

Creative destruction and Nobel 2025

[Afshan Subohi](#) Published October 20, 2025 Updated 2 days ago

Though little surprised by the decision of Sweden's Nobel Committee, Pakistan's community of economists hopes that policymakers will pay heed to the 2025 laureates and their work, abandoning archaic mindsets, moving beyond the comfort of the status quo, and embracing innovation.

Without fresh thinking and new approaches, they warned, competitiveness, sustainable growth and improvement in living standards will remain out of reach.

Last week, Joel Mokyr, Philippe Aghion and Peter Howitt were awarded the 2025 Nobel Prize in Economics (officially the Sveriges Riksbank Prize in Economic Sciences). The trio was honoured for advancing understanding of innovation and the dynamics of “creative destruction” in shaping competition, driving growth and raising living standards worldwide.

The award also underscores the widening gap between troubling global trends (rising protectionism, dismissal of green technologies as contrived, and the drive to keep artificial intelligence exclusive) and the need for open, inclusive innovation. In his post-award remarks, Philippe Aghion warned of three risks that could stall progress: closed markets that suppress competition, failure to steer innovation toward green technologies and the concentration of AI power in the hands of a few dominant firms.

‘An economy where new startups emerge and older companies exit regularly is a healthy one’

Intense global debates surround AI, with ‘doomers’ warning of existential risks and accelerationists urging rapid adoption. “The real test may not be whether AI destroys humanity, but whether our institutions and policies can adapt fast enough to manage disruption,” a scholar noted online.

“To me, this year’s award seems to intellectually challenge the mindset embodied by US President Donald Trump, who reversed globalisation with

steep tariffs on trading partners and dismisses the climate change debate as a farce,” remarked a local analyst privately.

In an informal survey on potential Nobel contenders, Pakistani theorists mentioned names such as France’s Thomas Piketty, American economist Edward Ludwig Glaeser and Cuban-American Carmen M. Reinhart. Many of these also appeared on global favorites’ lists, alongside other renowned social scientists including Partha Dasgupta, Frank Ramsey, Philippe Aghion, Robert Barro, Paul M Warburg, Susan Athey, Marianne Bertrand, Chris P. Dialynas, Minos A. Zombanakis, Kenneth Rogoff, Thomas D. Cabot, Janet Currie, Henry Putnam, Emmanuel Saez, Gabriel Zucman, Robert Barro, Paul M. Warburg among others.

While acknowledging the work of many deserving candidates across diverse sub-fields, economists in Pakistan welcomed the Nobel Committee’s choice and its relevance to the country’s economy.

Dr Ishrat Husain, former Governor of the State Bank of Pakistan, observed that the work of the 2025 laureates builds on and amplifies the earlier contributions of Solow, Romer, Acemoglu and others focused on long-term sustained growth.

“Philippe Aghion’s empirical work shows that competition-friendly industrial policies boost productivity growth, particularly by enabling younger, more dynamic firms to enter. He rejects the idea of governments ‘picking winners’, warning that such discretion only invites capture by vested interests. It’s a valuable lesson for those shaping Pakistan’s industrial policy,” explained Dr Husain.

“In the same vein”, he added, “Peter Howitt advanced an economic model highlighting Schumpeterian concept of ‘creative destruction’ where new ideas and more productive industries displace outdated, inefficient ones, setting the stage for innovation-driven growth.”

“Joel Mokyr, the economic historian, concluded from his study of pre-modern economic growth episodes that institutional change mattered more than technological change in that period. He argued the Industrial Revolution stemmed from knowledge, scientific culture, and openness to new ideas that encouraged experimentation,” Dr Husain ended.

Public policy specialist Ahmed Qadir explained: “In the past, competition was seen as having many firms in a market or capping their size. The new

perspective emphasises dynamic competition, firms striving to outdo each other through better products and new technologies, rather than static competition focused only on lowering prices.

Mr Qadir discussed that as a company invents something new, it may enjoy a temporary monopoly, earning large profits to recover its research and development costs. Intellectual property (IP) rights offer necessary support in this process. These profits then incentivise rivals to innovate further, producing something better and displacing the original product or company.

This ongoing cycle, known as ‘creative destruction’, he explains, keeps markets dynamic and competitive as old technologies and firms are continually replaced by new and improved ones. “Striking a balance between IP rights and competition law is crucial. Policy should permit temporary monopolies arising from genuine innovation, as IP protections reward creativity.” Mr Qadir elaborated, adding that policy must also prevent companies from using unfair tactics to block new entrants; such conduct constitutes abuse of dominance under competition law.

“An economy where new startups emerge and older companies exit regularly is a healthy one. If this doesn’t happen, it signals excessive concentration or a regulatory barrier to entry and exit.” Mr Qadir stated concluding that innovation ie, developing new and better products, is what keeps markets competitive.

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