

# CREATIVE DESTRUCTION

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**Abstract:** This paper talks about the importance of creative destruction in the evolution of the world. Creative destruction is the essential fact about capitalism. It is what capitalism consists of and what every capitalist concern has got to live. What Schumpeter said 70 years ago can still be applied today?

**Keywords:** Creative destruction, innovation, renewable source, Economist.

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## 1. INTRODUCTION

Economist talks a great deal about the term creative destruction. Creative destruction is the centerpiece of modern thinking of how economies evolve (Schumpeter, 1942). But what is creative destruction? *Creative destruction is an economy principle that an economist Joseph Schumpeter observed in 1942*(Scherer, 1986).The advancement of new markets that might be foreign or domestic, illustrate the process of industrial mutation that instantly revolutionizes the economic structure from within incessantly destroying the old one and creating the new one (William J Abernathy, 1985). *“The process of creative destruction is the essential fact about capitalism. It is what capitalism consists of and what every capitalist concern has got to live in”*(Joshua S. Gans, 2000). What Schumpeter said 70 years ago can still be applied today?

## 2. WHY WE NEED TO UNDERSTAND ABOUT CREATIVE DESTRUCTION?

Take the ice industry in UNITED STATES for example (Gibb, 2002). Ice production has a great and unique history over the past 700 years. Today Americans consumes tones of ice cubes every day. Ice consumption has become a regular and daily past of every American life as ice has hundreds of useslike keeping food, icing injuries etc. ice is now readily available to average person. Back in 16<sup>th</sup> century wealthy people would build their own ice houses, cutting ice from nearby lakes and ponds and transporting them to their facility. Storing it use it for their summer months. The commercial ice trade then began in USA during 19<sup>th</sup> century. Large scales of ice mining operations were observed. By 1818 ice was fetching about 25 cents per pound in United States. That seemed quite affordable. Well compare that with ice cost today. Ice currently cost around 10 cents per pound though we have seen inflation around 1800% since then. The average income per capita in United States in 1818 was \$1919 per year. Comparing that with United States today it is \$49,965 per year. What does it mean? Now, if we look at cost of ice at percentage income today, we find that one pound of Ice took more than 65 times more income during 1818 than today. That is if you buy ice commercially in all ice production, it is cheaper. This means that in 1800 ice could only be afforded by wealthy individuals that too only in limited capacity. Now we have established cheaper ice than it was 200 years ago. Now let’s look at how many people were employed in industry over the years. 1940 was the height of commercial industry, there were almost 2500 ice producing companies employing almost 30,000 Americans.

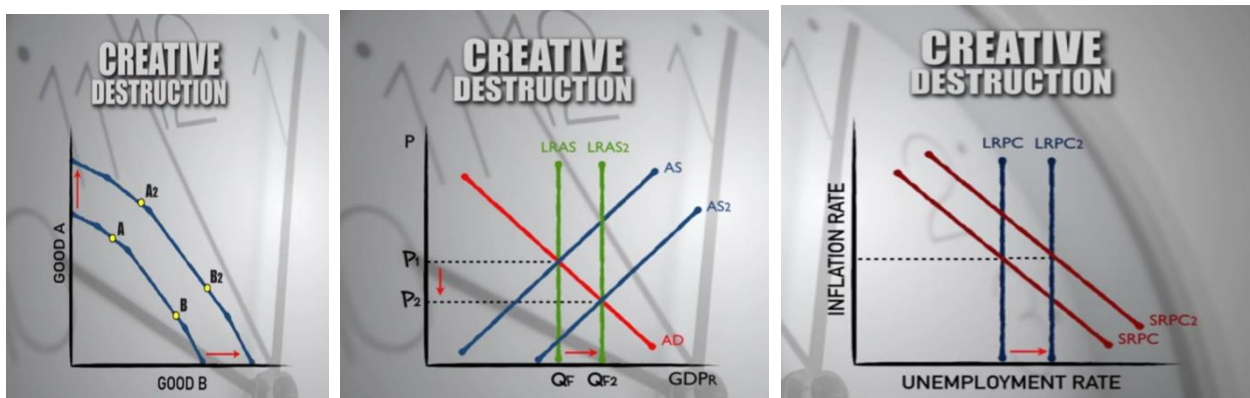
Then in 1950 refrigerator was invented. By 1965 its use was a wide spread use in United States. This innovation dramatically changed ice production by commercialized industry. Today, ice is industry is totally different. The majority of ice is produced by personally used ice makers. With the onset of ice makers thousands of ice works in ice producing

factories lost their jobs. Today there are about 500 commercial ice industries that employ just over seven thousand workers that is more than seventy five percent decrease comparing 1814. This is creative destruction. The massive industries of ice production were replaced by innovation and now we enjoy much higher standards of living because of it we are consuming more ice at a lower price and higher quality than we have ever had before. Even though thousands of jobs were lost in the process (Komlos, 2014). Schumpeter said the process of creative destruction would be painful to society especially lower income society. Creative destruction occurs in all kinds of industries today. Some individuals might face worst for short term but throughout their life. But we also knew that without creative destruction there were economies that were stagnant and would never experience high quality of life and growth that this process enables.

The phenomenon by which new, innovative product or process must necessarily destroy the old way of doing things and true to his words when Schumpeter died in 1950 he was replaced by another great economist **Milton Friedman**. Creative destruction can be frightening because in a free market no one is planning anything; it just happens (Tripsas, 1997). Markets are all about creating new ideas and breaking new models and making better stuff. As new industries arise and replace old ones. That's why there are no bands of unemployed elevators, clock winders and travel agents roaming in the streets and in old times there used to job called knocker upper where a person use to knock at the door to wake up people for work but in 21<sup>st</sup> century people wake up by alarm clocks. By this time most of the economists have appreciated the concept of creative destruction but the most common opponents of creative destruction have bad vision about modern technology. While its easy enough to mark the people who oppose the technological revolution in 1980's or industrial revolution in 1880's its harder when its your time in 21<sup>st</sup> century. It's very important to recognize the technological changes around us, what areas are being destroyed and what areas have been created which is ultimately a good thing.

### 3. FACTS ABOUT CREATIVE DESTRUCTION

It has both positive and negative implication son growth, in positive terms the prospect of a high level of research in the future can deter a research today by threatening the fruits of the research with rapid obsolescence (Phippe Aghion P. H., 1990). Creative destruction is the term used to describe the type of structural unemployment called Technological unemployment (Eric j. Bartelsman, 2005). Over the last few decades a technology has advanced, creative destruction has occurred at an accelerated rate (Jaffe, 1993). In fact, economist projected that by 2030, 40% of all jobs in U.S.A will be automated(Winch, 2010). While creative destruction hurts workers but it is a necessity for a long run economic growth. In the long run creative destruction leads to increase in economies production possibilities. As productivity increases new technological advancements, and economic production possibilities curve expands outwards (Sarah Kaplan, 2003). Meaning greater quantity of goods and services being produced for consumers satisfying their utilities. In the long run the aggregate supply curve shifts right and deflation of prices are greater quality of products being produced and more economic goods are available for consumers. However at the same time unemployment rate will temporarily rise as workers are being replaces by structural unemployment (Phippe Aghion U. A., 2015).



(1)

(2)

(3)

Figure analysis: Graph (1) shows the increase in the quantity of goods, Graph(2) shows increase in the aggregate supply curves, Graph(3) shoes the increase in unemployment rate.

**Creative Destruction: Manufacturing** America used to be brimming with manufacturing jobs. Blue collar manufacturing jobs have steeply declined since their peak during Korean War. In 1979 almost the third of all Americans worked in manufacturing and today it is down to 8.5%.but America is still manufacturing tons of stuff despite. They make more stuff than 30 years ago. They produce five times of cars now as they did in 1980's. America's computer and electronics manufacturing is more than 2600% higher than it used to be in 1980's.its popular to blame outsourcing whereas American companies send jobs overseas where there are cheap labor markets like Wanda.

**Creative destruction: Coal** Understanding the fact that people whose livelihood depends on coal industries don't want to see those facilities getting shattered. But we can't deny that coal is not a renewable source of energy. Natural gas has surpassed coal as the Americas largest source of net electricity generation. Time will come when alternate energy is cheaper than extracting dinosaurs fossils and then fracking too will die out which is a good thing(Kivimaa, 2016) because coal is carbon intensive and study indicates that there is very strong correlation between coal and coal related deaths.

**Creative destruction: Retail** Online retail websites have emptied my malls. But it's worth noting that creative destruction isn't going to shut down malls (Martin Anderson, 2011). While all businesses get flushed out, new businesses come in. recent survey suggested that 30% of mall owners are adding secondary uses to their space besides traditional store fronts. Orlando square mall in Illinois pulled up a trampoline park and others are adding office space, hotels and even residential housing.

#### 4. CONCLUSION

So, the question is would you rather live in the world where you blow up steam from a coal mining job or a world where you ride your \$100 hover board. Well many of jobs were lost but we have abundance to smarter stuff. An I-phone is powerful than all of NASA's computer doing mission on moon landing. While old industries have wiped out and new industries have come in. All this is cold comfort for someone who just lost his/her job. But when depression hits the farmers land, the farmers they don't stay there, they just move on. Just like drought in Oklahoma, the farmers moved on. It's time that now we have to find that what new industries can give us a better livelihood. Whenever businesses wiped out by new industries people freak out but we shouldn't be afraid of change.

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