Democracy
and
Socialism
Capitalism

Joseph A. Schumpeter
PROLOGUE
THE RATE OF INCREASE OF TOTAL OUTPUT

CHAPTER V

As the atmosphere of possibility of daily and rapid expansion of
social production is given over to the possibility of daily and rapid expansion of
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The rise of interest of Total Output

Can Capitalization Survive?
The rate of increase of total output

The economic production function (or the interaction of supply and demand) describes the relationship between the total output of a country and the factors of production (labor, capital, land, and entrepreneurship). The output is a function of these factors, and the relationship is given by the production function: Q = f(L, K, N, E).

where Q is the output, L is labor, K is capital, N is natural resources, and E is entrepreneurship.

In simple terms, the production function tells us how much output can be produced given the inputs of labor, capital, natural resources, and entrepreneurship.

In the context of economic growth, the production function is used to understand how changes in these factors affect output over time. The growth rate of output can be decomposed into the contributions of labor, capital, and technological progress, as well as changes in the efficiency of factor utilization.

The production function is a cornerstone of economic theory and is used in macroeconomic models to analyze economic growth, inflation, and unemployment.
The Race of Incest of Total Output

Can Competition Survive?
the rate of increase of total output
Chapter VI

Plausible Capitalism
Principle Capitation

Can Capitalism Survive?
However, as I see it, the key to success is access to quality information. Without good knowledge and understanding, it is impossible to make informed decisions. The information, be it financial, market, or otherwise, is crucial for making the right choices. Access to this information is essential for success.

The principle is simple: the more information you have, the better your decisions will be. This is true in any field, from business to personal finance. It is the foundation of good judgment.

In conclusion, while access to good information is not the only factor for success, it is certainly a critical one. Without it, the other components of success—skill, experience, and motivation—cannot be fully leveraged. Therefore, it is important to invest in your knowledge and stay informed to achieve your goals.
The Economics of Imperfect Competition

In the market for goods and services, competition is not always perfect. There are many factors that can lead to imperfect competition, including monopoly, oligopoly, and monopolistic competition. Each of these market structures has different implications for the way in which goods and services are produced and sold.

Monopoly

In a monopoly, there is only one seller in the market for a particular product. This means that the monopolist has the power to set prices and control the supply of the product. Monopolists can earn economic profits in the long run, but they are not efficient because they do not produce at the minimum average total cost.

Oligopoly

An oligopoly is a market structure in which there are a few large sellers. Oligopolists may engage in non-price competition, such as advertising and product differentiation, but they are also able to engage in price competition. Oligopolists are generally more efficient than monopolists, but they may still earn economic profits in the long run.

Monopolistic Competition

Monopolistic competition is a market structure in which there are many sellers, but each seller produces a slightly differentiated product. Monopolistic competitors are generally more efficient than monopolists and oligopolists, but they may still earn economic profits in the long run.

In all of these market structures, the potential for economic profits can lead to market failure. Government intervention, such as regulations, can be used to address these market failures and promote more efficient outcomes.

In summary, imperfect competition is a common feature of many markets. Understanding the different types of imperfect competition and their implications for economic efficiency is important for both consumers and producers.

Can you explain how imperfect competition affects economic efficiency?
THE PROCESSES OF CREATIVE DESTRUCTION

CHAPTER VII

correctly described as a tool and resource

advisable to central production in order to extract profit which then are
directed to central production and that primary copy is thus more than a

imposed itself
The Process of Creative Destruction

Can Capitalism Survive?
within the situation created by it. It must be seen in its role in the perennial gale of creative destruction; it cannot be understood irrespective of it or, in fact, on the hypothesis that there is a perennial lull.

But economists who, ex post, look for example at the behavior of an oligopolist industry—an industry which consists of a few big firms—and observe the well-known moves and countermoves within it that seem to aim at nothing but high prices and restrictions of output are making precisely that hypothesis. They accept the data of the momentary situation as if there were no past or future to it and think that they have understood what there is to understand if they interpret the behavior of those firms by means of the principle of maximizing profits with reference to these data. The usual theorist's paper and the usual government commission's report practically never try to see that behavior, on the one hand, as a result of a piece of past history and, on the other hand, as an attempt to deal with a situation that is sure to change presently—as an attempt by those firms to keep on their feet, on ground that is slipping away from under them. In other words, the problem that is usually being visualized is how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them. As long as this is not recognized, the investigator does a meaningless job. As soon as it is recognized, his outlook on capitalist practice and its social results changes considerably.²

The first thing to do is the traditional conception of the modus operandi of competition. Economists are at long last emerging from the stage in which price competition was all they saw. As soon as quality competition and sales effort are admitted into the sacred precincts of theory, the price variable is ousted from its dominant position. However, it is still competition within a rigid pattern of invariant conditions, methods of production and forms of industrial organization in particular, that practically monopolizes attention. But in capitalist reality as distinguished from its textbook picture, it is not that kind of competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest-scale unit of control for instance)—competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of the existing firms but at their foundations and their very lives. This kind of competition is as much more effective than the other as a bombardment is in comparison with forcing a door.

² It should be understood that it is only our appraisal of economic performance and not our moral judgment that can be so changed. Owing to its autonomy, moral approval or disapproval is entirely independent of our appraisal of social (or any other) result, unless we happen to adopt a moral system such as utilitarianism which makes moral approval and disapproval turn on them ex definitione.
Can Capitalism Survive?

Now a theoretical construction which neglects this essential element of the case neglects all that is most typically capitalist about it; even if correct in logic as well as in fact, it is like Hamlet without the Danish prince.

Well he may manage within his inescapable limitations, he can never adapt himself to the methods of competitors who can afford to sell at the price at which he buys.

CHAPTER VIII

MONOPOLISTIC PRACTICES

What has been said so far is really sufficient to enable the reader to deal with the large majority of the practical cases he is likely to meet and to realize the inadequacy of most of those criticisms of the profit economy which, directly or indirectly, rely on the absence of perfect competition. Since, however, the bearing of our argument on some of those criticisms may not be obvious at a glance, it will be worth our while to elaborate a little in order to make a few points more explicit.

1. We have just seen that, both as a fact and as a threat, the impact of new things—new technologies for instance—on the existing structure of an industry considerably reduces the long-run scope and importance of practices that aim, through restricting output, at conserving established positions and at maximizing the profits accruing from them. We must now recognize the further fact that restrictive practices of this kind, as far as they are effective, acquire a new significance in the perennial gale of creative destruction, a significance which they would not have in a stationary state or in a state of slow and balanced growth. In either of these cases restrictive strategy would produce no result other than an increase in profits at the expense of buyers except that, in the case of balanced advance, it might still prove to be the easiest and most effective way of collecting the means by which to finance additional investment. But in the process of creative destruction, restrictive practices may do much to steady the ship and to alleviate temporary difficulties. This is in fact a very familiar argument which always turns up in times of depression and, as everyone knows, has become very popular with governments and their economic advisers—witness the NRA. While it has been so much misused and so faultily acted upon that most economists heartily despise it, those

Theorists are apt to look upon anyone who admits this possibility as guilty of gross error, and to prove immediately that financing by borrowing from banks or from private savers, or, in the case of public enterprise, financing from the proceeds of an income tax is much more rational than is financing from surplus profits collected through a restrictive policy. For some patterns of behavior they are quite right. For others they are quite wrong. I believe that both capitalism and communism of the Russian type belong in the latter category. But the point is that theoretical considerations, especially theoretical considerations of the short-run kind, cannot solve, although they contribute to the solution of, the problem which we shall meet again in the next part.