«Illuminazioni» (ISSN: 2037-609X), n. 50, ottobre-dicembre 2019

Leonardo Andriola

THE SCHUMPETARIAN ACTUALITY OF 'CREATIVE DESTRUCTION'

ABSTRACT**.** The focus of this pamphlet is to highlight the incessant activity of the "Creative Destruction" in all its aspects. An activity that is characterized, in its creative genesis and in its failed genesis, by the symbiotic union of the accumulation of capital with production. In this context, as Schumpeter pointed out, variables such as psychology, sociology and history are all considered with the economy, and all together they make the system unmanageable: this is why a scholar can only delude himself that a capitalist state can be stationary. In the implementation, we will also refer to the effects environmentals.

Keywords. Creative destruction, innovation, invention, industrial upgrading, steady state.

ABSTRACT. Il *focus* di questo *pamphlet* è quello di mettere in evidenzal'attività incessante della "Distruzione Creatrice" in tutte le sue sfaccettature. Una attività che viene caratterizzata, nella sua genesi creatrice e nella sua genesi fallimentare, dall'unione simbiotica dell'accumulazione del capitale conla produzione. In questo contesto, come ha sottolineato Schumpeter, entrano a pieno titolo, insieme

all'economia, variabili come la psicologia, la sociologia e la storia, che tutte insieme rendono ingestibile il sistema: ecco

perché uno studioso si può solo illudere che uno stato capitalista può essere stazionario. Nella implementazione, faremo riferimento anche agli effetti sull'ambiente.

Parole chiave. Distruzione creatrice, innovazione, invenzione, rinnovamento Industriale, stato stazionario.

.

1. Introduction

Considering the present state of limitless growth, we can affirm that human needs cannot and must never be satisfied, otherwise the propulsive drive to produce, the take off of production, is lost.

If human needs were satisfied, there would no longer be the need to produce by improving the production process with new technology, since the existing state of production would be the perfect one, and we would therefore be in a 'steady state', i.e. a state that inhibits the economic processes that favor growth and facilitate 'dynamic balance' (Newton 1687). Dynamic balance occurs when the two forces, Capital growth rate and GDP growth rate, are constantly balanced over time.

The steady state is considered by Georgescu

"As an economy in which production and consumption occur at the same speed day after day from some invariable (but not necessarily always the same) economic unit, in this case the economy is seen as a sister science of mechanics. Here are some

considerations on the state of the economy that illustrious scholars have produced in the past" (Georgescu 2007, p. 186).

Adam Smith rejected the idea of a steady state, declaring that <in the capitalist state of continuous growth, the human race, motivated only by its own gain, is projected towards happiness, and that the decrease in profits would stop any 'further purchase> (Smith 2006, p. 584).

Among the classical economists, David Ricardo argued that,

"because of the increase of population, less fertile and second-quality lands are being cultivated in order to guarantee both the livelihood of the workers and the profit, consequently, the diminishing returns in agriculture would cause the increase of the ground rent on top quality lands and the fall of the rate of profit" (Ricardo 2006, p. 224),

actually a steady state.

Karl Marx in the chapter 'Simple reproduction' in 'Il Capitale' points out that the steady state occurs when the production of the system is always the same and has the task of restoring the subsistence and the outworn means of production, consumed in the previous period (Marx 1980 Vol. I, pp. 621-623).

Therefore,

"When the production system instead is such as to facilitate the accumulation of capital by focusing on the creation of new needs and new slavery through innovations with new technologies, new

machinery and new markets, then we are in a full capitalist system" (Marx 1980 Vol. III, pp. 932-933).

This process of economic and social development based on continuous exogenous innovations, such as the system of production described above, and endogenous, when it is the entrepreneurs themselves who innovate, is called 'Creative Destruction' by Joseph Alois Shumpeter (1947).

The process of creative destruction involves not only the system as such, but also characterizes the relationship with Nature and its resources, and here it appears only with its power of destruction; it involves human and social values, annihilating them; new knowledge is fraudulently acquired; it destroys the whole world of values and breaks into the collective imagination as a representation of widespread well-being, but it brings *de facto* inequalities and dissatisfaction.

We write 'creative destruction' and read about change, involution, extreme wealth and poverty.

Shumpeter was the proponent of analyses on the systematic role of innovation in modern economies. His distinction between invention and innovation is famous, a distinction that shows that invention is the creation of new knowledge regardless of its actual use, while innovation means the actual use of knowledge to produce 'things differently' in the economic field, to use his well-known expression (Coccia 2018, pp. 9-28).

For example, with regard to writing, the personal computer is the invention, while everything that it produces is innovation compared to what was produced with the typewriter; this is a complete innovation, as it represents a break with the past by transforming the existing, while when the production process is speeded up or a certain product updated, making it more appealing than the previous one, there is ameliorative innovation.

But innovation also includes design, physical realization (manufacturing) and marketing of innovation (Freeman 1982).

In earlier times, the philosopher and economist John Rae studied the effects of invention on man, on Nature and on the economic growth generated by accumulation. According to him, invention was an endogenous variable. Furthermore, growth was a function of innovation: it is an invention, which shows how profits can be made for capital and the livelihood provided by the

population (1834), (see also Solow 1956, pp. 75-94).

2. Misappropriation of new knowledge

With new inventions and the production of things differently, a new branch of the economy is born, 'the economy of technological innovation'.

<The Economics of Technological Innovation studies the inventive and creative faculty, born in a random and/or systematic manner on the basis of a cumulative learning process, applied to industrial usages (object) in order to satisfy needs, to
increase individual and social well-being, to make man's labour more effective and efficient and to generate economic growth. Furthermore, the economics of innovation analyses the sources of knowledge and those who make use of it (subjects) as well as their interdependence of economic

systems (sectors) and political systems (States and nations). It finally studies the impact of innovation on the structure, strategies and performance of firms, its spatial-temporal diffusion and its related impact on the geo-economic environment. In other words, the economics of innovation is that branch of economics that studies innovative products, processes and organizations in order to satisfy the necessities and desires of mankind (needs). Their purpose is to increase the quantity that each individual is inclined to acquire and enables mankind to obtain more products at the same cost or the same amount of products at a lower cost in order to increase individual and social well-being> (see Coccia 2018, p. 21).

The leviathan force of capitalism, which absorbs the essence of human intelligences, entering consciences and transforming the cognitive depletion into a representation of widespread well-being, is invading the collective imagination. Knowledge, but also the interdependence of economic sectors that are an integral part of the technological innovation process, aims inexorably towards the realization of profits *tout court*, where wishes, transformed into "needs, must necessarily remain dissatisfied" so that there will be always the urge to produce new products, thanks to continuous innovations (Bauman 2007, p. 50). Capitalism, therefore, always needs to innovate itself, to destroy the old by making it obsolete to create new products and new markets, and new slavery, regardless of the endless consumption of the non-renewable natural resources of Mother Earth, the notorious' linear production process'.

And again,

"Capitalism capitalizes the productive strategies of workers, their organization, their knowledge, their status, making them its own,….this is tyrannical action. Besides, Capital is parasitic because it appropriates shared knowledge and fraudulently communicates it as its own" (Andriola 2015, p. 8).

The new knowledge springs from the critical observation of the present reality of which it is an integral part. In fact according to Kahan (2010) "mainly, they are the

product of capitalism". It is no coincidence that capitalism is fueled by innovative, destructive but also constructive demands, although they are part of the change process.

Among other things, we also believe that capitalist society is the society of appearance, that is, whoever is a real capitalist must appear, must show off his wealth, in 'the iconocracy of wealth', even if it is immoral. But it is also a society of demonstration in which many times we must show that we are what we really are not, therefore a society founded on a fake morality, duped by social climbers.

While I was writing this paper, 12 people have been investigated at the Cittadella della Ricerca in Brindisi, the Salento University Center, on charges of criminal bankruptcy but also, among the accusations, of having hidden or stolen scientific texts in order to procure for themselves or other people an unfair profit and to cause detriment to the authors. (see De Cristofaro 2019). These actions
are immanent in the great capitalist process where everything is transformed into mere economic value.

This economic value *lato sensu,* means a high rate of accumulation deriving from the destruction of the balance between investments and consumption, in view of the rate of growth over the medium term. The result is a tendency to sub-consumption and the creation of an unused financial surplus where, according to Samir Amin, the absorption of this surplus can also occur

through public deficit spending for current expenditure, therefore waste, provided it is able to increase the rate of profit. Samir Amin (1977) also expressed his opinion on the need for the productive restructuring on a global scale of the capitalist countries, European and North America, which at the beginning of the 1970s abandoned the Fordist system and, with the introduction of new technologies and with a sharp decrease in production costs, would generate a huge overproduction of goods and wares. In this case, 'creative destruction' generated an expansive crisis of overproduction, affecting not only the capitalist states, with a strong decrease in employment levels, *negotii inopia*, but also the most vulnerable states, that is, the suppliers of raw materials and of non-renewable natural resources.

However, together with the new products and the improvement of their quality, through the new productive technologies of capitalism, even Schumpeter focused on the necessity *ceteris paribus* of new models of

organization of the global division of labor and new forms of international

specialization, ensuring the predominance in all the industrial, automation, electronics and nuclear sectors.

3. The effects on the environment

According to Schumpeter,

<The economic changes due to wars or other exogenous factors of a social or demographic order are less important than the economic changes caused by the impetus from new consumers, new products, new markets, new production or transport methods and from new forms of industrial organization. These are the factors that determine creative destruction" (Schumpeter 1976, pp. 82-

85, 2010, pp. 40-41): the process of renewal is immanent in the process of capitalist production. But the process of renewal also leads to the failure of capitalism itself: "ultimately there is not much difference between saying that the decline of capitalism is the result of its success and saying that it is the result of its failure> (Schumpeter 2010, p. 204).

A century ago, it was unthinkable that the cyclical crises of capitalism would generate devastating repercussions that would be more and more irreparable on the environmental equilibrium. The reckless use of natural resources, believed to be unlimited, along with the pollution produced, have led organizations of scientists around the world, especially the IPCC (Intergovernmental Panel on Climate Change) to study the causes and affects on living beings and on nature, reaching conclusions that are reason for serious concern. In the annual climate conferences, suggestions are made to the various world goverments responsible, on how to redress these effects and on the short time remaining to act.

While from the Catholic world there are great ethical suggestions on the 'Care for our Common Home' (Pope Francis 2015). Thus for example, already Pope John XXIII with '*Enciclica*' in 1963, Paul VI with '*Octogesima Adveniens*' in 1971, John Paul II with '*Redemptor Hominis*' in 1979, Benedetto

XVI with '*Caritas in Veritate*' in 2009 and in a speech to the clergy of the diocese of Bolzano in August 2008 issued a solemn warning "We ourselves are the last instances, where the whole is simply our property and we consume it only for ourselves. And the waste of creation begins where we no longer recognize any instance above us, but we see only ourselves", and finally Pope Francis with '*Laudato si*' in 2015. They basically told us that the environmental crisis is

incorporated in our thinking, in our culture of accumulation and consumption *tout court*.

The policies of deregulation in international trade over the last three decades have been the cause of the overproduction of goods seen as a way of emancipating some developing countries from poverty, with the well-known consequences

The indiscriminate use of fossils;

a) Environmental pollution;

b) 1° C rise in temperature compared to the pre-industrial era;

c) Climate change.

In this case there was only destruction, without creating anything to compensate for it in the short term. However, in analyzing the interplay between growth and the dynamics of the cycle in the theory of economic development,

"Schumpeter stated that the process of creative destruction has a purifying and beneficial effect on the long-term impact" (Dal Ponte and Hagemann 2017, pp.

19-23).

Let's look at some examples:IPCC experts have stated that the People's Republic of China, an emblematic example of state capitalism, has been the biggest polluter in the world, but perhaps due to an act of repentance, it is gearing up to rectify that situation.

Indeed:

"Over the last decade China has expanded its renewable energy sector with unprecedented speed.. This success story presents a challenge to Western modes of environmental governance, where stakeholder participation is often deemed a necessary pre-condition for effective policy outcomes" (Geoffrey and Lees 2016, pp. 574-86).

And again:

<China has become the leading country to develop wind and solar energy industries. A new policy paradigm is emerging that is very different from the previous decades of policy orientation that centred on capacity expansion and instrumental interests for renewable energy development. The new paradigm would face tremendous challenges from existing institutions and vested interests, and it requires new ideologies that can help the renewable energy sector to truly compete with the energy incumbents in order to bring about a meaningful low-carbon energy transition in China> (Wei and Lei 2018, pp. 407-21).

On a global scale, the more responsible countries are applying the directives of the 2015 Paris Agreement (COP 21) which replaced the 1997 Kyoto Protocol (COP 3). However, there has been no lack of disputes between developing countries and those that are already developed over the guidelines and policies to be implemented, to face the challenges posed by climate change.

Indeed, "global governance on climate change has embraced the transfer of environmentally sound technologies as a crucial means of implementation to meet mitigation and adaptation" (Oh 2019, pp. 22-36), policies strongly supported by the Paris Agreement.

And again, "Scaling-up clean energy is vital to the global effort to address climate change. Promoting international trade in clean energy products (e.g. wind turbines, solar panels) can makean important contribution to this end through business and market expansion effects" (Dent 2018, pp. 728-47).

But China is also the state that has the largest dams in the world. The current governor stated that the Three Gorges Dam infrastructure already has some cracks in the supporting structure and, in the event of failure, the estimated deaths would be around 100 million. The expropriation of innumerable lands, useful for the subsistence of local farmers, and the flooding of many valleys redraw the entire orography of the area, with the disappearance of lakes and
forests. These phenomena cause climatic changes with increased rainfall
and rising temperatures. (https://sociologiaalessiabeatrice.wordpress.com).

4. The complex management of megaprojects

Large investments are made to destroy the balance of nature but they are seen, by the collective imagination, as social well-being. But technical progress must be parallel to human development: otherwise humanity is sacrificed on the altar of the accumulation of the capital of big companies.

"Economic restructuring and industrial upgrading contributed to China's endogenous growth momentum. This ongoing transformation also drove continuous growth of overseas direct investiment (ODI) by Chinese enterprise, supported by the government's 'Go Global' strategy which was accelerated following the CPC's Eighteenth National Congress in 2012" (see Chaisse 2019).

However, one must consider not only the enormous monetary mass used for these investments, certainly of complex management, but also the transparency of the massive costs and the return in benefits.

Despite the widespread admiration of China's infrastructure development, there is scant bottom-up evidence from the field about the actual outcomes of specific investment projects. "The macroeconomic account of infrastructure investments in China, for instance, omits the massive costs incurred in the building of megaprojects" (Ansar, Flyubjerg, Budzier and Lunn 2016: 360-90).

In this respect, megaprojects in Canada, Karababa (Turkey), California, Mangla (Pakistan), USA and other countries must also be examined.

Even the Chinese infrastructure supporters say " We cannot use our results to estimate the social or private return on investing in transport infrastructure because we have no idea of the relevant costs" (Banerjee, Duflo and Qian 2009, p. 5).

"Although some experts have used predictive out-of-sample modeling to evaluate theoretical mechanisms, it is not yet common in political science or international relations to use predictive exercises outside the sample to validate and replicate the main substantive results" (Evanschtzky and Armstrong 2010, pp. 4-8).

5. Conclusions

Ultimately, the construct of this pamphlet must be associated to the most disruptive phase of the 'creative destruction' process, that is, the phase that on the one hand nullifies the human values affirmed over time through self-denial, thus destroying the value of history, and on the other hand cancels the material values recognized in the field of subsistence, destroying the value of work, and democracy, generating an enormous oligarchic capitalist accumulation.

Indeed, "The proletarization of the middle classes, the progressive impoverishmentof the proletariat and the increase in exploitation are a necessary and indissoluble source of capital" (Beolchi, 2019, p. 187).

Furthermore, I wish to highlight how difficult it is to implement any rehabilitation policy designed to mitigate the undesirable effects of long-term destructive actions.

From this it can be deduced that a new cultural and anthropological paradigm, founded on the supremacy of politics over the economy, would be considered as the palingenesis of Nature and the social redemption of humanity.

BIBLIOGRAFIA

Amin, S., (1977), *Lo sviluppo ineguale*, Torino, Einaudi.

Andriola, L. (2015), Il Processo Economico Circolare, *Dialettica & Filosofia*, pp. 1-17.

Atif, A., Flyubjerg, B., Budzier, A. and Lunn, D. (2016), Does infrastructure investment lead to economic growth or economic fragility? Evidence from China, *Oxford Review of Economic Policy*, 32, 1, pp. 360-390.

Banerjee, A., Duflo, E. and Qian, N. (2009), *On the Road: Access to Transportation Infrastructure and economic Growth in China*, Institute of Technology Massachusetts, Working Paper.

Bauman, Z. (2007), *Homo consumens*, Gardolo (Trento), Erickson.

Chaisse, J. (2019), China's International Investment Strategy: Bilateral Regional, and Global Law and Policy, *Oxford Scholarship Online*, doi: 10.1093/oso/9780198827450.001.0001.

Coccia, M. (2018), The origins of the economics of innovation: the Rae's contribution, *Journal of Economic and Social Thought*, 5, 1, pp. 9-28.

Dal Ponte, M. and Hagemann, H. (2017), Business Cycles, Growth and Economic Policy: Schumpeter and the Great Depression, *Journal of the History of Economic Thought*, 39, 1, pp. 19-23.

De Cristofaro, S. (2019), Citta della della Ricerca, 12 indagati per bancarotta fraudolenta, . 14th May.

Evanschitzky, H. and Armstrong, J.S. (2010), Replications of Forecasting Research, *International Journal of Forecasting,* 26, 1, pp. 4-8.

Freeman, C. (1982), *The Economics of Industrial Innovation, 2nd ed,* London, Francis Pinter.

Geoffrey, C. and Lees, C. (2016), Growing China's Renewables Sector: a Development State Approach', *New Political Economy,* 21, 6, pp. 574-586.

Georgescu-Roegen, N. (2007), Lo Stato Stazionario e la Salvezza Ecologica: un'Analisi Termodinamica, *Economia e Ambiente,* p. 186.

Hsieh, Chang-Tai, and Zeng, (Michael), S. (2016), Grasp the Large, Let Go of the Small: The Transformation of the State Sector in China, Brooking Papers on *Economy Activity,* 2015, 1, pp. 295-366.

Kahan, A. S. (2010), *Mind vs. Money: the War Between Intellectuals and Capitalism,* New Brunswick, New Jersey, Transaction Publisher.

Marx, K. (1980), *Il Capitale. Vol. I,* Rome, Ed. Riuniti.

Marx, K. (1980), *Il Capitale, Vol. III,* Rome, Ed. Riuniti.

Rae, J. (1834), *Statement of Some New Principles on the Subject of Political Economy, Exposing the Fallacies of the System of Free Trade, and of Some Other Doctrines Maintained in the "Wealth of Nations,* Boston, Hilliard, Gray.

Ricardo, D. (1817), *On the Principles of Political Economy, and Taxation*, London, John Murray.

Ricardo, D. (2006), *Principi di Economia Politica e delle Imposte*, Turin, Utet.

Smith, A. (1937), *The Wealth of Nation,* New York, E. Cannon.

Smith, A. (2006), *La Ricchezza delle Nazioni*, Turin, Utet.

Schumpeter, A.J. (1976), *Capitalism, Socialism and Democracy,* New York, Harper, George Allen and Unwin.

Schumpeter, A.J. (2009), *Can capitalism Survive? Creative Destruction and the Future of the Global Economy,* New York, Harper Perennial Modern Classics.

Schumpeter, A.J. (2010), *Il Capitalismo Può Sopravvivere?*, Milan, Etas.

Solow, R. M. (1956), A contribution to the theory of economic growth, *Quarterly Journal of economics*, 70, 1, pp. 75-94. doi: 10.2307/1884513.

Wei, S. and Lei, X. (2018), The Political Economy for Low-carbon Energy transition in China: Towards a New Policy Paradigm?, *New Political Economy*, 23, 4, pp. 407-21.