interest rates and fictitious capital. As a result, he empties the foundations of the financial capital.

¹⁷ Schumpeter, J. *Teoría del Desarrollo Económico.*, p.228.

¹⁸ Schumpeter, J. *The Analysis of Economic Change*, p.12.

As a result, in Schumpeter's interpretation, the sources of modern imperialism expressed that imperialism would never have been evolved by the "inner logic" of capitalism itself.¹⁹ In truth, Schumpeter believed that, in a capitalist economy, the alignment of interests by no means points unequivocally in the direction of imperialism. Imperialism is not constituted on behalf of capitalism, but because of the social structure of nations: Schumpeter wondered about the nature of the agents and the causes of the pressures behind their actions. He did not tie in a exclusive way imperialism with a specific stage of capitalism.

In relation to the Neo-Marxists, the differences exist because of the fact of that in Schumpeter the imperialist process do not spring out of the pressure of the process of capital accumulation. For Schumpeter the imperialism in capitalism was not a result of the trend to the fall of the profit rate. He rejected the the economic factors held to justify a pessimistic forecast concerning the performance of capitalism emphasize: a) the environmental factor that could produce distribution of political power and a socio-psychological attitude hostile to the functioning of capitalism; b) the low vitality functioning of the capitalist engine as a mechanism of creative destruction; c) the decreasing opportunities of investment that involved and evaluation of the trends to saturation, population, new lands and technological possibilities.²⁰ In fact, Schumpeter believed that big business capitalism would not lead to economic stagnation. There is no evidence that the monopolistic structures tend to be inefficient because of their market practices that, in fact, reinforce profits that result from the innovative investment process. As a result, the "soporific effects" of monopolization need to be explained by means of other factors that overwhelm the capitalist civilization.²¹

As the core of his "vision" on capitalism in the idea of development, a key-question that emerge is the following: in which conditions could imperialism benefit the economic development? We can reflect on this matter taking into account the articulations between imperialism and big business. The national capitalist groups of interlocking financial and industrial capitalists reinforce collusive practices in order to control the markets by means of the exports of capital and products. While Hilferding considered that the export of capitals was the proper internationalization of the productive and financial circuits of valorization, Schumpeter explained that the "export monopolism" was not yet imperialism. The development of cartels and trusts can create situations of monopoly price and dumping practices of products and capital affecting national consumers and

¹⁹ Schumpeter, J. *Imperialism and social classes*, p. 128.

²⁰ Schumpeter, J. *Capitalism, Socialism and Democracy*, pp.112-113.

²¹ Schumpeter, J. *Capitalism, Socialism and Democracy*, pp. 104-106.

producers.²² In the international order, the evolution of free commerce leads to the development of cartels and trusts with market practices that establish monopoly prices. As a result, the relationship among markets, monopolies and imperialism is the result of the alliance between state rulers and national capitalists. These defensive practices are not of the essence of the capitalist system but are result of the behavior of people or classes. The interests of groups are in reality interests of part of the bourgeoisie.

Since the alliance between the State rulers and the national capitalists in favor of economic protection facilitates the formation of cartels and trusts as a result of specific alignment of interests. In the search of protection, the bourgeoisies defends and autocratic State and serves this State in spite of the interests of the State being different from theirs: the imperialism has pre-capitalist features. In this framework, not capitalist forms of the bourgeoisie thought overwhelm different topics related to economic policy, such as bullionism, international commerce, taxation and the wealth of nations. The dichotomy that is present in the bourgeoisie mind would turn out to be the reason of its fragility: nationalism is born in the autocratic State since capitalism is in its essence not nationalist. Consequently, the space of the economy becomes a weapon of political struggle, a means to achieve the unification of the nation in an export led effort. In Schumpeter's interpretation, politics and policies are not independent factors but elements of the social process that is being analyzed.²³

II. Imperialism and society

The understanding of the current trends of modern imperialism needs to be apprehended taking into account the nexus between the economic process and its institutional framework in capitalism. Schumpeter introduced the entrepreneurship to explain structural change, economic development and business cycles. The entrepreneur is associated to the new, he has no linkages with the economic and social previous structure, he has no compromises with previous political alliances. Human beings of will break up tradition when stimulating innovation: they break up habits, they affect aspects of the capitalist culture.

²² Schumpeter, J. *Imperialism and Social Classes*.

²³ Schumpeter, J. *Capitalism, Socialism and Democracy*, p. 108.

According to Schumpeter, the entrepreneur is someone who carries out "new combinations" by introducing new products or processes, someone motivated by the "dream and the will to found a private kingdom"; the "will to conquer: the impulse to fight, to prove oneself superior to others"; and the "joy of creating".²⁴ The elements of decisionism in the development process is related to the entrepreneur's vocation and the challenges he faces. As a result, this entrepreneur is different from the rational economic agent that bases his actions on routine in the circular flow. The entrepreneur could undertake a managerial role in their activities, but routine management is not considered to be entrepreneurship. In this settlement, the capitalist group is attached to the advance of purchasing power of money to finance the innovative process.

Besides the entrepreneur, the capitalist and the manager also have particular economic functions and are apprehended as categories in the economic process.²⁵ Each of them has different way of livings. Thus, although Schumpeter always considered the social dimensions in his analysis, the nature of social relations in capitalism are emptied. He pointed out the existence of changing groups of interest and classes as well as social types in construction.²⁶ In truth, social mobility and structural change are inherent to his analysis of the development process.

In the development process, the routine that rules the economic process (circular flow) is broken up by the capacity of transformation inherent to the institutional framework of the capitalist system. Thus, the economic model follows routine conditions that are analytically different from those that have potential of transformation. In order to have potential of rupture, the innovations must be concentrated in time and materialize themselves in a block of investments with excellent effect of linkages. The Schumpeterian entrepreneur is different from the Marshallian one because he leads the way in creating new necessities, new markets, new industries, which, in turn, precipitate major structural changes in the economy: he is a leader.²⁷ The beginning of the expansion, of the prosperity, is characterized by the impacts of the expansion of credit associated with the cluster of innovations. A set of cumulative chains and effects characterizes the primary wave presided by the logic of innovations:

“As soon as the various kinds of social resistance to something that is fundamentally new and untried have been overcome, it is much easier not only to do the same thing again but also to do similar things in different directions, so that a first success will always produce a cluster. ..This is indeed the method of

²⁴ Schumpeter, J. *Teoría del Desarrollo Económico*.

²⁵ Schumpeter, J. *Teoría del Desarrollo Económico*. p.30-31 and 57

²⁶ Schumpeter, J. *Teoría del Desarrollo Económico* p. 76-77, for a description of the behavior and special type of the entrepreneur.

²⁷ Schumpeter, J. *Teoría del Desarrollo Económico* p. 85-7 and 100.

competitive capitalism which has not yet died out in trustified capitalism, to spread an improvement and to reap the social harvest- in the succeeding depression".²⁸

The sociological foundations of imperialism express the interests shaped by the social structure of a nation. As a matter of fact, Schumpeter differentiated the economic categories from the social classes²⁹. The capitalist exists as a particular function, besides the entrepreneur and the manager. Schumpeter reinforced the difficulties to link economic functions and social structure. As a result, there is no conflict in his theory on capitalism; the class struggle does not exist in his "vision" on capitalism. In truth, in the trustified capitalism the process of creative destruction is also observed but in the long run though, changes can occur that have profound implications in the spirit of entrepreneurship. In modern economies, large corporations- whose shares are widely held- have replaced the family firm. The idea that the entrepreneur will eventually become "less important" or "obsolete" is already present in *The Theory of Economic Development*. Indeed, the historical trend in favor of large firms - the subject explored in *Capitalism, Socialism, and Democracy* - also appears in the earlier book. In fact, in his vision, in large corporate enterprises, innovation itself has become largely routinized. Thus, in the evolution of the capitalism system the spirit of entrepreneurship turns out to be rationalized; there is an increasing routinization of the creative destruction process since the innovations are displaced as "routine procedures" in big companies: "This social function [entrepreneurship] is already losing importance and is bound to lose it at an accelerating rate in the future even if the economic process itself of which entrepreneurship was the prime mover went on unabated. For, on the one hand, it is much easier now than it has been in the past to do things that lie outside the familiar routine -- innovation itself is being reduced to routine. Technological progress is increasingly becoming the business of teams of trained specialists who turn out what is required and make it work in predictable ways. The romance of earlier commercial adventure is rapidly wearing away, because so many things can be strictly calculated that had of old to be visualized in a flash of genius".³⁰

Either the will of the entrepreneur or the meaning of his existence turns out to be emptied. Schumpeter believes that the same social same process that undermines the function of the entrepreneur increases the hostility of the social atmosphere and fragilizes the force of capitalism. For Schumpeter the capitalist civilization is rationalistic and anti-heroic.³¹ The evolution of the capitalist process undermines its own framework, that is to say, the evolution of the capitalist

²⁸ Schumpeter, J. *The Analysis of economic change*, p.10

²⁹ Schumpeter, J. *Teoría del Desarrollo Económico*, p. 165.

³⁰ Schumpeter, J. *Capitalism, Socialism and Democracy*, p. 132.

³¹ The rationality in the decision making process is based on the links between: rationality and profit; rationality and calculus in terms of money; rationality and individualism; rationality and utilitarianism. See Schumpeter, J. *Capitalism, Socialism and Democracy*, p.127.

process changes the meaning of the institutions of the bourgeois world. The key-problem is related to the deep change in the political structure of the nations, besides the transformations observed in the pillars of private property and free contracting. In short, the capitalist process destroys the moral authority of its framework. The rational attitude advances attacking the private property and the bourgeois values. As a result, the social atmosphere becomes hostile, in other words, the code of values becomes hostile³².

The sociological foundations of the phenomenon of the imperialism disclose to his increasing interests in “groups and classes”. The analysis of the real agents of change in the capitalist world economy is reinforced by the study of the nature and manifestations of imperialism in history: imperialism involves empires; imperialism deals with nations and territories; imperialism reveals the subordination of one society to another by means of force; imperialism is overwhelmed by conflicts of interests among social groups and classes. Thus, the imperialism is analyzed as a phenomenon whose nature is essentially political that expresses the social structure of classes. For Schumpeter the social classes needed to be understood as the entity that thinks, feels and acts.³³

On the basis of the historical evolution of the relations between State and capitalism, Schumpeter considered that the imperialism, as an expression of the national objectives, is restricted to serve a group of interests in the interior of the State. In the imperialist framework, the political power engenders and maintains artificial economic structures, that is to say, dampens the potential of capitalist expansion as the process of creative destruction is inhibited. In truth, in Schumpeter’s view, the imperialistic, nationalistic and militaristic capitalism that would dominate in the XX century would be deprived of its full potential of innovation and accumulation since its historical features would turn out to express the subservience of the capitalists to the State rulers.³⁴

The bourgeoisie reduces the political sphere to the methods of competitive leadership and competitive struggle for political power.³⁵ The bourgeoisie reduces the meaning and scope of the political sphere: the State is viewed in instrument of power of the bourgeoisie class in an attempt to guarantee monopoly profits. On the other hand, the bourgeoisie serves the State and turns out to limit rational behaviour. This frame could involve tensions in the political nature of man, tensions in citizenship could arise as the dematerialization of capitalism and the change of the code of values

³² Schumpeter, J. *Capitalism, Socialism and Democracy*, p.155

³³ Schumpeter, J. *História da Análise Económica*, vol 1. p. 213.

³⁴ In the interwar period the capitalist alternative was in the USA. In the late 1910s, Schumpeter understood that the USA was the country that tend to have the lowest propensity to exhibit imperialist trends. See Schumpeter, J. *Imperialism and Social Classes*.

³⁵ Schumpeter, J. *Capitalism, Socialism and Democracy*, pp. 269 and 297.

are associated to the transformations in the forms of wealth³⁶. As a result, Schumpeter pointed out the foundations of the fragility of the empire in capitalism: the ‘crumbling walls’ refer to the cultural framework.

The transformations in the nature of wealth are related to this process. The ownership becomes dematerialized, defunctionalized and absentee. There can be observed an evaporation of the industrial property and the consumer property.³⁷ In addition, there is a change in the capitalist ethic that involves the loss of the entrepreneurship spirit and the end of the long-term horizon associated to the family-motive. Consequently, a different kind of “homo-economics” emerges whose actions turn out to be based on “short-term philosophy” that reinforces the loss of the moral horizon of people³⁸. Thus, in the dynamic process of creative destruction, the bourgeois culture is redefined and, at the same time, it redefines the possibilities of development.

Therefore, Schumpeter settled the relation between the economic and the social spheres. The economic process apprehends the routine activities directed to the satisfaction of needs (consumption). The effect of innovations is to alter the existing market structure, since the innovations lead to exclusion in the mechanism of the competition. His interpretation expresses the society as a social organization, as a social structure. Thus, the foundations of his sociological economy involve human types in construction, besides changing groups of interest and classes.

The economic interest is centered on rationality; the sense of imperialist action is related to the national power. Thus, Schumpeter emphasize that the achievement of national objectives becomes imperative. It is possible to think that the interests of the ruling class turn out to be spread so that they start to correspond to a way of thinking life, of organizing life, of acting in life. The power of the empires is deeply affected when these interests could be established while reference for cultural standards. The cultural dimension of the evolution of institutions is part of the sociological foundations of Schumpeter’s theory of imperialism.

III- Modern imperialism and culture

Shumpeter’s understanding of the real historical process in the world economy enhances the discussion of some relevant aspects of the current debate around imperialism and globalization

³⁶ Schumpeter, J. *Capitalism, Socialism and Democracy*, p. 256.

³⁷ Considering the evaporation of consumer’s property Schumpeter analyzed the crisis in marriage and the increasing weight in maintaining an uneconomic way of life. See *Capitalism, Socialism and Democracy*, pp. 158-159.

³⁸ Schumpeter, J. *Capitalism, Socialism and Democracy*, p. 142.

under the scope of an “economic sociology” where the social dimensions are not determined by the evolution of the economic process. Considering his analysis on imperialism, the monopolistic interests in the world order do not lead to imperialism because monopolies are compatible with development, free trade and pacifist interests.

While development in capitalism is essentially creative destruction, rupture of equilibrium and traditions, modern imperialism implies blockages to development. For Schumpeter capitalism is anti-imperialist on behalf of its nature, the imperialist trends result from the pre capitalist features present in capitalism. In truth, modern imperialism is overwhelmed by a dichotomy of behaviors and interests. For Schumpeter, the bourgeoisie is unwarlike, the capitalism is peaceful because there are not rival capitalist groups carving out territory for themselves by force. The expansion of capitalism involves markets and the restrictions related to imperialist policies could inhibit international expansion. Nevertheless, nationalism and militarism become capitalized as a consequence of the alliance between the autocratic State and capitalism. In the context of World War I, Schumpeter affirmed that the capitalism aims a peaceful world-wide settlement since the capitalist expansion could be blocked by the action of groups that organize the national economy in function of the achievement of their specific and not legitimized interests.

The reconstruction of the role of imperialism as a political project overwhelmed the analysis that points out the importance of a broader analytical framework that could articulate the economic, social, cultural and political dimensions of the process. In fact, modern imperialism is not only understood as the set of policy actions toward the strengthening of the monopolistic power but also as the process of homogenization of attitudes and behaviors all around the world. The tensions between the “creative destruction”, private money, consenting practices and national objectives are considered in the debate about economic power and imperialism.

The nature of modern imperialism in the international order in the early 20th century is largely discussed as a particular way of reorganizing economies and societies. In Schumpeter’s view, the economic fundamentals of imperialist policies take into account the social structure that could be observed beyond price and market stability, beyond the circular flow. Imperialist policies would come together in a framework in which the expansion of capitalism tended to generate disruptive forces in traditional values. Beyond the adjustment process involved in the idea of subordination, Schumpeter emphasizes the end of local traditions and the emergence of a trend of homogenization of behaviors and attitudes by means of the adoption of the cultural values imposed

by the imperial nation that would be generalized as a way of life. Thus, imperialism emerges as a way of living. Schumpeter reinforced the importance of the social structure of the real groups and classes that shape the world-wide economic process by means of the diffusion of their code of values. In the Schumpeterian terms, the historical indeterminateness in the development of capitalism makes feasible the idea of rupture on the basis of the subversion of the cultural atmosphere, reaching all society directly by a new ethics.³⁹

When imperialism loses its military dimension and searches the achievement of the objectives that express a specific way of living in the markets it becomes clear that there is no need of geographical expansion, conquer of the physical space in the world system. It is sufficient to achieve the commitment of broad segments of the population to common objectives. Consequently, imperialism does not turn out to be a situation defined by its economic nature. However, it is a political situation oriented by economic factors. The real facts let us consider the possibility of overcoming the national dimension of the empires. The tensions observed are established beyond the national States, inside the global space that turns out to be homogenized by the economic interests.

In short, Schumpeter articulated a set of questions that could be used to think about critical points of the contemporary world system. Capitalism is a way of living; modern imperialism is a particular capitalist way of living and it represents the “state of equilibrium” in the international capitalist system.

References

- Chesnais, F. Mundialização financeira e vulnerabilidade sistêmica. In: Chesnais, F. (org.). *A mundialização financeira- gênese, custos e riscos*. (São Paulo: Ed. Xamã,1999).
- Chesnais, F., Duménil, G., Lévy, D. and Wallerstein, I. *Uma nova fase do capitalismo?*. (Campinas: Cemarx, IFCH-UNICAMP, 2003).
- Dobb, M. *Theories of Value and Distribution Since Adam Smith: Ideology and Economic Theory* (Cambridge: Cambridge University Press, 1973).
- Gonçalves, José Ricardo R. B. and Caporale Madi, Maria Alejandra C. (2005b) *Global Governance and Unions in Brazil: macroeconomic adjustment and political participation in the 1990s*, paper presented in the Conference Political Economy of Governance, Dijon, France.
- Hilferding, R.. *El capital financeiro*. (Madrid; Ed. Tecnos, 1973).
- Hobson, H. *Imperialism: A Study* (London: Archibald Constable & Co. Ltd, 1905).
- Hobsbawn, E. *A Era dos Extremos* .(SP: Cia.das Letras 1994).
- Keynes, J. M. *A Teoria Geral do emprego, do juro e da moeda*. (São Paulo:Nova Cultural. 1988).

³⁹ For Schumpeter the socialism preserves the noble values of the civilization; preserve the necessary conditions for human beings to recognize and find the way towards a meaningful existence.

- Lenin, V. *Imperialism: The Highest Stage of Capitalism* (New York: International Publishers, 1916, 1939).
- Marshall, A. *Principles of Economics: An Introductory Volume*. Eighth edition (New York: The MacMillan Company, 1948).
- Marx, K. *O Capital*. (São Paulo: Abril Cultural, 1985).
- Roll, E. *A History of Economic Thought*. Third Edition (Englewood, N.J.: Prentice-Hall, Inc., 1956).
- Schumpeter, J. *Teoria del desenvolvimiento económico*(Mexico: Fondo de cultura económica, 1976).
- Schumpeter, J. *Imperialism and Social Classes*. Translated by Heinz Norden. (New York: Augustus M. Kelley, Inc., 1951).
- Schumpeter *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process*. New York and London: McGraw-Hill Book Co., Inc., 1939. 1st ed., 2 vols.
- Schumpeter, J. *Capitalism, socialism, and democracy*. (New York: Harper, 1975).
- Schumpeter, J. *Historia da análise econômica*. (Rio de Janeiro: Fundo de Cultura, 1964).
- Schumpeter, J. "The Instability of Capitalism," *Economic Journal*, Vol. XXXVIII (September 1928), pp 361-68.
- Schumpeter, J. "The Analysis of Economic Change", *Review of Economic Statistics*, Vol. XVII (May 1935), pp 2-10.
- Tavares, M. C. e Melin, L. E. Pós-escrito 1997: a reafirmação da hegemonia norte-americana. IN : Tavares, M. C. e Fiori, J. L. orgs. *Poder e Dinheiro. Uma Economia Política da Globalização*. Petrópolis. (RJ: Ed. Vozes,1998).
- Wallerstein, I. *The Capitalist World-Economy: Essays* (Cambridge University Press, 1979).
- Weber, Max. *Economia e Sociedade*. São Paulo: Imprensa Oficial SP, 2004.