Schumpeter’s Gale

A look at the Theory of Creative Destruction Economics

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*When one thinks of the idea of destruction, it usually is in a negative context. But in order for new more efficient ideas and processes to come to fruition, the old processes must be cast away and destroyed. This may sound like an easy task to accomplish, but for most humans, one of the hardest and scariest thing to do is change, even when it is necessary to survive. For a lot of people, processes and ideas become an identity and discarding them becomes paramount to discarding a part of themselves. This obstacle must be overcome in order for all organization to maximize efficiency, be it corporation or government entity or even society itself.*

**Change before being forced too.**

**-Jack Welch**

Even though Schumpeter’s Gale is named after Joseph Schumpeter, its roots lie in the writings of Karl Marx. It can be first referenced in his writings from the books Manifesto of Communist Party and Grundrisse, where he talks about it in the context of the need for capitalism to destroy value to preserve itself. In Grundrisse, he writes “These contradictions lead to explosions, cataclysms, crises, in which momentaneous suspension of labor and annihilation of a great portion of capital violently lead it back to the point where it is enabled fully employing its productive powers without committing suicide” (Marx, Gundrisse). Marx’s saw creation destructive forces as the catalyst that would destroy capitalism.

Schumpeter saw creative-destructive forces as a perpetual revolutionary force that would destroy the established order, thus having a renewing effect on capitalism. The best analogy would be a gene mutation that leads to the proliferation of that gene by out-competing others of the species. He wrote in the book Capitalism, Socialism and Democracy “*Capitalism, then is by nature a form of method of economic change and not only never is but never can be stationary*” and “*impulse that sets and keeps capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates.”* (Schumpeter) He saw creative-destructive forces as a natural force that would destroy inefficiency and outdated businesses.

Both Marx and Schumpeter saw creation destruction forces as a very powerful destructive force. Schumpeter saw it as the savior of capitalism, Marx’s saw it as the catalyst for its destruction. Which one is right only time will tell; the only thing for sure is that those who try to stand ridged against Schumpeter’s Gale will break, while those who bend and adapt, will prosper.

**Sometimes when you innovate, you make mistakes. It is best to admit them quickly and get on improving your other innovations.** –Steve Jobs

In the next scenarios, we will be exploring some real-world examples of creative-destructive forces that happened. In these instances, people either failed to see or saw a change coming, then ether adapted and prospered or lost an opportunity because of it. Most of them deal with private companies, but government agencies should also take note, having a moral responsibility to run their organizations as efficient as possible. A waste of resources by their organization is a denial of resources in the future or to another organization; which can have far-reaching negative impacts on people’s lives and efficiently of government services.

Nothing more illustrates the forces of Schumpeter’s Gale than what happened at the Xerox, Palo Alto Research Center (PARC) in the 1980’s. What happened there was the modern-day equivalent of David versus Goliath. It would see one company rise from the modest beginnings of a residential garage to one of the most profitable companies in human history; and another whose executives failed to see the potential for technologies their company developed.

What happened there has been the subject of much debate and that birthed a few lawsuits and major studio movies. What is clear was that Steve Jobs was given access to PARC for a million dollars’ worth of Apple Stock. Many equate it to letting the fox into the chicken coop. Whether he just stole concepts he saw there, or it was the muse that inspired him to create his innovative computers doesn’t matter. In the end, he was able to innovate the most and took Apple to new heights. While Xerox missed a major opportunity to own the personal computer market. Apples ability to innovate is one of the major reasons why it is the most profitable company and one of the most recognized companies in the world today.

Schumpeter’s Gale doesn’t just apply to computer technology it can also apply to business models. Xerox got off easy compared to the movie rental giant Blockbuster who was completely wiped out by failing to bend with Schumpeter’s Gale. Blockbuster originally was first called Cooks Data Service and started as a computer software and data services for the oil industry. In 1985 its owner, David Cook decided to start a video rental store. Cook decided to take a few innovative steps, he kept the VHS on shelves, computerized check in’s and check out’s for cassettes, and made the store environment family orientated. Its growth in the 1980’s was unpreceded, with the company opening up a location a day. Despite some stumbles in the 1990’s, it remained a very prolific and profitable company. But it would follow the same road as Xerox, but this time a small company called Netflix would play the part of Steve Jobs. Once again Blockbuster pioneered the innovation idea of internet delivery of movies and once again the company that developed the technology failed to take advantage of it. Unlike Xerox who survived its mistake, Blockbuster would not and would be forced to file bankruptcy in 2010. It would become a symbol of a company unable to keep up with innovation.

As we saw from the parables from above change is not always wanted, but it is always needed. Organizations and people who embrace new ideas prosper and become the leaders in their respected fields. People who cling to the anchor of old and outdated ideas will fall to the side of history.

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