What drives economic change?

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Economic change, described by economist Douglass C. North as “a ubiquitous, ongoing, incremental process that is a consequence of the choices individual actors and entrepreneurs of organizations are making every day”, is defined as a change in the structure, policies and growth of an economy. It is quantifiable by measurements such as Gross Domestic Product (GDP), the total value of goods and services produced in a country, and GDP per capita, a country’s economic output per person. Economic change can occur due to many reasons, including a rise in technological innovation, a shift in the population’s demographics, and the increasing prominence of online technology.

A key driver of economic change is technological innovation – Clayton Christensen in “The Innovator’s Dilemma” argues that disruptive technologies render existing economic models obsolete, a key example of this being the British Industrial Revolution beginning in 1760, which revolutionised production processes with factories and transformed the nature of the economy from agrarian to industrial. This industrial transformation included mechanisation, meaning that a smaller workforce was required for production, and the invention of new manufacturing techniques which maximised efficiency, revolutionising Britain’s economy. Joseph Schumpeter and Werner Sombart term this as “creative destruction”, which was itself derived from Marxist works. In *Krieg und Kapitalismus* (War and Capitalism), Sombart notes that “the scarcity of wood and the needs of everyday life... forced the discovery or invention of substitutes for wood, forced the use of coal for heating, forced the invention of coke for the production of iron”, emphasising how technological innovation will always occur due to outdated materials and production processes always being replaced, driving economic change – Schumpeter states in *Capitalism, Socialism and Democracy* that “industrial mutation incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one.” Another example of technological innovation revolutionising economic change is the advent of mass-production techniques primarily developed by Henry Ford when he introduced an affordable car which was easily replicated en masse at an assembly line, called the Model T, which sold 15 million units: mass production enabled manufacturers to produce and distribute products more quickly, therefore increasing sales (this is shown by the Model T’s predecessor, the Model S; without mass-production only 5764 were even built). Mass-production has greatly impacted the economy, as it has allowed many more goods and services to be produced, creating a consumer boom which in turn has provided large amounts of economic growth. Overall, technological innovation has massively changed and grown economies around the world.

Another driver of economic change is a shift in population and demographics, which can massively impact a country’s economy, exemplified by that of Japan. Japan’s demographics have clearly shifted, and its working-age population is shrinking – as of 2017, it was 65 million people, and will be 52.45 million out of a projected 110.92 million in 2040. As healthcare, quality of life and life expectancy increase but birth rates fall below the self-sustaining rate of 2.1 children per woman, there will be fewer young people and a larger elderly population (this is becoming a trend in developed countries such as Italy), which has the power to dramatically change an economy. Additionally, economic output in countries such as Japan could sharply decrease due to a lack of availability of workers and elderly people being less productive, as shown by Japan's GDP per capita falling from $38,834 in 2017 to $33,823 in 2022. An economy with a declining and ageing population can face many economic challenges: productivity may decrease due to a larger percentage of the workforce being elderly, labour costs could increase because of the lessening number of workers, businesses may be less likely to locate to such countries, and thus international prominence may be significantly reduced. In some instances, a worker shortage may push up wages as individual workers are more valuable to businesses, creating a price-wage spiral where as disposable income increases, demand for goods rises causing further inflation, which can severely impact the cost of living and overall economy. Additionally, migration has a large impact on a nation's economy, as when people migrate to a different country, they often send remittances earned in their host country to their home country, also boosting imports and exports and affecting both countries' economy. Overall, it is clear that a shift in population and demographics, especially population decline and an ageing population, massively affect economic change.

Furthermore, economic change has rapidly grown with the advent of the internet and modern technologies. With the rise of modern technology, the internet and globalisation have massively increased economic growth in many countries (even more so than the rise of railways, which led to a massive economic boom), as businesses have been able to spread globally and promote worldwide consumerism. As online technology has become increasingly commonplace in many homes and businesses, trade has been facilitated further – being able to trade and easily transfer money to the other side of the world has massively increased economic growth and productivity and boosted economies around the world. The rise of rampant consumerism, where consumers have the power to buy something that will arrive in days, has only been aided by data collection – companies collect data about people wherever they can, allowing them to personalise experiences for different customers and make them more likely to spend at their businesses and increase economic expansion. Finally, the internet allows greater communication, health and information networks to exist which can lead to a greater quality of life and more disposable income which can be spent on goods and services. The rise of modern technologies has greatly increased economic change.

Overall, it is clear that there are many factors contributing to economic change, but most notably a rise in technological innovation which could theoretically occur perpetually due to materials and production processes always changing, a shift in population and demographics, which could have a negative impact especially for a country with an aging population, and the rise of the internet, which facilitates much easier and more efficient global trade.

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