



Published on SavannahNow.com (<http://savannahnow.com>)

Free Enterprise: Time for some creative destruction

By Savannah Morning News
Created 2008-07-04 23:30

On this Independence Day weekend, decade-old records are being broken. For the first time in 10 years, according to AAA, the number of travelers will decline. Its data suggest that 40.4 million Americans will take to the road, approximately 600,000 fewer than last year.

Another related record was posted by car makers in the U.S. A spreadsheet published by the industry analyst AutoData (www.motorintelligence.com [1]) stated that sales of new cars and trucks fell by more than 18 percent in June compared with 2007. Extrapolating this number suggests sales of fewer than 15 million cars over 12 months. That falls well short of the 16 million vehicles purchased per year only a decade ago.

Of course, none of this is surprising given the current economic situation, in which consumers feel squeezed by a terrible troika of high gasoline prices, a moribund economy and stagnating real wages for the vast majority of middle-income earners. However, the most recent data surely must have been the last in a series of flashing warning signs facing car makers.

For the first time since the oil crises of the '70s, it appears, Americans are actually starting to not only talk the talk but also "drive" the walk. Rather than just intimating that changes are afoot, consumers are finally taking a serious look at smaller, European-style cars. And many leave the large, gas-guzzling vehicles (with, reportedly, almost no resale value) in the dust.

And that is the beauty of the marketplace. No matter how many times politicians do not reach an agreement on an energy policy worth that locution, the market's tendency to reward the nimble innovator over the clumsy imitator will point a way out of the energy crisis.

This is implicit in a timeless lesson formulated by a celebrated economist more than 65 years ago.

In "Capitalism, Socialism, and Democracy," Joseph A. Schumpeter coined the enduring phrase "creative destruction" to describe the market's ability to respond to a changing environment.

"The opening up of new markets," he wrote, "... illustrate(s) the same process of industrial mutation ... 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 about capitalism."

Destruction may, indeed, be too polite a word to describe the current carnage in the car industry. The sales numbers in June for Chrysler (-35.9 percent), Ford (-27.8 percent), Toyota (-21.4 percent), G.M. (-18.2 percent), and Nissan (-17.7 percent) were devastating. Only Honda, with the most fuel-efficient model lineup in the industry, managed a 1.1 percent increase.

Toyota also had good news to report. Its decline was, largely, because the car maker could not produce the Prius in greater numbers to satisfy surging consumer demand for the hybrid car.

All of this means that Schumpeter's shadow looms large over the domestic car manufacturers. The creative destruction could strike them in two very different ways.

Either they are relegated to the dustbin of history or their "old ways" (and model lineups) must be. The big Detroit Three (Chrysler, Ford and G.M.) are stating that they are doing everything they can to catch up with the new demand. This July Fourth's estimated travel numbers, as well as the sales statistics, show that they are well behind the lead car(s) in this race for survival.

Michael Reksulak teaches economics and public finance in Georgia Southern University's College of Business Administration. He may be reached by e-mail at [mreksula@ georgiasouthern.edu](mailto:mreksula@georgiasouthern.edu) [2].

Source URL:

<http://savannahnow.com/node/528521>