

## 4 CREATIVE DESTRUCTION

I have discussed so far why, for general reasons, economics today enjoys special prestige compared to other social science disciplines. Let us now consider, more specifically, that the discipline of economics is held in great regard in America because its mainstream recommends very powerfully to citizens and politicians that the central policy goal of government at local, state, and federal levels should be perpetual economic growth. Consequently, we will see that admiration for economic growth brings economists to praise the process of “creative destruction,” and we will then see how that praise inspired my original proposal, that in the Age of Populism, some political scientists should take up arms against the *downsides* of economic creativity, which have become terribly dangerous to public life.

### Promoting Growth

As we noted in Chapter 3, economic growth as registered in GDP statistics became a national goal after World War II. Pent-up wartime demand for civilian goods and the conversion of wartime factories to civilian production fueled a consumer boom, which assured Americans that their country would not retreat into another Great Depression. Moreover, journalists, academics, business people, public intellectuals, and elected officials praised growing affluence because, among other reasons, they thought it proved America’s moral superiority when compared to lesser prosperity in the Soviet Union during the Cold War.<sup>163</sup> Furthermore, economists insisted that, in their

professional opinion, growth was inherently virtuous, because it would create a bigger pie that could be divided among everyone, or because it would generate a rising tide that would lift all boats.<sup>164</sup> Even liberals who worried about trends in, say, environmental pollution and habitat destruction, admonished other liberals to commit themselves to economic growth, albeit “fairer” and “faster” than existing growth.<sup>165</sup>

For whoever seeks a precise description of growth, economists offer a reassuring formula:  $GDP = C + I + G + (X - M)$ , or, in plain English, Gross Domestic Product equals private Consumption plus gross Investment plus Government spending plus (Exports minus Imports).<sup>166</sup> Technically speaking, within this formula most economists suggested, and most politicians agreed, that government should foster growth by encouraging consumer “demand.”

The emphasis on demand meant making sure that consumers would have enough money to buy what they needed and wanted, where wants were constantly evoked and amplified by modern advertising. Most notably, it was John Maynard Keynes who stressed that government should maintain “demand,” if necessary with infrastructure projects such as during the Great Depression. The emphasis here was on “fiscal policy.” Later, however, even critics of Keynes such as Milton Friedman called for government to maintain demand, although to that end Friedman recommended mainly manipulating the nation’s quantity of money by changing interest rates. The emphasis there was on “monetary policy.” Between the followers of Keynes and those of Friedman, some points of analysis were different. But the main point was clear: Maintaining “demand” would stimulate production, and when more products were made they would, when sold, drive up indices of growth.<sup>167</sup>

Within growth as the settled goal, a few economists called for stimulating GDP by pumping up the “supply” of products. Here, the thesis was that manufacturing more products, by hiring and paying more suppliers and workers, would stimulate consumer demand, would promote sales, would raise

profits, and would thereafter increase public revenues, when those profits would be taxed at even moderate rates.<sup>168</sup>

Mainstream economists regarded this “supply-side” view, which required reducing taxes for the well-to-do – that is, for people most likely to invest in creating more supply – as “trickle-down” economics.<sup>169</sup> In that theory, major benefits (lower taxes) *would surely* go to the top of society, while other benefits (jobs, good wages) *might* trickle down to those at the bottom. In plain language, the rich would certainly gain, from tax cuts, whereas the poor, if things worked out, might get something later, or might not. John Kenneth Galbraith, who grew up on a Canadian farm, described such a theory as “... the less than elegant metaphor that if one feeds the horse enough oats, some will pass through on the road for the sparrows.”<sup>170</sup>

Controversies broke out between people who favored demand-side or supply-side prescriptions for economic growth. We cannot resolve those controversies and they need not concern us here.<sup>171</sup> It is enough to note, for the record, that presidents Ronald Reagan, George W. Bush, and Donald Trump, all Republicans, encouraged Congress to enact supply-side tax cuts.<sup>172</sup>

What is more relevant to our purposes, however, is the ubiquitous presence of talk about economic growth, no matter how it is promoted, from the right and the left. In fact, talk about economic growth, and how to achieve it, and who will most likely do that, and have they succeeded in generating it or not, infuses America’s public conversation at every hour of every day, now reported with mind-numbing repetition in twenty-four-hour news stations that broadcast, for example, “Quest Means Business,” “MoneyWatch,” and “After the Bell.” Therefore, space here permits us only to note briefly some reasons why the footprint of economic thought appears so prominently in the landscape of public policy talk.

## Success for Economics

First of all, the discipline’s basic definitions and goals are promoted enthusiastically in talk about public affairs because

they validate important parts of what pundits call “the American Dream.” Historians trace this ideal back to the Puritans and the Protestant Ethic, to Benjamin Franklin’s autobiography, to Ralph Waldo Emerson on “self-reliance,” to *The McGuffey Reader* on work ethics, to Horatio Alger’s stories of young men who get ahead mainly on pluck, to Andrew Carnegie on the gospel of wealth, to Bruce Barton on the entrepreneurship of Jesus, and so forth.<sup>173</sup> The point of the story is that if individuals will make strenuous efforts and offer unusual contributions to society, those will be so appreciated as to reap outstanding rewards.

And this, after all, is exactly what mainstream economics teaches, that people who freely make deals with other people – as in Edgeworth Boxes – provide utility and therefore deserve to receive utility in return. In which case, if a person becomes rich by lawful means, economic theory shows that that person’s success is deserved.<sup>174</sup> So there is a sense in which, among social sciences, economics stands out for certifying – presumably scientifically – the validity of the national story.

### Cognitive Capture

Second, because many economic ideas mesh fully with long-standing promises in American life, economists and their ideas are widely discussed and cited, thereby generating what is called “cognitive capture.” This term suggests that, for many people, the vocabulary of economics appears in a familiar range of concepts when public affairs are discussed. In radio, newspapers, television, and social media, for example, there are endless references to economic indicators such as “the natural rate of unemployment,” “efficient markets,” “assets and liabilities,” “austerity,” “bailout,” “balance of payments,” “the bond market,” “buyback,” “stock options,” “cost-benefit analysis,” “credit default swap,” “externalities,” “high-speed trading,” “too big to fail,” “long and short,” “moral hazard,” “opportunity costs,” “positional goods,” “privatization,” “restructuring,” “synergy,” “venture capital,” and “yield.”<sup>175</sup>

To speak of the totality of such terms as an expression of cognitive capture is *not* to claim that people who use, or who

are familiar with, this vocabulary are in thrall to any particular economic view of the world – say, that they are disciples of John Maynard Keynes or Friedrich Hayek. It is to suggest, however, that to the extent those terms are common in chattering about circumstances that we share, the people who use or recognize that vocabulary are thinking that public affairs can best be understood in economic terms rather than, say, ethical, or spiritual, or artistic, or communal, or cultural terms.

That is one reason, apparently, why the economists, bankers, former bankers, and future bankers – men such as Hank Paulson, Ben Bernanke, Timothy Geithner, and Laurence Summers – who handled Washington's response to the Crash of 2008 while thinking in economic terms, bailed out the big banks (Wall Street) with trillions of federal dollars but, by leaving out of their calculations compassion and empathy,<sup>176</sup> did almost nothing to help millions of small homeowners (Main Street) who defaulted on their mortgages and lost their homes.<sup>177</sup>

Of course, not everyone thinks about life in economic terms, because many people work at part-time, precarious, and/or dead-end jobs that may provide (barely) a living wage but do not really permit economic creativity.<sup>178</sup> However, there are many who do think in those terms, therefore I will return to cognitive capture, in effect, when I discuss the neoliberalism that rules America's public conversation in the Age of Populism and is very economically minded.<sup>179</sup>

### **An Extra-Scholarly Role**

Third, a great many economists, and people who studied chiefly economics (or business administration) in colleges and universities, are employed outside of American higher education, in think tanks, in media circles, in research institutes, in trade associations, in banks and insurance companies, and as consultants to corporations and investors. In such places – and in policy conferences and media interviews – they constantly project their views, speaking to the public, to foundations, to legislators, to lobbyists, to bureaucrats, to reporters, to financiers, and more.

In doing so, they generate and bolster cognitive capture with their language. But they may also, while guided by principles incorporated into that language, personally influence specific decisions relating to important economic matters, for instance, by working at Federal Reserve banks or for the International Monetary Fund. The same principles may also animate them while holding key Washington jobs – say, in the Treasury Department or the Council of Economic Advisors – where, together with the president, they sanctioned multi-billion-dollar federal bailout loans after the Crash of 2008. No other social science discipline is so directly linked to centers of power in government and commerce, and certainly one result of this massive extra-scholarly role is to promote, and not just from ivory towers, an economic rather than, say, political view of the world.<sup>180</sup>

## Creative Destruction

In Chapter 3, I highlighted reasons why economics is especially admired in America for its intrinsic qualities – embodied in assumptions, principles, methods, and so forth – in comparison to other fields of knowledge. In Chapter 4, so far, I have explained something of how these qualities, expressed in economic teachings, came to play an outsized role in America’s conversation about public life. Plus, I have emphasized how all this is capped by the goal of economic growth, which economists recommend and politicians endorse.

Accordingly, to this point we have seen that the subject of economic principles and teachings is large and complicated. Nevertheless, we have progressed to where the final part of my original proposal – that some political scientists should take a special interest in the downsides of “creative destruction” – is approaching. To arrive there, however, we have first to simplify a bit. To that end, we must begin to think of economics as a discipline, or a Temple of Science column, that regards itself as being principally about creative destruction.

Creative destruction is a phrase, coined by economist Joseph Schumpeter,<sup>181</sup> which describes the process by which new technologies and products are designed and brought to market, gaining for their owners and promoters success while replacing old technologies and old products. A new item, like a transistor, becomes profitable, and the people who produce and sell it prosper; simultaneously, the old item, like a vacuum tube, becomes obsolete, whereupon the skills and machinery that went into making it lose value and may even become worthless.

Actually, I should qualify what I just said. I am *not suggesting* that introductory economics textbooks declare explicitly and repeatedly that economics is all about creative destruction. But I *am observing* that those books, which are used for instruction in economics departments across the land, are about how to combine factors of production effectively, and that they are about how to generate more production wherever possible, and that they are about encouraging innovation as the key to getting *more* out of the resources that are available (remember Alan Blinder stipulating that “Higher productivity is better than lower productivity”).<sup>182</sup>

Moreover, when innovation does come along – embodied in new knowledge, new technology, new design, new products, new marketing techniques, new business models, and more – economics textbooks say that, at that moment, while consumers make their choices, creative destruction unfolds, when new devices and arrangements defeat the old in a marketplace of voluntary transactions. When that happens, some employers, owners, and workers will fall behind and suffer. But their distress, in economic theory, is simply the price we pay as a society for getting GDP to go up, which is what prosperity is all about.<sup>183</sup>

Therefore, as shorthand for many details, let us regard economics as the science of creative destruction, or as the steady promotion of constant innovation. After all, this is how economists regard their own work, with adjustments to be made here and there around the edges, and with increasingly

sophisticated mathematical formulations fashioned to show how, in fact, this is the best way forward.<sup>184</sup>

## The Cost Side

The fly in the ointment is this: Political scientists and ordinary citizens – that is, people who are especially concerned for the health of American democracy – should regard this recipe for perpetual creative destruction as extremely problematical. For example, the concept itself amounts to an enormously powerful “frame,” in the sense that, when used in conversation, it “frames” what is happening in such a way as to (1) highlight creation – of trains, cars, planes, antibiotics, polio vaccine, miracle rice, computers, barcodes, smartphones, GPS, etc. – and (2) downplay destruction whereby, for example, social dislocations, as we saw in Chapter 1, can produce resentment and therefore populism.<sup>185</sup>

Yet destruction, like creation, is everywhere. Thus automobiles are prized and coachmen are forgotten. Thus automatic elevators become routine and elevator operators disappear. Thus Instagram is celebrated and Kodak workers are gone.<sup>186</sup> Thus Walmart prospers and Main Street languishes. Thus television prices drop and television repairmen must retrain. Thus FedEx goes up and Post Office workers go down. Thus Netflix has over 50 million American subscribers and Blockbuster stores have vanished.<sup>187</sup>

In other words, and without mincing words, the phrase “creative destruction” gently “spins” an occasionally brutal process that, in plain English, is analogous in some respects to war, with winners and losers. In other words, in both creative destruction and war, one sets out to demolish other people’s incomes and lifestyles; one plans surprise attacks backed up by, say, great financial power; one unapologetically ruins individuals, families, neighborhoods, firms, unions, family farms, towns, and cities; one deliberately transfers wealth and livelihood from this actor to that; and one without remorse fosters



in other people anxiety and feelings of insecurity over what might happen next in their lives.<sup>188</sup>

Of course, people who advocate creative destruction do not describe what they recommend as “war,” which most of us regard as an unattractive way of living together.<sup>189</sup> But, like business professor Clayton Christensen, they do plan deliberately for “disruption,” and they analyze not “aggression” but “innovation.”<sup>190</sup> Moreover, they talk not about “belligerents” but about “entrepreneurs.” And they discuss the clever devastation of one’s “competitors,” who they do not call “victims,” as a process whose consequences, in the long run, are benign rather than merciless.<sup>191</sup>

Unfortunately, reality is not so mild.<sup>192</sup> Thus, in the 1930s, Germany’s generals *cleverly* decided to put radios into tanks. It was a great innovation. As a result, the Wehrmacht rolled over the French Army in 1940. This was not exactly what France and England wanted. Moreover, during World War II, Allied scientists *cleverly* worked to invent an atomic bomb. This, too, was a great innovation. They succeeded and dropped two of those on Japan. The world has lived fearfully ever since.

That was war. But in the civilian world, Jeff Bezos in 1994 *cleverly* created an online book store that did not pay most state and local taxes. Consequently, Amazon sold books more cheaply than traditional bookstores could and eventually drove many of those stores, such as the Borders and B. Dalton chains, out of business. More recently, Uber and Airbnb are *cleverly* using a business model – based on subcontractors – that avoids many taxes and insurance premiums. As a result, they are ruining cab drivers and hotel operators who are obliged to pay those costs in full.

Many “creators” know that their economic environment is warlike.<sup>193</sup> They also know that, in the marketplace treadmill of fierce competition leading to economic growth, additional damages are in store. Thus, if a modern, sophisticated, and well-funded start-up laboratory were to create a cheap

but excellent artificial coffee, putting it on the international market would devastate the economies of Brazil, Vietnam, Columbia, Indonesia, and Ethiopia.<sup>194</sup>

No one expects that to happen soon, but economic history is not reassuring. For example, German scientists around 1900, led by future Nobel Prize winner (chemistry, 1905) Adolf von Baeyer, invented a profitable artificial indigo dye and thereby destroyed most of India's indigo horticulture.<sup>195</sup> Closer to home in America, 3D printers and driverless vehicles are expected to wreak havoc in industry and commerce, within a decade or two displacing millions of employers and employees, engineers and craftsmen, in manufacturing, construction, transportation, maintenance, and more.<sup>196</sup>

### Luddites

Economists who favor economic growth tend not to spend much time discussing its costs, and we will come back to that in a moment. They often insist, though, that those who complain about destruction are like Luddites. The reference is to the Luddite movement of textile workers who, in England between 1811 and 1816, vandalized textile factory equipment in an attempt to persuade creative factory owners not to lower wages paid to skilled workers.<sup>197</sup>

In other words, modern Luddites are defined as being people who stand in the way of progress, as being pessimists who do not sufficiently appreciate the way economic growth has, over centuries, lifted millions and even billions of people all over the world out of poverty and poor health, isolation and ignorance, provincialism and prejudice.<sup>198</sup> As a graphic example, just consider that streets in the world's great cities, before automobiles appeared, were strewn with fly-blown horse manure that children were hired to collect.<sup>199</sup>

From all this we should conclude that criticism of Luddites is not exactly fair but not exactly misplaced either. We all know that, in life rather than theory, it is good to be ethical but worthwhile to be realistic. So on behalf of realism, we should recognize that the concept of creative destruction is not something

economists invented to make themselves look shrewd. Rather, it is an existing practice within society which they simply recognize, describe, analyze, and facilitate. Moreover, we should agree that prosperity is desirable. That does not mean, though, that it is free, and some of its costs may be distributed inequitably. Furthermore, it is a fact of life that some people are more economically effective than others and therefore more likely to innovate or benefit from works by people who innovate. The question is, what do we owe, ethically, to those who, through no fault of their own, are *not* especially effective?<sup>200</sup>

## Who is Getting What?

This question brings us back to my proposal about what some political scientists should do in our troubled times. In academic life today, the discipline of economics, as one column in the Temple of Science, focuses in particular, via individual transactions and national aggregations, on economic growth and its process of creative destruction. There is nothing delinquent or irresponsible in that emphasis. And we should commend economists who perform their disciplinary mission well, on behalf of students, clients, and the public.

It is also true, however, that while economists are performing their professional task more or less competently, their discipline is dealing almost entirely with the creative side of creative destruction. I can't prove this proposition about little analyzing of destruction because I cannot give examples of what isn't there.<sup>201</sup> But it really isn't much there, as if economists are so busy with the positive side of creative destruction that they mainly leave its negative results – say, gig employment, silo media, global warming, habitat destruction, social envy, community deterioration, smartphone addiction and more – to people in other disciplines, in other columns of the Temple of Science.

Those people might be sociologists, psychologists, political scientists, demographers, historians, philosophers, and so forth. What is important for us is that, unlike economists

who work in a discipline that mostly considers economic productivity and innovation, those other scholars work in disciplines that are not collectively dedicated (as members of Temple columns) to investigating cases of economic damage, dislocation, destruction, and despair. Some people in those disciplines, as concerned individuals, investigate such cases, and we are indebted to them for much of the information we possess on those subjects. But there is no collective commitment on their part to do this work, and that is where I believe that some political scientists can now play a special scholarly role in the Age of Populism.

The technical stake here we can infer from Robert Reich's observation that the "meritocracy claim, that people are paid what they are worth in the market, is a tautology that begs the question of how the market is organized and whether that organization is morally and economically defensible."<sup>202</sup> Translated into terms we have already noted, Reich is saying that people who promote economic growth tend to assume that the supposedly "voluntary" trades that enter into GDP are fair, as charted in the Edgeworth Box (which Reich does not mention) projecting supply and demand curves to show where buyers and sellers find prices at which they agree to trade. But then Reich adds that we do not know (unless we have checked via direct investigations) how the buyers and sellers in any *real* Edgeworth Box (again, that is not his term) reached their current positions in society, in which case some people may, by force of circumstances, be short on bargaining power in their box and therefore unable to *reject* the "voluntary" trades being offered to them.<sup>203</sup>

Let's put this another way, again within the routine vocabulary of economics. Marginal utility theory, based on rational calculations, and focused on individual actors, assumes that both sides to a trade are satisfied with it. That is, in trading both sides gain.<sup>204</sup> But other scholars may insist on asking who *real* (not theoretical) traders are and how sizable are their *real* resources of power, of wealth, or education, or status, or health, or location, and more. In such cases, some trades may

result in losses, which people like Milton Friedman more or less assume, *a priori*, cannot be incurred for so long as trades are defined as “voluntary.”<sup>205</sup>

Consider, though, whether or not the trades accepted by suppliers offered price P for shirts by Walmart – an international behemoth that in 2018 ran almost 12,000 stores, employed 2,300,000 workers, and collected \$500 billion in revenues – are truly “voluntary.” If the price P is terribly low, how can a small shirt factory in Bangladesh afford *not* to accept Walmart’s proposal?<sup>206</sup>

But it is not only behemoths that illustrate the need for checking to see who is who and who is getting what. After all, even Adam Smith, who postulated the invisible hand, suspected before national economic statistics were collected that “masters” who have some wealth can hold out longer than “workmen” when bargaining over wages.<sup>207</sup>

## The Road Not Taken

So here is the crux of the matter. Society needs economists because they study economic *creativity*, which is an important matter. But if they won’t highlight economic *destruction*, someone else should, because that is *also* an important matter, especially when some things are getting out of hand in our times. Therefore, I propose, and I will in Chapter 5 explain further, that political scientists are likely candidates for the job.

First, however, let us note a final reason for feeling that economics is too important to be left entirely to economists. As a matter of conventional wisdom since the end of World War II, most American economists and their disciples in non-academic life have been steadily pro-capitalist, which is historically understandable because they live in a society that promotes that point of view. However, they have also, and also understandably, expressed their support of capitalism by being anti-communist or, in scholarly terms, anti-Marxist. Accordingly, they don’t use, or rarely use, Marxian concepts to understand

the world. And there, something is seriously and significantly absent, like when the dog did not bark for Sherlock Holmes.<sup>208</sup>

I want to be very clear on this point. America does not need Marxian calls for armed revolution. Even in hard economic times, democracy is preferable to civil war and fortunately, unlike when Marx wrote, it (democracy) is widely available to ordinary people who want to elect new leaders to make new laws and public policies.<sup>209</sup> That much is patently clear. But we might benefit from using some Marxian concepts – which most economists do not – for the sake of intellectual analysis because, as a critic of capitalism, Marx powerfully highlighted what he thought were its downsides, even unto describing the process of creative destruction without using that term (which was later invented by Joseph Schumpeter).<sup>210</sup>

To begin with, Marx welcomed capitalism as a progressive social and economic force that would demolish the stifling practices of feudalism. (There is the creativity.) This he maintained in his theory of history, which praised capitalism for its ability to improve upon and supersede feudalism's constraints at home and at work. On the other hand, Marx pointed out that, while it was welcome to begin with, capitalism was not a flawless society but one that imposed severe social, economic, and emotional costs upon many of its citizens. (There is the destruction.) That is, for Marx, who did not use our vocabulary, capitalism in effect entailed certain measures of creativity followed by some of destruction.

American scholars don't need to become Marxists to know this. But their scholarly teachings might acquire a heightened sense of urgency if they would occasionally note some dramatic Marxian concepts and phrases that, in a sociological sense, say something about where capitalism is likely to go unless someone heads it off at the pass. For example, there is the Marxian notion of how, during the reign of capitalism, "all that is solid melts into air." That notion is certainly relevant to how many Americans – some of them conservatives and some of them liberals – today feel that their principles and traditions

are under constant assault, are constantly “melting,” in the ever-churning modern economy.<sup>211</sup>

Marxism also suggests a notion of “class war,” which might shed light on what is happening between the One Percent (one class) and the Ninety-Nine Percent (other classes) in America. Furthermore, that confrontation might be considered via the Marxian concept of “exploitation,” where one group (or individual) takes advantage of another’s weaknesses. Then there is the Marxian concept of an “industrial reserve army,” which might illuminate the modern situation where many good jobs are either automated away or sent overseas, leaving behind a pool (“army”) of impoverished and desperate workers who live precariously while more effective Americans take home a lion’s share of the nation’s GDP. In these circumstances, Marxists have decried what they call the “immiserization of the working class,” which is a phrase that might sensitize us into understanding some of the convictions that led many people in, say, the American Midwest – depressed and deindustrialized – to vote for Donald Trump and Bernie Sanders.<sup>212</sup>

Moreover, some aspects of the present consumer society, where baubles are being purchased privately rather than infrastructure being funded publicly, might seem more understandable if we were to focus on what Marxists call “the fetishism of commodities,” which leads people to value private over public goods. And while we are on the subject of cultural manipulations, general suspicion of mass media nowadays might be regarded as one consequence of what Marxists call “false consciousness,” where advertisements that are *very* cleverly designed to entice people into buying things they don’t need wind up encouraging many voters to believe that no one in public now speaks to them truthfully.

A final realm of possible “disinformation” – a Russian/Marxist term – may shed light on America’s horrendously costly wars in Iraq and Afghanistan.<sup>213</sup> Iraq had no weapons of mass destruction. Why, really, did President George W. Bush insist that it did? Bin Laden is gone. Why, really, is Washington

still making war in Afghanistan? Beyond invoking unreliable conspiracy theories, some plausible answers to such questions might emerge if the subject of Middle East oil and Great Power politics were linked to what Marxists have for more than a century called “imperialism.”

“All that is solid melts into air,” “class war,” “exploitation,” “industrial reserve army,” “immiserization of the working class,” “fetishism of commodities,” “false consciousness,” “disinformation,” and “imperialism.” The point is not that American scholars should become Marxists. But political stories powerfully influence the way we see the world, which is a matter to which I will return. Therefore, we should bear in mind that mainstream economists are closing off some of our analytic options by, in effect, telling an un-Marxian or even anti-Marxian story.<sup>214</sup> For the record, they are also ignoring or neglecting the democratic-socialism story, but there is no room here to dwell on that.<sup>215</sup>