Abstract
Throughout history, society has abhorred the loss of livelihoods and individual security brought on by technological change. Governments are pressured into slowing change and minimizing its negative effect on citizens. Economists claim, however, that not only can technology change, but that it must change, for society to advance. This paper examines the theory of "creative destruction" posited by renowned economist Joseph Schumpeter and its importance to the current and future advancement of mankind.

Imagine a world without Apple and Netflix. Imagine how people would waste more time fiddling with their sub-par computers and have to race to the movie rental store for the latest films. Both of these companies exist because of creative destruction. This economic process occurs when a newer, more innovative product replaces an older, less efficient model. Economist Charles Wheelan claims this process that “must happen,” not simply that it “might happen.” As with all economic concepts, creative destruction presents both positive and negative consequences into society. The benefits far outweigh the costs, and the process ultimately creates wealth and better standards of living. People fear change and uncertainty, both of which creative destruction can introduce into the market. The government attempts to limit creative destruction for the sake of protecting their constituents from this fear and uncertainty. However, neither of these practices invalidates the benefits of creative destruction. To achieve ideal success within this practice, workers must be willing to change and adapt their skills to match the newest
entrepreneurial idea. If done, creative destruction will help society thrive and grow in ways that regular economic stagnation could never replicate.

To understand creative destruction, it is essential to first define an entrepreneur. Economists Bruce A. Kirchhoff, Jonathan D. Linton, and Steven T. Walsh describe entrepreneurs as “those engaged in creating value through new products or approaches with a willingness to destroy the existing status quo through the creation and capturing of value that exists but has not yet been recognized.” Entrepreneurs are not simply dreamers who think up brilliant ideas. They are calculated risk takers who aim to enter a market from a unique and innovative angle. Their mission is to introduce a completely radical idea that will better their customers’ lives and ultimately increase productivity. Creative destruction introduces “innovations that stimulate general economic growth and simultaneously destroy specific jobs as emerging technologies replace older technologies,” according to CATO Journalist Thomas Grennes. He accurately summarized Schumpeter’s works to advocate the economic principle’s role in society. With every change in the economy, there are intended and unintended consequences that positively and negatively impact the market. Ultimately, creative destruction’s benefits far outweigh the costs when the government does not get involved and workers are willing to fluctuate their talents and skills to match their appropriate jobs.

Netflix officially entered the market in 1999 and sought to provide their customers with easily-accessible television shows and movies on their laptop, handheld phone, tablet, and even T.V. At the inexpensive price of $7.99 a month, the company attracted customers to abandon their cable companies altogether (or at least downgrade their packages) and depend on Netflix to provide their viewing experience. They also virtually eliminated movie rental stores such as Blockbuster and Hollywood Video by providing a more-preferred product to the consumer base. Getting ‘netflixed’ is a synonymous term for creative destruction in the marketplace. Getting netflixed can improve the standard of living and income levels within large communities, but it can also decimate certain specialized and outdated jobs. Millions of people enjoy the innovative company and find movie rental stores outdated, unnecessary, and useless. That fact presents Blockbuster with bad news. People may begin to take pity on Blockbuster because their company dried up and flopped, but one must remember they too once ‘blockbustered’ movie purchases and theater sales by offering customers a cheaper way to view a film or television show. Before DVDs came VHS tapes. Before Technicolor movies came black-and-white films. The market constantly replaces goods and services that allow human beings to be more productive with their time. Granted, one could argue that binge watching one’s favorite show may not qualify as an effective use of time. However, using Netflix saves the customer the hassle of running out to Blockbuster to rent a movie. It also saves the customer money by not having to spend $7.99 to rent one movie for a limited amount of time. Creative destruction saves time and money. These two elements effectively make workers more productive, increase their wealth, and improve their standard of living.

Although critics mostly focus on creative destruction’s losers, it is essential to examine the direct and indirect winners of this economic process. This exemplifies how much potential good creative destruction can produce for society. Two direct winners are the people employed by these newly-created jobs and customers who purchase the newly-created product. Although a
specialized job technically may get destroyed, many more are created and available to unemployed workers. This means that jobs are positively created without having to lessen productivity. However, if the success of the economy relied solely on job creation, then the job market would inevitably become less productive. Economist Frederic Bastiat argued that, theoretically, thousands of window-making jobs could be created if rascals went around throwing rocks at storefronts and breaking windows. Although society would demand a higher number of window-making jobs, nothing useful would actually be produced or gained from this ineffective practice.

Conversely, despite its misleading title, creative destruction actually introduces previously-nonexistent jobs into society that produce goods that consumers may have not even known they wanted until it hit the market. Steve Jobs created a better and simpler way to listen to music with the iPod, and has innovatively combined a camera, notepad, email access, and telephone all into one device called the iPhone. Most consumers did not realize they needed, or at least wanted, products such as these until they hit the market and grew in popularity. As a result of the products' increase in sales, millions of workers have been employed by Apple to manufacture these goods. Thomas Grennes argued, “As a result of productivity improvement, labor has been released to produce other goods that are in greater demand, including entirely new goods.” When this occurs, people earn more income and can spend more money on other goods and services they could not afford in the past. They also can save more money or invest it so it may be spent in the future. Certain investments in ideas provide entrepreneurs with an opportunity to create the next best product that may eventually push the iPhone out of the limelight. Although difficult to conceive now, the creative destruction process will undoubtedly introduce a newer and more efficient device that will better connect human beings and spread information in a more effective manner. The economy must allow for creative destruction to remove the less productive goods to make room for the new ones.

Although creative destruction introduces and produces much good into society, critics of this economic process focus mostly on those whose jobs are ‘destroyed’ and who face unemployment. Nobody seeks to be gainfully unemployed because that results in financial uncertainty for oneself and his familial dependents. The mere thought of an economic process that removes jobs from the market causes social uprisings against such changes and innovations. Purposefully creating losers for the sake of entrepreneurship and productivity may not appeal to people who hold those specialized and vulnerable jobs. Luddites during the nineteenth century who rose against more effective machines that lessened labor demand exemplify that criticism toward creative destruction. Workers at Eastman Kodak Photography Company would also protest creative destruction because their jobs of printing pictures and producing cameras have significantly decreased as cell phone companies implemented cameras in their phones. However, one could argue that if asked to replace a critique’s iPhone with a Motorola flip phone and a Kodak disposable camera, he would resist and reject that trade. Although jobs were technically destroyed when Kodak downsized and its products’ demand decreased, millions of jobs replaced them.

Many civilians living under a free market economy assume that the job market operates like a zero sum game. According to them, an economy can only sustain a fixed and limited amount of
jobs. Therefore, the proposal to destroy a job for the sake of creativity is ignored or discouraged. When one person wins by introducing a new product to the market, another one will theoretically lose by getting fired, laid off, or forced into retirement. Although this sometimes happens as a result of creative destruction, it does not mean that the job market functions as a zero sum game. Instead, the market acts as a positive sum game. This means that it has unlimited potential to grow, expand, and increase the number of jobs available to employees. As a new product is introduced into society and as it replaces an older model, certain jobs disappear and even more careers become available to the unemployed labor force. Economist Charles Wheelan also argues, “Technology displaces workers in the short run but does not lead to mass unemployment in the long run. Rather, we become richer, which creates demand for new jobs elsewhere in the economy.” As a product gains in popularity, its demand increases, and workers must be hired to increase product’s supply to match demand. Because this product will most likely save the customer time and money by making him more productive, he will have more money to spend on other goods. More workers will also have to be hired in those individual markets to ensure that supply matches demand. Creative destruction not only correlates with an increase of jobs in a free market economy, but it also creates a decrease in unemployment rates.

Another common criticism that often counters creative destruction is its negligence of morality. Critics believe that economists practice heartless behavior when they support the destruction of one’s job and his or her livelihood. Moral theorists Richard P. Nielsen and Felipe G. Massa argued that Schumpeter himself addressed economics and morality by stating, “Should be understood that it is only our appraisal of economic performance and not our moral judgment that can be so changed [i.e., Moral judgments about changed capitalistic institutions, practices, and effects]. Owning to its autonomy, moral approval or disapproval was entirely independent of our appraisal of social (or any other) results.” The scholars continue by arguing, “more macro human institutional systems can influence the more micro structural organizational ethics issues.” Of course, one cannot entirely separate the realms of economics and morality in practice because the two must rely on one another to achieve and sustain a functioning society. However, it is irrational to conclude that a certain economic principle should be disregarded because it calls a certain group to adapt to the market and find another more suitable job when their previous job is replaced with a more productive solution. The dishwasher machine put thousands of dish washers back into the job market, but it also saved people at home millions of hours by not having to individually wash every single dish. They utilized their time toward more productive outlets. Although thousands of dish washer jobs disappeared from the market, one could argue that the social benefits of freeing men and women from the sink and sponge far outweighs minor costs associated with this example of creative destruction. Christians sometimes concern themselves with the potential sinful nature of economics and how it diminishes the social good of a community. They must practice the art of measuring how much social good is actually produced when an older product is destroyed and a newer one is introduced.

Sometimes progressive government thinkers obsess over the ideal of establishing the perfect amount of social good in their area, and therefore take a firm stand against creative destruction. This supposedly enlightened class of bureaucrats creates and passes legislation that works
against entrepreneurs. This may include unnecessary and tedious processes to receive certain state and federal licenses for different practices. Wheelan mentioned that the government emplaced stricter licensing laws on new nail salons to discourage entrepreneurs from opening their businesses. The process would require too much time, effort, and resources to establish the company. The government seeks to protect existing nail salons and to put their jobs out of danger from the repercussions of creative destruction. However, two unintended consequences arise when the government steps into this type of situation. First, without the presence of competition from new businesses, existing companies have little to no incentive to innovate and produce the best product for their customer. They essentially gain control over the market and do not have to worry about their jobs getting destroyed because the government will protect them. Second, the consumer receives a sub-par quality and more expensive product than the one they would have received from the newer, more innovative company. Wheelan noted that when a community noticed a 23% increase in the number of nail salons, the price of a manicure dropped to $6 because multiple businesses were trying to attract the customer’s attention. Therefore, they were forced to produce a quality good or service at an attractive price. Government interference in the free market system strangles the economy’s ability to pursue creative destruction and inhibits markets from naturally fluctuating and ultimately expanding. In the short run, one could argue that the government succeeds by increasing the social good through the protection of a few already-existing. However, the long run will suffer from these bureaucrats’ practices because their efforts will destroy newly-created jobs by creative destruction. The government and economy are also severely disconnected. This creates a serious lack of knowledge as these legal workers attempt to guess which jobs are worth saving through their legislative policies. Overall, government involvement in the free market system produces more harm than good for entrepreneurs and customers.

One must also consider that government involvement in the free market system usually originates from lobbyists hired to convince legislators to pass laws that favor their employer’s company. This logic derives itself from the theory of concentrated benefits and dispersed costs. Companies have a large incentive to pursue legislation that will greatly favor their company and place a small amount of costs on a large group of people. Because companies have much to gain from laws passed to protect their company, they will spend millions of dollars to hire lobbyists to achieve their goal. The regulative laws usually only help that particular industry and place costs on the rest of the community. Lobbying for protectionist policies promotes laziness within a company because it exemplifies their refusal to innovate and properly compete with new competition. Unfortunately, the marginally-increased cost to each individual does not outweigh costs associated with repealing the law. Therefore, policies created through this pattern will continue to occur because customers and employees have little to no incentive to fight against slightly-burdensome policies. Problems for the government and lazy businesses occur when this process continues and regulations become so heavy-handed that citizens look to repeal the process. Government policies consistently follow this pattern of concentrated benefits and dispersed costs, and consequently they injure the process of creative destruction. Unnecessary regulations emplaced to protect already-existing companies disallow new products to enter the market and compete with older products. This inhibits technological and productive progress. Therefore, government officials ought to ignore company lobbyists and their pleas for
increased protective legislation. Instead, they should allow the market to properly function by itself and to step away from attempts to control the economy.

Although innovators play a crucial role in creative destruction, the employees' holding specialized jobs must be willing to change and adapt to new careers or skills. Specifically, Grennes argues that educated workers survive the economic evolutionary process because they can more easily adapt to change and become more versatile in their skills set. As new ideas are formulated and introduced to the market, employees must be willing to accept and promote them through their career. Unlike the technological Luddites in the nineteenth century, people must understand that not fighting against innovative change will ultimately help more than harm customers and workers. As ideas flex and change, workers’ skills must also change and adapt to the current standard.

Undoubtedly, creative destruction and companies such as Netflix in society play an essential role to enhancing innovative ideas forward. This economic process creates jobs, wealth, and higher standards of living for entire societies. Customers purchase more products that increase their productivity and efficiency levels. Although some jobs may be removed from the market, many more take their places and produce more desired goods and services to consumers. Although perhaps not the most moral concept, creative destruction certainly allows society to properly function, thrive, and succeed. This can only occur when the government removes itself from the free market. The problem of misaligned incentives and concentrated benefits and dispersed costs misconstrue the government’s oversight of the market and can consequently result in ineffective and damaging legislation. A functioning economy relies on many elements, including creative destruction. One might ponder how creative destruction correlates with economic stagnation and whether a balance of those two principles is necessary for economic success. Nevertheless, the world would not be as productive without companies like Apple and Netflix, both of which are products of creative destruction.

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