

The Process of Creative Destruction [In Action](#)

By Joseph Schumpeter and Joe Scanlan

Frank presentation of ominous facts is never more necessary than it is today, because we seem to have developed escapism into a system of thought. We resent a call to thinking and hate unfamiliar argument that does not tally with what we already believe or would like to believe. We walk into our future as we walked into the war, blindfolded.¹

The essential point to grasp in dealing with capitalism is that we are dealing with an evolutionary process. It may seem strange that anyone can fail to see so obvious a fact—one that was emphasized by none other than Karl Marx—yet the prevailing wisdom that forms the bulk of our presumptions about capitalism persistently neglects it. Let us restate the point and see how it bears upon the question of whether Capitalism can survive, or whether it will become a victim of its own process.

Capitalism is by nature a method of economic change that never is and never can be stationary. This evolutionary character is not merely due to the fact that economic life goes on in a social and natural environment that changes and, through these changes, alters its economic behavior. This fact is important, but the changes effected by wars, catastrophes, religious uprisings and so on are not the primary reason that Capitalism evolves. Nor are increases in population or capital or the vagaries of monetary systems. The fundamental impulse that sets and keeps Capitalism in motion comes from the new forms of organization, new markets, new consumer goods and new methods for producing and transporting them that capitalist enterprise creates.

The working man's budget from, say, 1760 to the present has not simply grown arithmetically but has also undergone a process of qualitative change. For example, the history of the productivity of a typical farm—from the beginnings of crop rotation and the plowing and fattening of livestock to the mechanized grain elevators and railroads of the modern era to the agri-business of today—is a history of revolutions. Likewise, the productivity of the steel industry, the modern power plant, transportation, and information technology has been duly overturned over time. The opening up of new markets, foreign and domestic, and the

organizational development of production from the craft shop and the factory to Martha Stewart and Microsoft illustrates the same process of industrial mutation—if I may use a biological term—that continually revolutionizes the economic structure *from within*, continually destroying the old one and continually creating a new one. This process, which I call Creative Destruction, is Capitalism's essential trait. It is what Capitalism consists of and what every capitalist must contend with. This fact bears upon our question in two ways.

First, since we are dealing with a process whose every element takes considerable time to reveal its ultimate features and effects, there is no point in appraising the performance of Creative Destruction *ex visu* of a given point in time; rather we must judge its performance over time, as it unfolds through decades and centuries. A system—any system, economic or otherwise—that at every given moment is fully utilizing its possibilities to the best advantage may yet in the long run be inferior to a system that never does, because the latter's failure to do so may be a condition of the level or speed of its long-term performance. In other words, we shouldn't discount the corner grocer on the basis of having glimpsed a supermarket.

Second, since we are dealing with an organic process, analysis of any one part of it—say, in an individual sector or industry—may indeed clarify details of how that part works but is inconclusive beyond that. Every piece of business strategy acquires its true significance only against the entire background of Creative Destruction and the situation it presents. All businesses must rise to its challenge; they cannot be understood irrespective of it, or, in fact, on the hypothesis that there is a calm in its perennial storm.

But artists who, outside of a point in time, look at the behavior, for example, of the art world—and observe the well-known moves and countermoves that seem to do nothing more than maintain high prices and restrict output—are making precisely that hypothesis. They accept the information presented by a momentary situation as if there were no past or future to it, and think they know what there is to know about the behavior of art based on that limited data. The usual theorist's paper and the usual institutional critique rarely understand art as, on the one hand, a consequence 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 to keep one's feet firmly planted on ground that is constantly slipping out from under them. In other words, they analyze how art inhabits existing institutions when the real problem is how those institutions are created and destroyed. As long as this is not recognized, we do a meaningless job. As soon as it is recognized, our outlook on art, Capitalism and their social consequences changes considerably.

The first thing to go is the traditional misconception of competition. Artists 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 art, the price variable diminishes in importance. Nonetheless, this type of “competition” still operates within a rigid pattern of invariant conditions, established markets, methods of production, and management structures that monopolize our attention. In capitalist reality—as opposed to its art world version—it is not that kind of competition that counts but the competition from a new commodity, a new technology, a new resource, a new type of organization—competition which would command a decisive cost or quality advantage and which would strike not at the margins of current art practices but at the foundations of their very existence. This kind of competition presents a much greater threat to art as usual than the infinitesimal gerrymandering of traditional competition. It is so much more important that it makes no difference whether traditional competition functions more quickly; in the long run Creative Destruction, the perpetual force that expands output and lowers prices, has altogether different motives.

It is hardly necessary to point out that the kind of competition we have in mind exerts its destructive influence not only in actuality but also as a virtual, ever-present threat. Creative Destruction disciplines before it attacks. The artist feels she is in a competitive situation even if she is alone in her field. In many cases, though not all, this will enforce behavior that is very similar to perfect competition, even when there appear to be few if any competitors on hand.

Many theorists take an opposing view of capitalist competition that is best conveyed by an example. Let us assume that there are a certain number of artists in a district who try to improve their relative position by providing service and “atmosphere” but avoid price competition—a stagnating routine. As others drift into the trade the quasi-equilibrium is upset, but in a manner that does not benefit their audience. The economic space around each of the artists having been narrowed, they will no longer be able to make a living, and they will try to remedy this by raising prices in tacit agreement. This will further reduce their sales, and so, by successive pyramiding, a situation will evolve in which increased supply (overproduction) will be accompanied by higher prices instead of the lower prices that usually accompany unsold merchandise.

Such cases do occur, and it is right and proper to work them out. But as the evidence usually shows, they are fringe-end cases to be found mainly in those realms of commerce furthest removed from characteristic capitalist activity, such as the art world. Moreover, they are transient by nature. Normally, the competition that matters most arises not from additional shops of the same size and type but from the chain store, the mail-order catalogue, the supermarket, and the Internet, all of which are bound to destroy such quaint, protectionist pyramids sooner or

later. A theoretical construction of Capitalism that neglects Creative Destruction neglects all that is most typically capitalist about it.

Note

1. Joseph Schumpeter, preface to the second edition of *Capitalism, Socialism, and Democracy* (New York: Harper & Row, Publishers, 1947): xi.

Joseph Alois Schumpeter (1883–1950) was born in Triesch, Czechoslovakia, to owners of a textile factory. He earned a PhD from the University of Vienna in 1907, and soon after began teaching Economics at the University of Graz and practicing law. After World War I he was named Austrian Minister of Finance and Professor of Economics at the University of Bonn, Germany. He fled the Nazis in 1933 and landed at Harvard, where he was Professor of Economics until his retirement in 1949. He died in Taconic, Connecticut, the following year. His books include *Theory of Economic Development* (1911), *History of Economic Analysis* (published posthumously in 1954) and *Capitalism, Socialism and Democracy* (1942).

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