

Using Video Clips to Teach Creative Destruction

Short running title: Schumpeter Video

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Abstract

Stories are memorable and convincing. One way to efficiently tell stories is through movie and video clips. I summarize and explain the interpretation that I give for several video clips that may be useful in teaching aspects of Schumpeter's important theory of creative destruction. Among the clips discussed are: Hugh Laurie's "Protest Song"; electric light segment from a documentary on the 1898 Trans-Mississippi Exposition; "eBay Toy Boat Ad; "Miss Princess Fun Brick Ad; Moscow toilet paper queue scene, and New York coffee aisle scene from "Moscow on the Hudson"; and Peck and DeVito's speeches from "Other People's Money."

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1. Introduction

Schumpeter claimed that creative destruction is the essential fact about capitalism. I believe he is right.¹ Consistent with my belief in the importance of creative destruction, I have tried to find ways to effectively communicate the concept to my students. For many of us a picture is indeed worth a thousand words. And a corollary may be that a video is worth a thousand pictures.

Russell Roberts may have been right when he suggested that what people find most convincing and memorable are stories (hence his own efforts to teach about the market through novels).² Others who have pointed the way, include Larry Moss who long ago (1979) emphasized the pedagogical importance of video. More recently, the point has been made by Leet and Houser (2003), Mateer (2004) and by Sexton (2006).

In this paper, I summarize various video clips that I have used, or hope to use, in my classes to illustrate various aspects of markets in general, and creative destruction in particular. I focus on brief, self-contained clips that are no longer than about 10 minutes in length, and usually are much briefer. I view the primary ‘consumer’ of the clips as a college professor of economics. The ‘job’³ that the professor has to get done is seen as the effective communication to undergraduates of the meaning and importance of Schumpeter’s process of creative destruction, within the constraints of limited class time and limited student attention span. To do this job the professor seeks memorable, and convincing, ways to communicate the main issues. The main ways are the professor’s words. Sometimes graphs or simple math can complement the words, but often, brief video clips can be even more effective complements.

2. The Clips

I discuss the clips in roughly the order I would present them in class, and give the context and interpretation that I give for each of them. (In the presentation of the paper, I hope to have the time, and the means, to actually display two or three of the briefer clips.)

In Hugh Laurie's "Protest Song" he proceeds to sing one of those earnest-sounding, pompous, self-righteous save-the-world-with-a-cliché songs that were so common in the late 1960s and the 1970s. But whenever Laurie gets to the part of the song where he is going to tell us the "answer"---- he mumbles. After showing the clip to my students, I tell them that to fill in the mumbling with something effective, you need to know some economics.

I tell students that the standard model of competition does a credible job of handling static, price competition. But I say that price competition is not all that capitalism is about. I say that Schumpeter may have been right that the "essential fact" about capitalism is creative destruction.

The following five clips illustrate important outcomes about capitalism that are not about price.

The first of these four consists of two scenes involving the Robin Williams character from "Moscow on the Hudson." In the first part of the movie, Williams is an unhappy sax player with the Moscow Circus. When the Circus is on tour, Williams

defects in Bloomingdales. He is 'adopted' by an Afro-American family, until he finds his footing. In the first scene that I show, Williams gets into a very long line in Moscow that he thinks (but is not sure) is for toilet paper. In the second scene, he has been sent to a grocery store in New York to buy coffee and he is first surprised by the absence of a line, and then collapses in the coffee aisle, after becoming over-whelmed by the variety of types of coffee available.

The second of these four clips is the “eBay Toy Boat Ad.” The ad opens with a young boy playing with a toy boat by the shore. His mother calls him, saying it's time to leave. He leaves, forgetting to grab his toy boat. A wave picks up the toy boat, and it is taken out to sea, where it sinks in a terrible storm. Years later, a fisherman pulls the boat up in his net. We next see the boat's image on a computer monitor in a listing for eBay. The camera's perspective pulls back, to reveal an intense young man staring with wide eyes at the screen. The camera moves to a photo by the desk, in which the smiling young boy is holding his toy boat.

After viewing these first two clips, I say that a variety of products can be stressful, if one does not know what one wants.⁴ But that after we get used to choice, most of us prefer it. And certainly in “Moscow on the Hudson,” at the end of the movie, one believes that the Robin Williams character has come to prefer it.

And when one knows exactly what one wants, variety can be a wonderful thing, because it increases the odds of a match between what the consumer wants, and what the consumer can get. In the “eBay Toy Boat Ad,” the young man knows that he wants the boat that he lost as a child. The free market delivers it to him.

The third of the four clips, injects a note of humor. The "Miss Princess Fun Brick Ad" is modeled in style after the Saturday morning children's programs ads that are trying to sell toys to girls. Two girls are ecstatic about the one girl having received Miss Princess Fun Brick. At the end of the ad, the voice-over intones the question: what would the world be like without competition?⁵ The Fun Brick ad emphasizes that an important aspect of capitalism is giving us the goods we want.

The fourth clip, is a segment of a documentary ("Westward the Empire" 1998) on the Trans-Mississippi Exposition that took place in Omaha, Nebraska in 1898. The segment describes how awestruck the crowds were at seeing the lights come on for the fair buildings, one after the other. The commentary emphasizes how many of the viewers would have been seeing electric lighting for the first time.⁶

In my comments on this clip, I point out that perhaps the greatest benefit of the process of creative destruction consists of the innovative new products that make our lives better. And I point out that it is easy for us to miss this, because we so quickly become accustomed to new innovations. I emphasize how electricity transformed and improved life, and that this major advance occurred within the lifetime of some very long-lived persons alive today.

The remaining clips highlight one or another aspect of the process of creative destruction.

The fifth and final of the five clips, "GE, We Bring Good Things to Life Ad," also illustrates the benefits of technology, though in a briefer, broader, more energized and emotive way. With catchy words and music in the background, the ad shows fast-

paced glimpses of many of GE's technologies, showing how they make lives better. The ad is upbeat with ethnically diverse beneficiaries of technology smiling at how their lives are better. It ends with a small boy emerging from an MRI scanner, who smiles and gives the thumbs-up sign.

One of the key characteristics of creative destruction is that the competition in creative destruction is a dynamic leapfrog kind of competition, as contrasted with the static price competition of the standard economic model. To illustrate the difference between static and dynamic, I show the students a picture of U.S. Secretary of State Condoleezza Rice holding her forehead in what appears to be depression, or at least discouragement. This picture appeared in many major newspapers, next to articles about some Mideast negotiations that were not going well.⁷

I then show the students a Jeanne Moos CNN piece that shows a video of the event from which the snapshot was taken. It is clear in the dynamic video that Condoleezza Rice was simply taking a moment to brush hair from her forehead, when Condoleezza the snapshot was taken. The point, I say, is that static snapshots-in-time can give a very false view of what is going on in the world.⁸ Our usual view of competition is to look at how many competitors there are at a moment in time. We look at a snapshot. But to really judge competition we must take Schumpeter seriously and look dynamically at whether there is the possibility of leapfrog competition over time.

The churn from leapfrog competition, is illustrated with the opening scene from Ben Wattenberg's "Big Business" episode in his series "In Search of the Real

America." In the scene, Wattenberg is standing in a misty graveyard full of tombstones. Wattenberg directs our attention to the names on the tombstones. There we see the names of once-great U.S. companies that have gone out of existence.⁹ This illustrates that in an economic system that allows leapfrog competition, the power of large firms does not last forever, and may be surpassed by the next innovation.

A final clip that I use shows the climatic speeches of the Gregory Peck and Danny DeVito characters from the movie "Other People's Money." Peck plays the CEO of a declining cable and wire company. DeVito plays to investor who is trying to buy up Peck's company. DeVito has learned that the value of the assets of the company are worth more than the stock value, so he would close down the company and sell off the assets. Peck emphasized the costs of the destructive side of creative destruction, especially the jobs lost. DeVito emphasizes the leapfrog nature of innovative progress.

The presentation is articulate and gripping on both sides.¹⁰ My students often ask: who wins? I tell them that DeVito wins the vote, but loses the girl. The gist of the clip, as I see it, is that creative destruction involves trade-offs, but the benefits are greater than the costs.

Eventually there may be other clips to use as well: *The Economist* ("Economists on Film") once suggested that Schumpeter was one of the few economists whose life was dramatic enough to warrant being the subject of a movie. (And they even further suggested that Tom Cruise would be the right actor to portray Schumpeter.)

Footnotes

*A few sentences in the paper, first appeared in entries on my blog (artdiamondblog.com.) I first heard of the “eBay Toy Boat Ad” from a presentation by Russell Roberts. Matt Hunter alerted me to the discussion of Schumpeter on “The West Wing.” An earlier version of the paper was presented at the annual meetings of the Association of Private Enterprise Education in Las Vegas, on April 7, 2008. I appreciate the feedback from James Gwartney and other session participants.

¹ I am working on a book, entitled *Openness to Creative Destruction*, where I make that case. Parts of the case have also been made in Diamond 2006, 2007a and 2007b.

² See also Watts’ 2003 book.

³ Christensen and Raynor (2003) suggest that a key to better products is for the product provider to think carefully about who the intended (or potential) consumers are and what ‘jobs’ these consumers need to get done. In the present case, besides professors, we might consider students as the intended consumer. In some cases the ‘job’ they may need to get done is to find a substitute for their professor’s lectures. For *this* job, longer, more self-contained programs might be the better ‘product.’ Among such programs would be Russell Roberts’ audio interview with McCraw on McCraw’s book, *The Prophet of Innovation*. Also useful would be reality programs showing what life was like before the fruits of creative destruction, such as “Colonial House” or “1900 House.” Also useful might be documentaries on particular aspects of creative destruction, such as David Faber’s on Wal-Mart, or The Acton Institute’s “The Call of the Entrepreneur.” Also possibly relevant would be portions of the ABC

documentaries of John Stossel, and some of the economics segments of PBS News Hour's Paul Solman.

⁴ Ben Rogge, in class, used to mention Toffler's *Future Shock* as making this point.

⁵ The tag line was also used in Archipelago's "America's Most On-Time Buses Ad" that was broadcast during the same time period as the "Miss Princess Fun Brick Ad."

⁶ To illustrate the same point, I have thought of using some of the clips that are online of scenes from Walt Disney's "Carousel of Progress" ride, that was first designed for the 1964 World's Fair.

⁷ E.g., the photo of Condoleezza Rice, touching her forehead ran on the top of the front page of the *New York Times* on Thurs., July 27, 2006. It ran big: filling over a third of the length of the paper, and over half of the width. It ran right next to the main headline of the front page: "CEASE-FIRE TALKS STALL AS FIGHTING RAGES ON 2 FRONTS."

⁸ Ronald Reagan resisted sitting for still photos because he thought that still photos could easily be manipulated to mislead (Deaver, p. 75). Ronald Reagan was right.

⁹ The fragility of large company success, could also be effectively communicated with a clip from Harvard Professor Clayton Christensen, that is posted to the Harvard Business School web site.

¹⁰ A less gripping, but much briefer, clip that makes a similar point is from the "Talking Points" episode of "The West Wing" series. The President, played by Martin Sheen, is discussing unemployment with members of his staff. The President, who in the show has a PhD in economics, points out that some unemployment is the

unavoidable result of technological progress brought about through Schumpeter's process of creative destruction.

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