

4. Creative Destruction in Economics: Nietzsche, Sombart, Schumpeter

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Abstract

This paper argues that the idea of ‘creative destruction’ enters the social sciences by way of Friedrich Nietzsche. The term itself is first used by German economist Werner Sombart, who openly acknowledges the influence of Nietzsche on his own economic theory. The roots of creative destruction are traced back to Indian philosophy, from where the idea entered the German literary and philosophical tradition. Understanding the origins and evolution of this key concept in evolutionary economics helps clarifying the contrasts between today’s standard mainstream economics and the Schumpeterian and evolutionary alternative.

Keywords:

Creative destruction, Friedrich Nietzsche, Werner Sombart, Joseph Alois Schumpeter, evolutionary economics

JEL classification: B1, B2, B5, O1

*‘From the heart of all matter
Comes the anguished cry –
‘Wake, wake, great Siva,
Our body grows weary
Of its law-fixed path,
Give us new form.
Sing our destruction,
That we gain new life ...’*

Rabindranath Tagore, Indian Poet

1. CREATIVE DESTRUCTION IN VOGUE

The 1990’s brought Joseph Alois Schumpeter (1883-1950) into the center stage of the economic debate. The Austrian-born economist had been teaching at Harvard from 1932 until his death. As the phenomena surrounding the ‘New Economy’ temporarily seemed to have cancelled the normal laws of

economic gravity, Alan Greenspan heralded Schumpeter as the theoretician and prophet of the events.¹ At the core of the phenomenon was the process of creative destruction that had become associated with the name of Schumpeter. This concept seemed tailor-made to describe the process by which information and communication technology destroyed previous technological solutions and laid waste old companies in order to make room for the new.

In today's standard economic theory, Schumpeter stands out as being highly original. However, his great intellectual independence is generally misinterpreted as meaning that his ideas appear on the scene only with him. This is far from the truth (see Reinert 2002), also as it applies to the key concept of 'creative destruction'. This idea itself is a very old one. In this paper we shall argue that the idea of 'creative destruction' enters the late 19th Century *Zeitgeist* through the works of Friedrich Nietzsche. Going back further in time, the process of creation and destruction plays a central role in Hinduism, the religion which so inspired Nietzsche's *Erzieher* (educator) Arthur Schopenhauer. Nietzsche's own ideas about creative destruction, as popularized through his *Also Sprach Zarathustra*, had a profound and wide-ranging influence on generations of German-speaking artists and intellectuals (Sokel 1959). We shall further argue that – contrary to the firm beliefs of the economics profession – the term 'creative destruction' was brought into economics not by Schumpeter but by Werner Sombart (1863-1941), the economist who was probably most influenced by Nietzsche.

Nietzsche saw it as his task to bring about the regeneration of Western culture. This he sought to achieve by attacking its decadent institutions and philosophical foundations. Perceiving the impossibility of basing a modern moral system on God, and the imminent danger of nihilism, Nietzsche sought to set up an alternative, immanent morality of the 'super-human', or the *Übermensch*, to replace the old transcendental morality. In order to create this new morality, it was necessary for Nietzsche to destroy the old one: the new morality must quite literally stand on the ruins of the old. We shall argue that this new morality is based on a concept of creative destruction, insofar as it demands of each individual human being that it 'write its own tablets', thereby destroying the 'old tablets'. Nietzsche's central work *Zarathustra* is thus at the same time both a meditation on creative destruction, because it presents this new 'morality of innovation', and a practical example of the same, insofar as it attacks the existing morality and seeks to replace it with this new morality.

To Hegel certain people epitomize the spirit of the age they live in. He cites Alexander the Great, Caesar and Napoleon as examples. Although he would himself strongly have disliked the reference, Nietzsche was decidedly one of these world-historical individuals who shaped the *Zeitgeist* in a decisive way,