

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 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*. Links to most clips can be found at:

<http://www.artdiamond.com/VideoClipsTeaching.html>

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I. Introduction

Schumpeter is right that creative destruction is the essential fact about capitalism.¹ And because creative destruction is the essential fact about capitalism, it is important to find ways to effectively communicate the concept to 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 (2005) that what people find most convincing and memorable are stories; hence his own efforts to teach about the market through novels (see also Watts' 2003 book). 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 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 focus on clips that are intended to complement and supplement the professor's lecture, rather than longer videos that would substitute for the professor's lecture²

¹ The case that creative destruction matters, has been made in Diamond 2006, 2007a, 2007b, and forthcoming.

² Programs that might be substitutes for a professor's lectures might included Russell Roberts' audio interview with McCraw on McCraw's book, *The Prophet of Innovation*.

I discuss the clips in roughly the order I would present them in class, and summarize the context and interpretation that I provide the students for each clip. Links to a majority of the clips discussed here (those that are available digitally on the web), are provided on my web site at <http://www.artdiamond.com/VideoClipsTeaching.html>.

II. Clip Introducing the Importance of Economics

Hugh Laurie was half of a popular BBC comedy team before he became famous as the cynical, but highly competent diagnostician in the television series *House*. An early version of his Protest Song was performed on the BBC comedy show, but the best version is the one he sang in 2008 when he hosted *Saturday Night Live*. He appears on stage with a guitar and an earnest expression and proceeds to begin singing one of those smug, self-righteous, save-the-world-with-a-cliché songs that were so common in the late 1960s and the 1970s. At various points in the song he gets to a phrase like “Girl, we got the answer, it’s so easy you won’t believe. All we gotta do is . . . ”---then he looks comically quizzically desperate, and mumbles (except for the final time when he

Also useful might be reality programs showing what life was like before the full fruits of creative destruction, such as *1900 House* (Barker et al); or 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.

switches to a harmonica riff). After showing the clip to my students, I tell them that you need more than a guitar and good intentions to make the world better; you need to do more than mumble, when you come to the “answer.” What you need is to actually know something about how the world works. And to know how the world works, you need to know some economics.

III. Clips Illustrating Important Outcomes about Capitalism that Are Not About Price

Before introducing the standard model of perfect competition, I tell the students that the model emphasizes one important aspect of capitalism—price competition. I further tell them that one purpose for studying this model is to help them become better informed citizens in judging the pros and cons of the capitalist system. They will be better judges, I continue, if they keep in mind that there are other important aspects of the capitalist system that are not captured by the price model. I mention that Schumpeter thought that the process of creative destruction, and not the price competition model, captures “the essential fact about capitalism.” To illustrate these points, I then show them the five clips described in this section.

The first of these five 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, on a bleak, freezing, snowy evening,

Williams walks to the end of a very long line in Moscow that he thinks (but is not sure) is for toilet paper. The scene illustrates the wasted time and uncertain results of obtaining goods in a queue rationing system. In the second scene, Williams has been sent to a grocery store in New York City 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. Immediately after collapsing, he is seen being wheeled down the corridor of a hospital, and reassured by an amused, but kindly doctor who implies that he felt the same way when he immigrated from India. After viewing this scene, I tell the students that sometimes the variety of choice available from capitalism can be overwhelming, as it was for Williams. But I also mention that by the end of the movie, Williams is a confident New Yorker, showing no signs of wanting to return to the back of the line in Moscow.

The second of these five 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 go. 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 (in the 30 second version of the ad), or in the giant propellers of a huge ship (in the 60 second version of the ad). 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 man in his early thirties, staring entranced with wide eyes and slightly open mouth, at the screen. The camera moves to a photo by the desk, in which the smiling young boy is holding his toy boat. Now, for the first time, a calm female narrator's

voice is heard: “What if nothing was ever forgotten? What if nothing was ever lost?” And then you see the final slide with the eBay logo, and the words “The power of all of us.”

The ad pulls us in from the start. We feel sorry for the little boy who loses his boat, and we feel sorry for the little boat that is swept away by forces beyond its control. And we feel the poignant triumph of the grown up little boy who has never forgotten the boat, and never given up finding it--a triumph made possible through the eBay free marketplace. (Economists are not generally viewed as sentimental, but more than one economist has reported tears welling up at the first viewing of the Toy Boat Ad.)

After viewing the Robin Williams coffee scene, and the Toy Boat Ad, I say that a variety of products can be stressful for the consumer, if the consumer does not know what he wants.³ But that after consumers get used to having a choice, the great majority prefer being free to choose. And certainly in *Moscow on the Hudson*, at the end of the movie, one believes that the Robin Williams character has come to prefer choice. 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 five 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

³ Ben Rogge, in class, used to mention Toffler's *Future Shock* as making this point.

aim to sell toys to girls. Two girls are ecstatic about the one girl having received Miss Princess Fun Brick. There's a catchy tune, and the girls have exuberant smiles and giggles. As the brick falls from a second floor landing to a tray the mother is carrying, the mother and father grin and shake their heads as if to say "girls will be girls." At the end of the ad, the voice-over intones the question: "What kind of toys would we have if there was no competition among toy companies?"⁴ The Princess Fun Brick Ad emphasizes that an important aspect of capitalism is giving us quality goods.

The fourth clip, of the five, is a segment of a documentary (Westward the Empire 1998) on the Trans-Mississippi Exposition that took place in Omaha, Nebraska in 1898. Crowds gathered at dusk to observe the lighting of the buildings. The documentary uses photographs from the period to simulate the effect of the lights coming on in building after building. A source from the time is quoted as saying the crowds were so awestruck by what they were seeing that they stood silent and frozen, as if they were "wax figures." A historian reminds us of how electric lighting changed people's lives, allowing them to pursue work and leisure activities whenever they chose. The commentary emphasizes that a large number of those present were seeing

⁴ 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.

more electric lighting in that one evening, than the sum of what they had seen in their whole lives up to that point.⁵

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 a few very long-lived persons still alive today.

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.

IV. Clips Highlighting Other Aspects of the Process of Creative Destruction

⁵ 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.

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 former 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.⁶

I then show the students a Jeanne Moos CNN clip that shows a video of the Rice 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 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.⁷ 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.

⁶ 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."

⁷ 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.

A clip that illustrates the churn from leapfrog competition, is the corporate graveyard scene that appears early in Ben Wattenberg's *There's No Business Like 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.⁸ 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.

The final clip shows the climatic shareholder meeting 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 an 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. The shareholders are gathered to vote on whether Peck will continue to run the company, or whether DeVito will take over. I start the clip with a company officer introducing Peck, and end the clip immediately following DeVito's speech, when the same officer announces that the vote will begin.

In his speech, Peck emphasizes the costs of the destructive side of creative destruction, especially the jobs lost. DeVito emphasizes the leapfrog nature of

⁸ 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.

innovative progress. He compares Peck's company to the last company that made buggy whips, pointing out that the wire the company produces has been made obsolete by fiber optics. He says that the investors would be doing more good for themselves and for the world, if they sold their shares, and invested them in some enterprise with the potential to produce something new and useful in the future.

The speeches are articulate and gripping on both sides.⁹ 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.

V. Future Clips

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

⁹ 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.

Schumpeter.) So maybe we will eventually be able to enliven a classroom account of Schumpeter's ideas by showing a scene or two from a movie about Schumpeter.

The growing quantity, quality and variety of video clips available on the web, are a promising source of supplementary illustrations for topics in economics, the free market, and the process of creative destruction. Links to a majority of the clips discussed here (those that are available digitally on the web), are provided on my web site at <http://www.artdiamond.com/VideoClipsTeaching.html>. My intent is to update the list as new useful clips become available. Descriptions and links to a broader set of clips on other topics in economics and political economy, can be found under the Videos category of my blog artdiamondblog.com.¹⁰

The best clips, using music and humor and drama, can reduce the cost to students of focusing on, and remembering, important issues. The clips can be even more valuable when they allow the students to see the issues from fresh perspectives, which can happen when the students have sympathy with the characters in the clips---most of them can imagine what it would feel like to lose their favorite toy boat; and most of them can appreciate an institution (the market) that makes it possible for the lost toy boat to be found.

¹⁰ These clips will sometimes be added to the core list on the web page, but sometimes will not, due to being too ephemeral, narrow, controversial, or limited in availability.



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