



winners and losers  
**creative destruction**

*Should we put the emphasis on  
creative or destruction?  
Discuss among yourselves.*

Capitalism, wrote Joseph Schumpeter, “is by nature a form or method of economic change.” New ideas, technological advances, and innovative production methods create “a perennial gale of creative destruction,” and more often than not, the changes are introduced by entrepreneurs and start-ups that are more nimble and less risk-averse than older, established companies.

Or to put it another way: In a capitalist economy, no one stays on top forever. Innovators enter the market and shake things up. Over time they become bigger, richer, slower, and more complacent. Then new players come along and the cycle begins again.

Creative destruction is not a new concept, but when Schumpeter coined the term in 1942, the world was a very different place than it is today. Geography and climate had a far greater impact on daily life, and everything – people, money, information – moved more slowly. The first mile of interstate highway had yet to be built; the first passenger jet had yet to take flight. Air conditioning was so rare that the few stores or theaters that had it were always sure to advertise the fact. TV was still just a promising experiment. Long distance phone calls were a major undertaking; cell phones and satellite communications were the stuff of science fiction; microchips and the Internet were almost beyond the power of imagination.

Then, in the second half of the 20th century, the pace of change accelerated. Innovation and technology pushed aside many of the physical barriers that had bound people and commerce to particular geographic locations and traditional ways of doing things.

It all added up to greater mobility, a broader range of choices, and, for many people, a better chance to pursue their own particular vision of happiness. Homebuyers said goodbye to their old neighborhoods and headed deeper into suburbia. Shoppers abandoned downtown for the mall, big box discount stores, and the Internet. Business owners packed up and went where labor was cheaper, taxes were lower, and regulations were less burdensome. Investors moved their money to wherever the return was best. And all of them – homeowners, shoppers, business owners,

investors – were able to do these things because technology and innovation had given them the option.

Yes, Schumpeter was on to something. Creative destruction has, on balance, led to greater prosperity and new opportunities for investors, entrepreneurs, consumers, and jobseekers (if they have the right mix of skills).

Still, there remains a certain level of ambivalence towards creative destruction. It hasn't produced outcomes that are uniformly positive, nor have its benefits been universally shared. Lives have been disrupted and livelihoods have been lost, especially in older industries and cities, where people have experienced more than their share of “destruction” and precious little “creation.”

And therein may lie the one major con – “con” in the sense of “downside” – to creative destruction. Taken to an extreme, it can be used, or misused, as a justification for a Darwinian society in which the prevailing attitude is “I've-got-mine-and-devil-take-the-hindmost.” We had that type of society in the 1890s, and we probably don't want to go back to it.

Yet, at the same time, few of us would want to live in a stagnant economy that offers little opportunity and even less hope. We may not always see eye to eye on what constitutes “true progress” or “smart growth” or “a better future,” but we can pretty much agree that we don't want to stifle innovation.

So, we face a stiff challenge: How do we sustain economic growth and create new opportunities while mitigating the economic dislocation that invariably accompanies creative destruction?

We've expressed that challenge in the form of a question because we don't have the answers. But here are a few general thoughts on the matter:

- Some people will try to convince you that economic change is always for the better; others will promise to restore an economic Golden Age that never was. Beware! There's danger in embracing either point of view.
- Some things from the past are worth holding onto, and some can't be saved . . . no matter how hard we try.
- Change may be inevitable, but our response to it is not.

And finally . . .

- As a wise person once said: When people can't call you wrong they call you names. So, as we cope with the challenges of economic change, maybe it's best to work from the premise that those who benefit from creative destruction aren't necessarily robber barons reincarnate, and their critics aren't necessarily neo-Luddites. There are genuine concerns all around.