

2:42 p.m.  
January 11, 1936.

## CAN CAPITALISM SURVIVE?

By Dr. Josef Schumpeter.

It is self evident that this would happen, for reasons I cannot go into, but perhaps too obvious to state. On the whole, however, as a social phenomenon and as distinct from individual sub-normality, it is true the thing would do away with poverty. But the whole of my argument does not lie in the sophomoric calculation which I have carried out now, but would like now in showing that that there is some element of (word not understood), and here again, more than in any other part of my subject, I have got to confine myself to headings, to formulation of problems.

The first reason, let me say, why people will think such extrapolation absurd, is a logical one, I am quite agreed. That is why I spoke of this very problem at the very beginning of my talk; only, although you don't know how a child will grow, because the child might be killed tomorrow, yet you can say that there is some sense in saying that if the rate of growth of the child keeps what it is, it will measure, say 50 yards, stand 50 yards high, within a certain time. The reason why a child never does grow to 50 yards is obvious. Isn't there a similar reason in our case?

Now, the second point, therefore, and this would be made by most economists, is an objection to such extrapolation arising out of any one of the five entirely different senses, which the unfortunate expression, "Line of Diminishing Return", may have. This loose expression has many

more meanings, but five of them I will quickly mention.

First. The first partial derivative of the production function declines in magnitude either from the beginning or from a certain point, or, to put it in a solely technical language, - take an example from one of Mr. Ezeekiel's contributions, which have come to be nearly textbooks on Modern Quantitative Economics, - if you increase the doses of food you feed a steer, you will find that the gain in weight of the steer increase, other things being equal.

Second. You may mean, however, that if you increase by a constant provision, say all the factors save one, you will also find a decreasing physical return.

Third. You may mean that if you go beyond producing goods in a society, the value net return will decrease because the means of production you use will rise in price against you, and of course, the goods will decline in price.

Fourth. You mean you want to assert that when you go on changing your methods of production, which interrupt the sway of the law of diminishing returns, there will come a point after which the success of such further improvement will no longer avail to counteract the effects of the phenomena 1 to 4; and now, remember that there were only three mentioned before, but one of the headings contains two - the value of returns can fall because the prices rise against you, or they can fall because your product falls in price.

Now this last proposition - what is the warrant for that? What is the warrant for saying that, euphemistically speaking, the soul of economic progress will after a time be unavailing to counteract the

law of diminishing return. I don't know what the warrant is. That is a prophecy. It came into economics very early. It is the reason why Ricardo is sometimes called a pessimist, and has always been repeated thoughtlessly, as so many things are being repeated thoughtlessly in that field. But, of course, the position may be true, and I can even assure you why we may expect the position to be true. Only, I haven't the time. But here is an interesting problem for you to think about. Say there is nothing about the law of diminishing returns which would make sophomoric extrapolation impossible. But what about Mrs. Burns and (name not understandable)? They are eminent economists. But the trouble is that they did not follow the seminar in Business Problems given in Harvard, and you cannot understand the cycle of economic valuation without doing that.

Now the fact that there is retardation in any single industry. This must be so. You know you cannot go on consuming motor cars when every man, child, and woman and suckling has a motor car in this country and those who want to have more than one. Of course, the industry will be reduced to the replacement demand. There is no help for that. It is not a very interesting phenomenon. Consequently you must forget that, of course, this retardation phenomenon in this case is very often a mirage. Of course, it is a tremendous rate of increase if you start a new series, but you cannot ever check that rate of increase however much the increase may develop. Now, however, that is another phenomenon.

And there is the phenomenon that - especially the total output in consumers' goods did show - a certain relaxation in the graphs of

the two investigators mentioned, in the beginning of the 19th century. But this does not prove anything, for this was to be expected, because from 1897 to 1911, the prosperity period of one of those long waves, the longest kinds of cycles, so far as we have statistics to show - they are absurd, and in a prosperity phase, you almost always get that phenomenon of a reduced rate of increase in the output of consumers' goods, which, by the way, shows that neither the length of prosperity merits the good press it gets, nor the depression the bad impression it gets. Why prosperity should have a good press and depression should have a bad press, it is easy to explain by social psychological observations, by the fact, for instance, that the daily press forming opinion and suggesting humors is so very much linked with speculative interests, whose activities, of course, get into the red in depression and who howl about it, etc.

But the phenomenon itself, this phenomenon of which the two investigators mentioned got hold for a stretch of the period they investigated. It is interesting to know that this phenomenon can be rationally deduced; that is to say, it can be rationally deduced that this phenomenon should merge, and therefore it does not prove, either, that there is any systematic adaptation, although eventually and some day, there must be such. If we are to assume, therefore, that the world does not suddenly turn athletic and in which case the satisfaction derived from athletic exercises would have the place of beefsteaks and radishes, there is no obvious reason the extrapolation should be impossible, either technically or economically. After all, perhaps I have said such a tremendously paradoxical thing. After all, it only appears that things

should go on for another half century, as they went on during the whole of the 19th century wherever we have statistical data, first, and wherever the process was not interrupted by such things as Napoleonic or Civil Wars, etc. I have, by the way, Ladies and Gentlemen - I have spoken of a long wave. In my own workship, I call this long wave the C ----- Wave, in honor of the man who did not just first discover the idea is older, but who worked as the first to try to measure it. He hs Russian, and of unknown whereabouts, somewhere imprisoned by the Bolsheviks, and in the Economics Metric Society, when he was elected, there was the following proviso, in brackets - it looks so nice - "If Alive". Then, this man has published such data as he had into a Memoir, which was published in 1926 in German, but which we have now in the Review of Economic Statistics translated, and although I do not agree with every detail he says, you get the idea of the phenomenon I just meant before by reading up this article, now available in English.

Now, what are the reasons of this performance of capitalism which it is believed is unique among social systems? The reason of the performance is measured by increase of total output, which we extrapolate in order to show that if it goes on for another length of C-----cycle, it would automatically limit the phenomenon of poverty. What are the reasons? Now, about this subject, quite a lot of talk has to be got over before you get to a real answer. Of course, if you read any older economic writings, there is the old beneficial effect of the profit system. This raises your object very justifiably, because it is a very true answer to give. On the

other hand, the objection that during the 19th century, there were a series of very favorable events, such as the opening up of new countries, which cannot be repeated, which account for the performance and that we must not extrapolate, hence is invalidated as a constant provision. But what are the reasons for a performance which, however we measure and whatever rate of compound interest we assume to effect our total output curves, is very great. Well, I would put in the first line, selection. Only, look at that unique method of selection of leadership - the social methods of selecting leading men, which the 19th century competitive form of course displaced. If you elect a Pope, the man to suggest himself to the Collegium of the Cardinals is not likely to be the same as the man whom the voice of the Catholic World hails as the man. If you elect politicians, the fact that they are good candidates to run is not in all cases - I am speaking of Europe, - it is all right here, of course - is not in all cases a guarantee that the man will be a good administrator. Even the next best method of selection, by specialized examination, has plenty of sources of error. But, if a man grows with his firm, if everything he does immediately has effect on the size of that firm, we have this unique combination between success of the present and success of the past which we find in any other walk of life.

2:59, continued  
by Miss Levin  
to 3:13.

January 18/36

Part II of Discussion on lecture

"Can Capitalism Survive?", by  
Dr. Josef Schumpeter.

Part I reported by Miss C. Levine

Mr. Sommers:

Now for the questions from the floor.

Dr. Schumpeter:

Ladies, and Gentlemen, I have so nicely put a few little paradoxical statements before you and I have so nicely inserted for your benefit weak links in my argument, that you really ought to go for it.

From Floor:

When you make predictions as to the possible output of capitalism as a system, if it continues on the basis of past experience, and the basis of the increase at 3% compounded, don't you also assume that the economist will learn nothing that will change the course of events?

Dr. Schumpeter:

You are quite right - that is to say, I have given you the analogy just to bring out the logical nature of this simple operation. I have told you, if you take a child, observe its rate of growth in a given, say month, and now extrapolate for say 30 years the same rate of growth, you will get a giant, an entirely unrealistic idea, and I want to emphasize that I only haven't the same reasons to expect that this kind of growth will cease as I have to expect that the child

would grow above the normal height of its race and social class and individual family. I have, although very superficially, tried to substantiate the belief in this rate of growth by showing, as I thought, the invalidity of a certain number of objections which would first suggest themselves to the economist's mind, such as the law of diminishing returns, etc. But you are perfectly right that plenty of things can happen to stop the system. So, for instance, a sufficient number of World's Wars would do the job excellently, and you do not even want World's Wars. I will go on the popular side of my statement so far as to say that the continuation of progressive taxation at the present rate in America and England is not compatible with the smooth working of capitalism. However, I quite agree with you that in no sense what I have said is more than a statement of a possible look at the cross-section. It is in no sense a prophecy.

From Floor:

Would I be correct in leaving this lecture with the feeling that you mean that the financial system will disappear due to old age and not being able to fight off the new diseases that will attack it?

Dr. Schumpeter:

In a sense, I believe I might agree with this statement.. But diseases, so to speak, do not attack the physical organs, if we are to carry out the analogy and look upon the economic system as the total of the physical organs of an organism. I do think these physical organs of the capitalism organism are remarkably free from arterio-sclerosis so far. It is quite evident. I do not wish to state that.

I always expect the arteriosclerosis, but when I look at the figures, I'll be hanged if I can find them, and what gets old, to stick with the analogy, is the soul within, the will to fight for one's own place, the will to believe in one's self. This is only the surface, and the fact that the things people fight for - the family, the descendants, the wish to found an industrial dynasty, the love for the concrete walls of a concrete factory, with all that has lost its meaning. That is what I mainly mean by the rationalism of our cycles.

From Floor:

Do you think that when capitalism disappears in America, we will tend more toward a communistic system or a socialistic system?

Dr. Schumpeter:

I always tell my audience that if I could, I would turn out of our science the words "capitalism", "communism", "money", "commodity", "credit", and half a dozen other words, because all these terms mean so much as to make a quite considerable percentage of our argument a quarrel about words, and hence let me put the statement in such a way as I believe will carry a clear meaning to you. I do think that the principal that economic activity and the management of industry is a private affair, and left to individual initiative, I do believe that this principal is socially played out, and has no defenders that count at the polls, and that therefore every conformist will be tried. Only, this being on the whole a very well-to-do and very reasonable country, and this country also having gone, unlike Russia, through a very long democratic experience, so much so that democratic methods have become an element of the moral credo of the average American, I do not expect

anything like a revolution and a dictatorship, one way or the other, but I do expect a slow progress in regulation, which will only cease when there is nothing unregulated left. You must not forget that socialism is not a uniquely determined term. The important group of (name not understandable), for instance, recognizes interest. It is quite possible that one day, in some country, a socialism will be adopted which pays a premium on savings and introduces interest in that form, because we have quite forgotten, when we speak of socialism, that there are other socialisms but the Marxian one, but this would be still socialism. There may be greater and greater bureaus in Washington regulating all this, and there may be a wave-like movement, managing more and more economic things, and perhaps the old capitalism and private property will remain, as in England the words "His Majesty" have remained, but the essence will go out of the thing. Does that answer the question?

From Floor:

Would you please define the word "capitalism" as you have been using it?

Dr. Schumpeter:

Well, I will, frankly, if it interests you, give you two definitions instead of one. I give you the one which I think defines the real, specific character of capitalism, and I repeat the one which I have been using here.

I have been calling capitalism here for the purposes of my talk a system in which the management of production is a private affair, car-

ried on by private initiative for private profit, but I shall distinguish capitalism more restrictively as follows: Capitalism is that sub-species of all the systems characterized by private property, which carries out new combinations of factors of production and involving the creation of credit. I think that is the essential thing and I do believe that, as my colleague Usher has shown, capitalism is as old as the phenomenon of credit creation; that is to say, that it goes back to around the Mediterranean to the 13th Century.

From Floor:

Is the business cycle a phenomenon peculiar to capitalism so that by shifting gradually in some other economic sense we might exaggerate it, or does the cycle become worse, or less operative?

Dr. Schumpeter:

The answer is in the self affirmative, I think, in two senses. If you define capitalism as I did just now, capitalism is particularly linked up with fluctuations which show, of course, particularly in monetary time series, precisely because of the alternative inflation and deflation and deflation of credit. I do not thereby mean to have said anything that is an objection to that, because this has its function. This would be quite another question, but it intensifies the question. In another sense, I also should have to answer in the affirmative. If we had a centralized socialism - you know I just said we must distinguish among many socialisms and you must never speak of a socialism but must always specify which one you mean. One of the most important divisions is the centralized and a federalized socialism, of the guild type. Now in the centralized socialism, all those

industrial changes, the process of which is apparently at the bottom of the phenomenon of business cycles, could be so planned for as to come about continuously in time. You would have one huge central bureau, and this, of course, could plan the rate of change of fixed plant, etc. in such a way as to make it a continuous affair, in which case this kind of wave would cease. In Russia, it was done differently. If you make a five year plan during which everyone has to hunger while the industrial apparatus is being built up, then you are doing exactly what capitalism does, only in a much rougher way.

From Floor:

Doctor, I am not quite clear yet as to this distinction between the capitalists and other orders. As illustration - I understand the Walker Gordon Dairy, where they started handling the entire production of milk through one management, found it much more desirable to give the various herds and small plots of land on which to raise the cows, to individual charge, so that then their managers in effect became capitalists, in order to have personal responsibility for the particular cattle. I am not sure if I am correct about this - but it seems that there was a place where you had to go back to capitalism.

Dr. Schumpeter:

You know, in life, the evidence is never 100%. Nothing is 100% in life. Russian agricultural workers, for instance, are allowed a cow, and I believe also a little vegetable patch around their houses, and in the feudal times, we had after all the element of towns, which does not properly fit in, and was finally, to bring it down with a crash, and so, we have always a mixed form in any particular form of organization. We have, however, historically not much difficulty in distinguishing

my prediction of the decay of the capitalist soul, we hardly see the thing, but what we can define are the logical schemata which are never realized in life.

From Floor: Social class is a part to whom, that the social function of

In drawing your conclusion, you have two points, as I take it; the first, that capitalism may survive so far as any limitation on the economic possibilities of development are concerned. You suggest that this 3% increase may continue. You suggest that capitalism probably will not survive because of what you suggested as an attack of the soul. I note that in arriving at your conclusion with respect to the possibility that the economic development will continue, it has been based very largely on historical data, with the suggestion that the functional relationship will have to continue in order to make this prediction come true. I wonder to what extent your suggestion that the soul of capitalism will decay is also based on historical data, and to what extent it is your interpretation of current events.

Dr. Schumpeter: Well. For instance, financiers of all the great countries,

Yes, Dr. Menzel. That is a very relevant question. I have been often told, and I feel it myself, that my way of looking at these things is a very historical one, and that if I wanted these things to be taken as purely scientific propositions, I should always have to define stretches of historical time for which I think, or know, they are true.

For instance, my general scheme of the business cycle, as a form of industrial valuation of capitalism, is a thing that is substantiated on definite material of definite countries for definite times, and outside of these intervals, the question must always again be asked, "Is the process found there still present?" Of course, historically, in

my prediction of the decay of the capitalist soul, are mainly two points: analogy with the purest analytical systems that preceded it, the view that the social class and the social system of which that social class is a part is doomed, that the social function of that class is gone, and that one symptom of the social function being gone is precisely to lose faith in one's self. This is all drawn from the rather minute analysis of the history of the feudal society, which I think runs, however, in terms of propositions which are applicable beyond that. Besides, historically, also, the comparison to what I know of the modern business man, of the modern industrial, commercial and financial bourgeois class, in the relationship to cultural, moral and political type of which I reconstruct, from the heyday before the time of capitalism, which I have always put in the '90's - and the reason why I consider 1897 the high point of bourgeois society is a merely statistical one, because in the bourgeois world - such a large number of industries flourished, but were all normal. For instance, financiers of all the great countries, some of which had gone to the greatest vicissitudes during the 19th century, were in perfect order by 1895 and 1897, and then they were not far above all that sort of thing. Similarly, I can piece together a long number of symptoms of normality, and I take this stand. I look at the type of bourgeois we had then and I compare it with that we observe now. All I admit, Doctor,

that there is plenty of arbitrary judgment in these things, but such is the result I get from comparison. In a thing like that, ladies and gentlemen, the trouble is that if I am not to make such an impression but confine myself to

measurable facts, I am left with the indices I have alluded to before, and these indices, unfortunately, are not much more reliable than careful impression taken from historical investigation itself.

From Floor:  
was the war machine.

May I follow up Dr. Wenzel's question with another one -  
You drew the parallel with the methods in the feudal days and said,  
that they were in a very good position to maintain themselves. Now,  
if you would expand a little bit from this position and tell us why  
the ruling class today would not be in a similar position.

Dr. Schumpeter:  
armed people and a people armed with machine guns. The superiority

Now the answer is quite simple to give. You know the worst  
that could befall both the views submitted to you and the methods  
alluded to would be if <sup>you</sup> thought them far fetched. But I think they  
are very straightforward and commonsense. Now, only visualize the  
situation like this. Up to the 11th century in Germany, in Western  
Germany and the countries around, the status, the class, as we should  
say, of knights, that is to say, of war-like lords, lived directly on  
the work of serfs or peasants, and the function of these was to fight  
for somelord of theirs. Defending in the course of things their social  
group, these knights then were of the class easily accessible. It was  
only the 12th and the 13th centuries when these conditions discontin-  
ued, and at that time, it was a state of affairs where the knights were  
so numerous as to have a monopoly of physical power. What did this  
consist of? In the 12th century a change of technique comes about in  
that fighting now is on the back of an armored horse. This is precisely  
the change: that the horse got armor, which was formerly possibly any

horse, maybe from the plow, with a piece of board for shield, and you had a lance with a point, but that was pretty much all. But now, fighting on the armored horse becomes a technique which it takes a lifetime to learn, and practice, and the body of this knight was the war machine.

There were no tanks. The tank was the man on his horse with the armour around, and a sword and an old iron lance. Now, if the lance is the only weapon available, obviously, any physical attack on it must end, just as the revolutions of the peasants have invariably ended, just as any battle must end when it is between an unarmed rabble and a people armed with machine guns. The superiority was at least so great.

Now, if a class has this function, naturally it is in a better position to defend its interests than if its only means of defending themselves if something disagreeable happens is to take up the telephone and telephone to Senator X and say "Good God, Good God, can't you help us!" That is, of course, something which survives and which embraces the psychic, - the rough hand of the knight armed as it was, even looked up to, and for centuries after this kind of superiority had gone, the gratitude for gifts received kept the masses in submission. Of course, the much milder rule of the industrialists, etc., does not catch the imagination but arouses much more opposition, and that is all there is to it.

*Hand*  
Reports of 2 hours  
discussions Jan 11  
report follows.

PP 1-10  
+ PP 1-6

PP 1-12  
PP 1-10

CAN CAPITALISM SURVIVE?

ML  
Jan. 18, 1936

WZ  
Every sign pointing to Dr. Josef Schumpeter  
a sort of No, ladies and gentlemen, it cannot. And if knowing my opinion is  
really all you want, I can sit down peacefully now and subside into silence.  
Unfortunately, however, it is not so. In any such question, particularly  
one in which argument is so exposed to very large margins of error, the  
opinion of a man counts for nothing and whatever interest may attach to it  
is in the reasons why he holds that opinion. In fact, I do not attach any  
importance to whether you should, when we part, agree with my view as to the  
ultimate answer or not; the importance I do attach to it is in trying to  
stimulate your social outlook, to put problems before you to try to make  
you play with them, and to contribute in this way to yourselves building  
up your own social world, and in this short hour I have before me do nothing  
but throw problems at you which cover a very wide range, unfortunately.  
Some are the very purest of purest economics, others are the purest of  
purest statistics, and others are of a historical nature, and still others  
are merely practical considerations drawn from observation in a life, which,  
unfortunately, has now lasted for quite a time.

The first thing I want to ask you is to consider what sense it has.  
Do try to form such an opinion as to capitalism, or in fact anything else,  
that can survive in the future. Of course there is no difficulty about that  
in the case of a prophet. If I were a prophet in possession of light from  
On High, I should just give my vision, and the very fact that I stated it  
emphatically would have a certain psychoanalytic influence on you. But if  
we do not prophesy what is the meaning of assertions about future events,

the answer is as simple as it is disconcerting. Speaking quite generally, there is no meaning to such a statement. We never forecast what will happen either on social or on other sides. What we do say is that if we have a set of facts before us so linked together by certain relations, then the system will go through certain processes and display in the phases of these processes certain characteristics, if the functions relating to these quantities remain invariant. This "if" spoils everything, and is another illustration of Einstein's saying that as far as our propositions are certain they do not say anything about reality, and as far as they do say anything about reality, they are not certain.

Now, in cases where these relations are very invariant over very long periods of time, of course this kind of statement comes practically to the same as a forecast--in astronomy, for instance. But where these relations vary, there is no sense in forecasting, no sense in extrapolating in functions, and so on, if one wants to be logical and neat and correct.

The necessity of overcoming judgments about things ahead is, therefore, satisfied by a very fragile instrument. It is always the "if" that has to be taken account of. Example from another sense: A doctor who examines you looks at your tongue, measures your temperature, and so on, and then says, "Well, there is not much the matter with you; your organic processes will go on about as they are for a time, which is of course "not infinite, but indefinite." A doctor who says that cannot in the nature of things say anything about what will actually happen to you. You might step out of his office and be run over by a motor car. Now, nothing is more likely to be run over by a motor car than economic prophecy,

and, therefore, it would be quite unfair to blame the economist for certain difficulties about forecasting which are incident to his subject, and never to any subject, except a few where the system observed consists of functions of relations which do actually remain and may safely be expected to remain invariant. Excuse that sort of philosophy but it is quite practically necessary for seers; for seers who want to form judgment about things to come, it is necessary to bear that in mind, and nobody, Ladies and Gentlemen, is so much under the necessity in his or her daily work to understand what is going on and what will happen deep down in the social processes, nobody stands so much in need of that as does the intelligent civil servant who wants to know what kind of thing he handles.

To give you an example of the uncertainty of prediction, I want to challenge any one of you who is a little bit older; has anyone who was at a somewhat mature age in 1917 foretold that the Bolshevik regime had 'come to stay? If he has not, that proves his incapacity and unfitness as a student of social phenomena, but no, no, the thing depended on so many variables imperfectly known then that I am bound to say that if a man said that Bolshevism had come to stay, he would be wrong, for he had no business to be right on the evidence before him.

Another example: I do not think many people have foretold the great successes of the present government in Germany in 1932. In 1932, everyone, myself included, saw that the National Socialist Party had passed its prime; it was slowly and at an increasing rate disintegrating. I do not admit now that I was wrong only of course we must leave latitude for such events, and it is only self-evident if you bear in mind what I told you just now.

I also have to define what I mean by capitalism, and ladies and

gentlemen, we ought really to sit down quietly and have it out, what the system we live under really means. It is astonishing how little it is done and how careless all of us become when we come to the most fundamental questions. I cannot go into this problem just now, all I can do is to define a concept which is just useful for our purpose but I want to say expressly that I do not mean it is bad to define the nature of capitalism. I am going to talk about the simple economic system where economic activity goes on by private initiative for private profit. You see immediately that that sort of thing must have very many limiting causes hardly to be distinguished from its logical contrary, but to this difficulty we shall return when we do the last step on our way.

Well, ladies and gentlemen, now I adduce throwing problems at you strictly professionally, neither one of which I am able to solve properly, and I would be almost as bold and almost as despicable and schoolmasterly as to ask you, or those of you who may want to use that kind of thing, such as in my future work, to jot down a few of the points in the questions I am going to mention.

Now, first, most people want, I think, a right social system, or anything else, and want to find out whether it will stay or survive. Well, look to its performance. For instance, if you want to form an opinion as to how long a certain chef will stay at a certain hotel, it is rather relevant to look at the kind of menus which he turns out. This is so in our case for the following reasons, and it is very important in your social diagnosis in this and other countries to bear that well in mind. First, the only performance we can measure, very inexactly indeed but with some degree of quantitative precision, is economic performance.

The Bolshevik State can provide care for the unemployed, for instance,

Now, economic performance does not mean a match to humanity. If it did, people would never have made crusades, if it did, they would not have done a lot of things that you need only look at the surface of the present world in order to convince yourselves that what economics tells you of the economic affairs which are very pertinent to humanity is untrue. Look, for instance, at Germany where they have succeeded in introducing the rationing of some important articles of food. The whole world is full of unsalable quantities of these foods and yet they stand in want of them. Besides, we have--but this I only want to touch upon--to take account of the fact that the system of course cannot be simply judged by quantitative standards of economic performance, but that it is obviously much more relevant what type of people it turns out. How happy or thwarted these people feel under it! What sort of finance it produces, and here we can enter fields of valuation in which no two of us agree and in which it is almost impossible to stand for rational argument at all. But these are the things that really matter.

That is one thing. Secondly, as to measurable economic performance, we must not draw the conclusion that good performance will spoil survival and bad performance will spoil elimination for the following reasons. To begin with, what is the good performance? It is the term in the opinion of the masters which is suggested to them by a powerful apparatus of psycho-technics. Plenty of people know how to play them. Therefore, whatever the performance is, this does not mean it is recognized. I have often read enunciations from Russia where things which belong to the most self-evident system of power in capitalist countries are heralded as things which only the Bolshevik State can provide. Care for the unemployed, for instance,

But the people believe it, and so the performance of a system, and judgment into economic performance; you must not only count what is economic and of the performance are essentially different things. And you must not forget cultural value the system has produced but also what is economic and that perfect performance precisely tends to make the system that so perfectly performs superfluous. Assume that there were an army of such agencies with economic means provided by capitalist evolution. Example: tremendous efficiency as to be able to make a mince pie of the rest of the Take a prince of the 16th century legislating in one cause for the world. This army would, from the standpoint of that kind of idea, certainly peasants of the territory as against the aristocracy, introducing the have an excellent performance. This, however, would not live to the survival sort of thing which we are accustomed to associate with the history of of that army, but on the contrary, after having made a mince pie of the what is called in Latin, dissolution, about the middle of the eighteenth rest of the world, this army would be superfluous however big the land may century. Such a prince was nothing but a capitalist feudal lord, that be, and what is superfluous in social life dies away as surely as superfluous is to say, he lived entirely on the surplusage of the rising bourgeoisie physical organs die away. You must never forget this is very important not classless. If you want another example, take the social measures of only in such fundamental questions as performance, but also in smaller Lloyd George. These must economically though perhaps not morally be questions which often come up in your daily work. It is very important, put to the credit of the system. Now then if we want to measure what I say, to take account of the fact that no social system is ever going to the system has done, what are the means of doing so? to survive when allowed to work out according to its own logic. You need

Well, if you want one other figure. There is only one possible only look at the present situation. There is no firm, no industry, no I will be hanged if there is another. Only, I should very much rather country which can live under those rules which it would assuredly live under this one country for so very much, and that is to measure total output, if it were allowed. Let's take as an example a capitalist society which I say total output and not total consumers output because if you confess has a currency based on gold. Suppose I were to say the system has broken yourselves to that you get too few or more as you get back behind 1870. down. Well, that would be as reasonable as to say that the motor car is Of course you can reason and understandingly prove anything you like on no good because it does not work if you run it against the wall. The post-war material basis of course entirely inadmissible. No illustration gold standard has only meaning in a peaceful and substantial free trade trading unprobability assumptions can work on a note which has four or world. As soon as these conditions do not exist it loses its whole meaning five million. That is only an abuse of our statistical methods, mostly resting and cannot work. Hence if you look at performance of capitalism, we must unprobability assumptions for a given period of time. Therefore, you take into account the many hardships inflicted upon the system and the many want to know capitalism, the economics, the way it works and especially inhibitions it is exposed to. We must also take into account that in looking the performance of capitalism by much as strengthen my claim when you

into economic performance, you must not only count what in economic and cultural value the system has produced but also what in economic and cultural values has been produced at the same time by non-capitalistic agencies with economic means provided by capitalist evolution. Example: Take a prince of the 18th century legislating in some cases for the peasants of the territory as against the aristocracy, introducing the sort of thing which we are accustomed to associate with the history of what is called in Latin, Absolutism, about the middle of the eighteenth century. Such a prince was nothing but a capitalist feudal lord, that is to say, he lived entirely on the surpluses of the rising bourgeois classes. If you want another example, take the social measures of Lloyd George. These must economically though perhaps not morally be put to the credit of the system. Now then if we want to measure what the system has done, what are the means of doing so?

Well, if you want one other figure. There is only one possible, I will be hanged if there is another. Only, I doubt very much whether this one counts for so very much, and that is to measure total output. I say total output and not total consumers output because if you confine yourselves to that you get too few as soon as you get back behind 1870. Of course you can reason and understandingly prove anything you like on that is post-war material but these of course entirely inadmissible. No illustration resting on probability assumptions can work on a span which had four or five units. That is only an abuse of our refined methods, mostly resting on probability assumptions for a period like that. If, therefore, you want to know capitalism, its economics, the way it works and especially its phenomenon of fluctuations by which it struggles on, the least you

can do is to survey the material of 150 years, at least back to 1780. I have always thought that in Washington the struggle for economy is not very pressing, and especially just now is not immediately necessary, and if in the assembling of facts you could go as far back at least as 1780, it would be one of the most useful things to do, as very often for the understanding of the most practical problems of our day, facts from the 40's of the 19th century are very much more interesting than facts from 1935, for the facts of 1840 are better embedded in a long line of comparable evidence and you can generalize only from that.

Now, this output, how can we measure it? You know that here we strike a most interesting question of modern pure theory. If the output of economic life consisted of only one commodity, then everything would be plain as day. If the output could be represented, as it were, by a matrix, and the elements of which would only change in proportion, all would be plain sailing but if some elements increase more than others, then it becomes difficult to apply measurement, and if some increase and others decrease, the question whether the whole thing grows bigger or smaller from an economic standpoint, becomes very doubtful. Now then what do we do? We construct indices. The Federal Reserve Board index is one. These indices mainly rest on physical theories evaluated on some basis or by some method in the well-known index number fashion.

I take the validity of such a proceeding for granted. If I could make you my victims for more than an hour I should show that a difficult and complicated argument really does give some support to the use of indices of total physical output but that the common sense, at first blush, of the significance of these figures is entirely misleading and hence it is very understandable for some of the best authorities to deny any

importance to this index of total output and what we accept now, and I want only to tell you that we have figures and construct such an output for England well into the eighteenth century in a work by a Mr. Hoffman. We have such figures for this country, if you content yourself with census years, of course fairly far back, 189 years or so. But about anything that at all looks like an index--and of course you know Americans (I am not in the habit of asking the nasty question what an index means), if they get an index ~~theyxxaxuxhappy~~ or even anything that looks like an index, they are happy. We have since 1830 an index worked out by Messrs.                   . In Germany we have an index since about 1860; in France things are not very favorable but we have single series which after all we might combine.

Now, I shall do something which will draw the censure and contempt of all of you down on my gilded head. I shall do what you must never do, I shall do what is the first commandment of the statistician and the economist not to do, I shall extrapolate, and I shall extrapolate in the most slip-shod and uncritical fashion imaginable. I take these indices and look at them and if you want to criticize slightly what I shall now propose, the best way is to take up that little leaflet of the Agricultural Institute by Warren A. Parsons on the physical volume of production in the United States. By a series of considerations which I must drop, I come to the conclusion that three per cent compound interest will be a fair and conservative statement of the increase of physical output in this country for the time after the Civil War. In fact, it is a conservative statement for the time. Now I take this three per cent and I extrapolate for fifty years, and today we find that we shall get a total output, if you had that four times, of a little more than four times

as great, and I put it on the per capita basis and why shouldn't I by taking one of the more usual and one of the more reliable extrapolation estimates, the population, for instance. The P\_\_\_\_\_ estimate is certainly much too high. An estimate of Mr. Dublin of the Metropolitan Fire Insurance which leads to 130 millions about 1890 is, for various reasons, probably a little too low, and if you take Mr. Sloan's extrapolation published I think, if my memory serves me, in 1921, we come to a figure which we shall use, and if we take our standard from the year 1928, then in 1978, the system working as it did in the last more than fifty years, we should arrive at the conclusion that the money which in 1928 was about, roughly, \$700, would be, roughly, about three times as much, or \$2,100 in 1978.

Now I hold that as there is no reason to assume that if the one-to-one system is left to itself distribution will change very much, and if we which will apply the distribution and functioning which we get now to 1978, we should stand to get an income a head which would do away with the phenomenon of poverty, in whatever sense it is at all useful to speak of poverty. This does not mean that there would not be some people I had to suffering from poverty. This is self-evident for reasons which I can't then the go into and which are perhaps too obvious to state.

(End of first part)

I agree with my understanding (End of first part) that resistance. But on the what the kind of the place I would sit down to rest after walking hours was only the dress of my country. I would put Z.S. on such things as needed time, and not the present day. And this is the idea of it.

But whatever you would a good deal better at another speed according to the place the time of day and so on. That same thing as not as they might be, the government, the business and so on, but in much better. In fact, insurance, insurance, insurance, the society became quite good and complete. It was that of each to contribute to the

That's one thing. The second thing which accounts for what is certainly and however we measure it a unique success is that the private firm is the only social form of existence in which responsibility is free. Take for instance the very best political system, the oldest, the most famous one, England. Ministers are responsible to be sure, but no minister that has a good majority and who knows he can make a successful speech, need bother himself very much about it. And this indicates shortly but clearly enough what I would go into if I had time.

Third, however, you, ladies and gentlemen, of all people will be able to agree with me if I say that the possibility of following one's own judgement is of great moment in this. For this is the curse of the very best Civil Services I have ever known all over the world, that you can't do the things you want to do; that you must report to a committee, which will report to another committee. When the thing comes round to a string of committees the steam has gone out of you and you have no pleasure in it. I have been in the Civil Service myself, and I know that I immediately relapsed in the negative attitude, and it was a very good Civil Service job I had for a time, but I immediately relapsed in the negative attitude. When the various papers were piling on my desk, well, to take the advice and agree with my undersecretary was the line of least resistance. And as to what was left of me when I could sit down to rest after working hours were only the dregs of my energy. I would put J.S. on such things as needed them, and put the papers away. And this is one side of it.

But wherever you study a great organization of modern great industry it is just the same or develops that way. You always find that things are not as they could be, in Government, in business, at universities, not so much because of bad intention, incompetence, misconduct, but mainly because quite good and competent people in this kind of work so cooperate as to

matter so much, but the thing loses something in moral authority and the  
interferes with each other. Therefore, please consider that one of the  
basic of the situation arises not from the walls of a given undertaking,  
most important things about social reform, about finding new forms of  
of a given manufacture, which has been handed down from our ancestors, and  
social organization with which to fight a bureaucratic organism.

In the first place I should mention the profit motive, and this I  
less important than general used to be. The time to be a great man on the  
should mention because of the social distinction profits give in a capital-  
battlefield was the time when you showed yourself to your people on a  
istic system, and because it is a source of savings. Here, of course, a  
splendid character, but as soon as you do specialized work in an office  
theoretical question turns up in our wide social frame, that is the question  
are prevented from being such a hero.  
how important the element of savings is, how important especially it is

Because these few remarks. It is not that I could not substantiate  
attached to the interest of the working classes.

The things. I believe accustomed as you are to following a given road and  
If all of this is so, why should not the system survive? Well, I

to analyze on account, you will readily see the multitude of factors which  
come to exactly the same result as France, but for a quite different reason.

I have covered under those last two headings by a few short words. There  
I do not think that the brakes would not hold because of bad performance in  
is no difficulty in verifying that. The nature of it is very simple and  
France, or because of the fluctuating surroundings, which would not be so  
I may formulate the last three. Capitalism as it exists now is not so  
bad if they were not always intensified by existing economic orders, I come  
our cultural values and values, as to make these economic adjustments which  
to the conclusion that the system cannot hold for two reasons, and my watch  
economic mechanisms around which have to draw over the beliefs, the  
tells me that I can only mention them.

social psychological basis for the institutions of humanity and as an  
The first reason is that other aids to the forms of life present them-  
for good or for ill.  
selves to humanity, just as Christianity presented itself at a time in the

And as soon as that happens we make another discovery. These classes  
Roman world when nobody could have foretold from its economic process, so  
directly interested in the system must begin to supersede the different  
other forms present themselves at this time, and I do not care whether they  
In this respect you must look back to other ruling classes now. The world then  
are Bolshevism, or Hitlerism, or Socialism, or any shape, for in these points  
ruling class of the middle ages. If, in the Middle Ages, something happened  
they are all alike.

The second group of reasons is the rationalizing effect of industrial  
flicting produces a type which can evidently take care of itself in  
life. The more we rationalize, the more we apply the habits of thought, and  
it is so acquired to ourselves, to our beliefs, to the social surroundings,  
on their basis, and called into  
we apply rationalism even to our religion. We apply it to personal relations.  
possible to speak of gallantry in the case of the wife, but  
This is soon discovered and taken advantage of by a group of people who can't  
stand each other, and we do away with it in an easy, quick, way, which doesn't

interfere with each other. Therefore, please consider that one of the most important things about social reform, about finding new forms of social organization with which to fight a bureaucratic organism,

In the first place I should mention the profit motive, and this I should mention because of the social distinction profits give in a capitalistic system, and because it is a source of savings. Here, of course, a theoretical question turns up in our wide social frame, that is the question how important the element of savings is, how important especially it is attached to the interest of the working classes.

If all of this is so, why should not the system survive? Well, I come to exactly the same result as France, but for a quite different reason. I do not think that the brakes would not hold because of bad performance in France, or because of the fluctuating surroundings, which would not be so bad if they were not always intensified by existing economic orders, I come to the conclusion that the system cannot hold for two reasons, and my watch tells me that I can only mention them.

The first reason is that other aids to the forms of life present themselves to humanity, just as Christianity presented itself at a time in the Roman world when nobody could have foretold from its economic process, so other forms present themselves at this time, and I do not care whether they are Bolshevism, or Hitlerism, or Socialism, or any shape, for in these points they are all alike.

The second group of reasons is the rationalizing effect of industrial life. The more we rationalize, the more we apply the habits of thought, and it is so acquired to ourselves, to our beliefs, to the social surroundings, we apply rationalism even to our religion. We apply it to personal relations. This is soon discovered and taken advantage of by a group of people who can't stand each other, and we do away with it in an easy, quick, way, which doesn't

matter so much, but the thing loses something in moral authority and the logic of the situation draws us away from the walls of a given undertaking, of a given manufacture, which has been handed down from some ancestors, and makes work specialized and becomes less important, as the modern general is less important than generals used to be. The time to be a great man on the battlefield was the time when you showed yourself to your people on a splendid charger, but as soon as you do specialized work in an office you are prevented from being such a hero.

Excuse these few remarks. It is not that I could not substantiate the things. I believe accustomed as you are to following a given case and to analyze an argument, you will readily see the multitude of facts which I have covered under these last two headings by a few short remarks. There is no difficulty in verifying that. The outshot of it is very simple and I may formulate the last thus: Capitalism so transforms our requirements, our cultural scheme and values, as to make those economic adjustments which economic machineries demand unbearable as to draw away the beliefs, the social psychological basis from under the institutions of property and so on for good or for ill.

And as soon as that happens we make another discovery. Those classes directly interested in the system can't begin to appreciate the difference. In this respect you must look back to other ruling classes, say, the war-like ruling class of the Middle Ages. If, in the Middle Ages, something happened to displease the knights when their social function was threatened, and fighting produces a type which can eminently take care of its own interests; if something happened to displease the knights, they put on their armor, got on their horses, and galloped into revolting peasants as fast as it is possible to speak of galloping in the case of a horse that has three hundred pounds on his back.

But capitalists can't do that. They can just hide behind newspaper hearings, and hence capitalism, as has been most clearly seen by that eminent political scientist who is not in this country, Professor [redacted] is an organization which can't stand on its own feet. It did work well for a time in Europe, as long as it was protected by an aristocracy and a monarchy which had free capitalistic rules, and tumbled down at once when these things were removed. If it came to stay for a time here it was only because the fascinating sound of the opportunities for new millions drew the minds of people from other things. It probably can't stand by itself yet. So I confess that it is not clear to me from this argument whether And so I come to the diagnosis that the system will not survive, if by an entirely different line of reasoning, but the result as far as prediction goes is very much the maximum one, although I am not a Marxist and although I have no tendency for socialistic systems at all. It is of course clear that such a die takes time, such a process of dying off takes time, and that in the process of dying off far many intermediate points and intermediate forms of organization are likely to occur. It is futile to think that regulated capitalism can stand any more than unregulated capitalism. Political support would not be forthcoming for either.

Of course no class has a more heavy responsibility to bear than a Civil Service class. They have to understand which way the things are drawing, for this is essential in being good servants to the public. It is true that the most spectacular reforms are always those that matter most. I would say the success of the other schemata of life and of the workability of non-capitalistic forms of life rests largely with the success to build up an efficient Civil Service of well-trained, good types, removed from direct political influence, and so on. Many things might be easier if such a class can slowly rise. That the new form of Socialism will be a striking measure, I have no manner of doubt.

DISCUSSION

Director:

Dr. Ezekiel will lead the discussion. I think he needs no introduction to the group here.

Dr. Ezekiel:

I am not going to attempt any prolonged discussive statement on what Dr. Schumpeter has said, but instead I am going to take the liberty of asking him a series of questions, if that's not too fatiguing, to try to draw out and develop some of the points that seem to be implicit in his statement. So I confess that it is not clear to me from his statement whether he believes that capitalism will disappear solely because of what he calls social psychic changes or whether he thinks it will partly disappear because of perhaps inability to function under things as they are. So I would like to ask him for the first question whether he feels during the first thirty-five years of the twentieth century in this country capitalism has given evidence of ability to continue to carry forward the rate of growth in production which prevailed up to that time under the situations as they have been during that period.

Dr. Schumpeter:

Before saying so briefly what I wish to say to the point Dr. Ezekiel raised, I want to make one general remark, ladies and gentlemen. American audiences are invariably so polite and nice to any speaker that they feel inhibitions in going for his argument and that they put their objections in the form of modest and delicate questions which do not fully bring out the point and which therefore rob us of some of the benefits. I would urge you not to be so nice but to come out in the open and to say whatever you like. I shall certainly not be offended, but, on the contrary, we meet in order to discuss.

Now I come back to Dr. Meekial's statement. I do think that if it were only a matter of the success with which the economic machine provides an ever increasing real income per head, capitalism either in this or in any other country would have nothing to fear for its life. I attach importance to the per head, because the distribution can be taken roughly as a constant. It may not be as constant as Wilfred Perato thought and it may not be well described by the Peratian straight line or by the Peratian alpha, but it is still a fact that distribution, broadly, the distribution of income, remains constant over time and has not substantially changed, say, in England where up to the war we have the data. This is the opinion of Sir Osias Sten who seems to think better of his data than I do. However there is no reason to suppose that it will be just lying in the direction in which we want, and so we may take that as constant. Nor do I think that the fluctuations would constitute a deadly argument.

You will be astonished, for, of course, America so naively enjoys her prosperity and is so down in the dumps when things go down. But it is not so in the world and it is not everywhere, even in America. Of course if people speculated up to 1929 and that game was up, it is quite natural that they should have thought it is of course Doomsday, and Deluge, and the end of all things, but they are recovering now from that sort of thing. They believed up to 1929 in a new era, which was perfect in any sense. You must consider all the characteristics of this era were repeated before in this country, so that brought an unprecedented disaster which was not much better. So I want to say that these prolonged depressions by the way fit into the theory that assumes a very long cycle, only occurring from 1925 to 1831, from 1873 to 1873, and from 1929 to 1933. So perhaps all other things are quickly over. The physical index during the whole of the nineteenth century in no country continues to fall for more absolutely than two years except in the seventies, where it falls for three years in England. This was the study by the way

as quite rightly pointed out by Mr. Snyder. Not all of us may feel so confident of Mr. Snyder's statistics that they would be ready to sleep on them, but I think he is quite right in this particular point that the steadiness of the machine is greater than most of us expect.

So, Doctor, the reason, the deepest reason, why I think that capitalism won't survive is the rationalizing effect the system has on our minds, the effect the system has of doing away with everything traditional. For perfectly rationalized minds there is of course no justification for plenty of points, except by difficult argument unacceptable to the masses. This is an important element in the situation, but there are others, and the second important element is this:

I have rightly introduced that analogy between economic life and the organization of an army. It took, if I may be permitted to use the expression, it took a hell of a brain a hundred years ago, it took in fact a Napoleon to take care of his position in a succession of cases. Even such a thing as an army of two hundred thousand men was under the conditions of one hundred and fifty years ago by no means an easy thing to manage. You had to find new ideas, you wanted a brain to do that. That is not necessary now.

Now there is a machine for that; the thing functions alone. And something similar happens in economic life; the entrepreneur's hunch that if in combination between a narrow and sharp outlook was necessary to carry on any particular undertaking, even fifty years ago. It is not so necessary now. The technical things are done by technicians. You can order a textile mill as you can order a pair of boots. There are no technical problems for the entrepreneur. There are hardly any legal problems, because you have plenty of specialized men. There are next to no problems in forecasting the general situation because that is so excellently done by the many services.

Hence the social necessity of the type vanished, and in vanishing is not recognized. I think the whole thing has a tendency to crumble. It has been a powerful element in a most important phenomenon of our time.

Are newspaper reporters here, Mr. President? There won't be any reporting anyhow.

Director: to overproduction and to under-utilization of the operations

Well, we can't be sure. The reason why it is attributed to it,

Dr. Schumpeter:, but I will give one reason for it. In all statistics,

There are plenty of phenomena which explain the most strange alliances, political alliances, in some countries at the present time, and are accounted for by the fact that plenty of leaders, very cultured men, just as good Democrats as any of you, felt convinced that the social organization of capitalism was crumbling and needed some protection from non-capitalistic agencies. The other most important reason, of course, is that quite a lot of

This is one thing, but Dr. Ezekiel asked about the performance of capitalism in this country. From the beginning of this century, from 1897 to about 1911 we have the usual phenomenon of bigger production in copper and metal going up speculatively in response to the investment demand, according to the scheme alluded to at the present time, and we have in certain respects the agricultural sector including a supply of the market gains called decrease of the response of nature to human effort. I don't think it has anything to do with nature in its response, but we have a smaller rate of increasing consumers' goods than we have had from 1878 to 1897. But it was an increase and especially in this country. Then comes the war period, which I always leave out. Although in this country the pulse of the phenomena persists very nicely even though the war period. Then comes the time where the Canadian wave slides down, which is always characterized by an increase in some respects spectacular increase in physical production. But this control does not make the kind of competition under which capitalist goods

physical increase doesn't show spectacularly because it has been inhibited. It has been inhibited partly by monopolistic policies at the beginning of the century, and it has been inhibited later by conscious and unconscious regulation and so on.

This is the capitalistic machine in itself. It does not show such tendencies to overproduction and to under-utilization of its operations which are often attributed to it. The reason why it is attributed to it, I can't go into, but I will give one reason for it. In all statistics, capacities of organization would not count, but only the apparatus which is entirely up to date and which if the industries were built up anew would be found, only by the capitalistic measure of evolution would these be considered in the setting up of the new by the side of the old things. And hence at any given time there must be much unutilized plant.

The other most important reason, of course, is that quite a lot of operation is calculated to meet peak demands, it is calculated on the principle of a summer hotel, and therefore is of course idle for a large part of the time. I don't know whether this quite does justice to what you asked.

Dr. Ezekiel:

The last part of your question I think began to get around to the point I had in mind. I'll just ask one more question before turning you over to the tender mercies of the audience. I want to ask the question whether one need not distinguish between capitalism and industry and this is the question that Gardner Means has raised in a lot of his work, whether the rationalism of industry in the European use of the term, the development of very large industrial units organized in series or organized over large sectors of industry, which seems to be an inevitable outgrowth of modern machine methods, whether the organization of those large units of industrial control does not make the kind of competition under which capitalism could

flourish no longer possible? Does it not presuppose a social situation in which income is not distributed to produce maximum consumption, and does it not produce a situation where the combination of what is left over of free capitalism with this newly developed or gradually developed large scale industry fails to function to a point where the development of some other system becomes inevitable?

Dr. Schumpeter:

Now Dr. Ezekiel opens up really a most interesting string of questions as there are quite a number of reasons why we may suspect that the modern industrial system call it as you please will cease to function from internal causes. He has mentioned only one, and I will confine myself to the one which he refers to, and which of course is what may be called a prevailing opinion in all countries.

The giant concern, whether there is suppression of competitive capitalism or not, is always shown or held up as an element first of rigidity second of restriction of output, and third as an extinguisher. This is so by the very nature of that free competition which is the only scheme from which all the economists were justified as they said they were to predicate such a lot of nice things about maximum production. I shall not do such an injustice to so eminent an economist who is at the same time an eminent theorist by answering with the practical statement that in the time since the merger movement, or what we called the merger movement which starts in about 1897 although there were mergers before, that at that time the giant concern who strives to suppress competition shows exactly the same, taking account of Conradian waves, the same rate of increase of physical output as was shown before. I will not answer that because this does not help with what I may term the conceptual difficulty.

To begin with, certainly if we are now revenging ourselves on the

theorists who are on the side of the pure theory of monopoly, we are perfectly justified in predicating on those consequences. Only I want to make the following points first as to rigidity. It is not true that a big concern or a monopolist would have a more rigid price if he follows his pure economic interest than a competing industry. The price of the monopoly would be higher, but it would not be less flexible. This can be shown. If it is less flexible you come to a very difficult question of diagnosis; the question as I explained it to myself mainly that prices of things, etc., are agreed prices on which it was so very difficult to agree that people would leave them when they have all the agreement necessary. The rigidity of the other prices is often explained by the fact that the monopolist knows he is important. He knows that if he goes down with his price, he will never be allowed to put it up again; so he leaves it.

And these other reasons give rise to the question whether they are inherent to the system or to the way in which the whole cycle reacts to the system. It is a play of words. The whole attitude we take towards these phenomena depends on the answer we give to this question, actually as to the phenomena arising out of the suppression of the disappearance of free competition. This phenomenon, the reduction of output, must first be defined as to what we are to expect. We shall expect that a monopolist will produce and offer for sale less than industry would under perfect competition under the same circumstances. But all monopolists are mandatory and they have formed themselves into monopolies which are linked up with different methods of production. It is now perfectly possible that the output of the monopolies, although smaller than the output of competition under the same method of production, is yet larger than the output under perfect competition that would be possible under the methods which alone are attainable under perfect competition.

It is a little bit involved, but I think the argument is quite straight, and if we therefore find over-capacity phenomena or other indications of output restrictions, it is necessary to investigate every case on its merits or else we may be gravely mistaken in our conclusions. In an article, Mr. Gardner Means seems to conclude from rigid prices the presence of price regulations. That may be broadly true, but it isn't quite reliable to go by. The monopolist has quite as much interest to vary his price as competition has. But now you must not forget that a monopolist can't function as per theory, because what he faces is not the demand of economic theory but what I may call a demand of introducing an article. If you are what is called raising up a demand, you must behave very much as you would under free competition, and if the demand is elastic you must in any case start behaving like that. And finally if the limited competition or the monopolistic competition is of the type of competition prevailing in the motor industry, it is probably impossible from mere factual considerations to say that you would have still cheaper and still better motors than if you had perfect competition.

To tell you quite frankly my own impression is that both the value of the analytical apparatus built up, in which the names of Van Beuren and Mrs. John Robins are conspicuous, that the value of the analytical apparatus has been for practical purposes much exaggerated, and that monopolies have played in this country for the last thirty years a role to send a sort of shiver down the spine of the public, and that the observations of the facts of output do not quite bear out the impression.

Of course the question has so many sides we should have to meet many times oftener to get at the bottom of the matter.