

Documents de travail

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Document de Travail n° 2025 – 35

Septembre 2025

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Théorique et Appliquée
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Destructive creation or creative destruction ?

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September 7, 2025

Abstract

Reading about the « process of creative destruction » (*Capitalism, Socialism and Democracy*, chap. III and VII), I think Schumpeter should have named it the « process of destructive creation ».

Keywords: Schumpeter, creative destruction, destructive creation

JEL classification: B2. B3. L16. L26. O3. P10

In his 1942 work, *Capitalism, Socialism and Democracy* (CSD), Schumpeter refers to as « creative destruction » this « gale » that continually revolutionizes the capitalist economy. Let us briefly revisit what he says, to observe that it would be more appropriate to speak of « destructive creation ».

The first part of CSD is devoted to an examination of « The Marxian Doctrine ». In chapter III, « Marx The Economist », Schumpeter writes about Marx's theory of accumulation : « Much more important and much more drastically compelling is something else, however. As a matter of fact, capitalist economy is not and cannot be stationary. Nor is it merely expanding in a steady manner. It is incessantly being revolutionized *from within* by new enterprise, i.e., by the intrusion of new commodities or new methods of production or new commercial opportunities into the industrial structure as it exists at any moment. Any existing structures and all the conditions of doing business are always in a process of change. Every situation is being upset before it has had time to work itself out. Economic progress, in capitalist society, means turmoil. And, as we shall see in the next part, in this turmoil competition works in a manner completely different from the way it would work in a stationary process, however perfectly competitive. Possibilities of gains to be reaped by producing new things or by producing old things more cheaply are constantly materializing and calling for new investments. These new products and new methods compete with the old products and old methods not on equal terms but at a decisive advantage that may mean death to the latter. This is how 'progress' comes about in

capitalist society. In order to escape being undersold, *every* firm is in the end compelled to follow suit, to invest in its turn and, in order to be able to do so, to plow back part of its profits, i.e., to accumulate. Thus, everyone else accumulates » (31-32. Schumpeter's italics).

As can be seen, new products and new methods of production revolutionize the capitalist economy from within. They compete with older products and older methods of production and ultimately bring about their disappearance. The new destroys the old: capitalist accumulation is therefore accompanied by a process of destructive creation rather than of creative destruction. The latter term is not used here by Schumpeter. It will appear in the following part, « Can Capitalism Survive », in Chapter VII, explicitly entitled: « The Process of Creative Destruction ».

In Chapter VII, Schumpeter writes : « Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character of the capitalist process is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action; this fact is important and these changes (wars, revolutions and so on) often condition economic change, but they are not its prime movers. Nor is this evolutionary character due to a quasi-automatic increase in population and capital or to the vagaries of monetary systems of which exactly the same thing holds true. The fundamental impulse that sets end keeps the 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 » (82-83).

Schumpeter then provides examples of this process : « Similarly, the history of the productive apparatus of a typical farm, from the beginnings of the rationalization of crop rotation, plowing and fattening to the mechanized thing of today – linking up with elevators and railroads – is a history of revolutions. So is the history of the productive apparatus of the iron and steel industry from the charcoal furnace to our own type of furnace, or the history of the apparatus of power production from the overshot water wheel to the modern power plant, or the history of transportation from the mailcoach to the airplane. The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation – if I may use that biological term – that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact of capitalism. It is what capitalism consists in and what every capitalist concern has got to live in » (83).

As can be seen, Schumpeter first refers to the continual destruction of obsolete elements, then to the continual creation of new ones, and, by combining these two expressions, introduces the concept of « creative destruction », now universally cited. Let us return to Schumpeter's example of transportation - from the mailcoach to the airplane -, which I shall adapt to mailcoaches and steam locomotives. It was not the destruction of mailcoaches that created steam locomotives — creative destruction — but rather the creation of steam locomotives that destroyed mailcoaches : it is preferable to invert the terms and speak of a process of « destructive creation ». To bring this into today's context, if artificial intelligence is going to eliminate jobs, it is not the destruction of these jobs that creates artificial intelligence.

Quite surprisingly, on the following page of his text, Schumpeter adds : « The problem that is usually being visualized is how capitalism administers existing structures, whereas the relevant problem is how it creates and destroys them » (84). In this passage, Schumpeter places creation before destruction : he could just as well have spoken of « destructive creation » to capture this « relevant problem », but he did not return to the notion of « creative destruction » introduced on the preceding page, and it was the latter term that passed into posterity.

Thus, instead of following Schumpeter in terms of « creative destruction », it is in my view more appropriate to speak of « destructive creation ». You said: « Creative destruction ? ». I reply: « Destructive creation ! ».

Référence : Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, 1942, 5th édition, 1976, George Allen & Unwin

Note de l'auteur : A la lecture de mon article, par l'intermédiaire de Magali Grammare, Claude Diebolt m'a signalé, sur le même thème, l'article de Joël Mokyr, "Creative Destruction or Destructive Creation ? A Prelude to the Industrial Revolution". Cet article constitue le chapitre 26, pp.714-735, de l'ouvrage collectif *The Economics of Creative Destruction. New Research of Themes from Aghion and Howitt*. Edited by Ufuk Akcigit & John van Reenen, Harvard University Press, 2023. Que Magali Grammare et Claude Diebolt en soient ici vivement remerciés.