



Written by [Bob Adelman](#) on September 16, 2011

## Free Market Economist Cheers End of Borders Books

Dr. Mark Perry, economics professor at the University of Michigan and blogger at Carpe Diem joyously announced that the closing of Borders' last bookstore on Sunday, September 18th "is a glorious, beautiful thing." He said:

In the rearrangement of resources to serve customers we see the beautiful actions of the market economy reconfiguring the world to provide goods and services that are most wanted and needed in the most effective way.

It was those customers who built Borders into the world's second largest bookseller from its first location — a humble second-floor used-book shop in Ann Arbor in 1971 — into a world-wide operation with over 1,000 stores. It was those same customers who, 40 years later, humbled Borders into bankruptcy and liquidation.

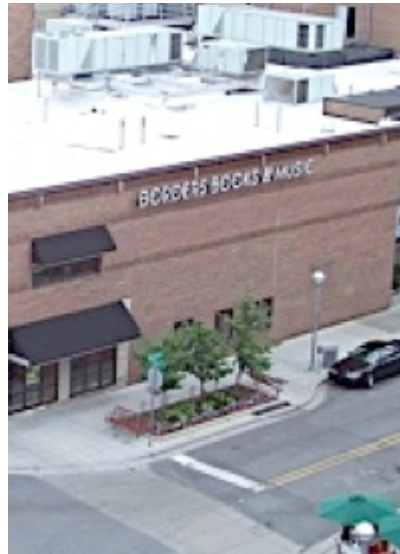
Founded by two undergraduates at the University of Michigan, Tom and Louis Borders, with little capital but a big dream, Borders developed a state-of-the-art inventory system that tailored its offerings to the needs of customers at each of its locations. In 1992 Kmart purchased the company and, along with Waldenbooks, tried to replicate Borders' success, without success. It sold off its acquisition which was renamed Borders Group.

The company pushed its expansion into Singapore, the United Kingdom, Ireland, Australia and New Zealand, but by 1998 signs appeared that consumer wants were changing. Its last profitable year was 2006. It struggled to stay alive, closing stores and borrowing money just to keep books on its shelves. In January, 2010, CEO Ron Marshall, resigned, along with many of his top people, and from there it was simply a matter of time.

In July of this year, Borders' CEO Mike Edwards wrote a [farewell email](#) to his 1.8 million Borders Rewards members, claiming that the rise of e-readers, a changing book industry and the bad economy had simply overwhelmed the company: "We put up a great fight, but regrettably, in the end, we weren't able to overcome these external forces."

During the last day of the Ann Arbor Store (pictured above), a few customers picked over the remains of its inventory now reduced to a few tables near the front door of the 37,000 square foot facility. Some took pictures of the signs outside: "Everything Must Go," "Nothing Held Back," and "90% off." One regular customer, Stephanie Albers, said: "I hate to see people lose their jobs. I occasionally bought a magazine or coffee [here]. But, gosh, I really can't remember the last time I bought a book here."

Precisely. Despite the efforts of top management to adjust its business model to the new reality, it was





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decisions like Stephanie's that ultimately determined Borders' fate. As Perry noted [on his blog](#), "Borders...was successful and profitable and its stores spread nationally, and then globally. Like Wal-Mart, Borders was frequently criticized for putting small, local, independent 'mom and pop' booksellers out of business. But by providing a more efficient business model and supply chain, Borders was creating significant value for society through the process of 'Schumpeterian creative destruction' that destroyed many small bookstores but created significantly greater value for consumers through lower prices, better selection and longer hours."

Joseph Schumpeter, an Austrian economist, [wrote that](#) the term "creative destruction" denotes a "process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one." He explained that such creative destruction comes from "Unternehmergeists," German for "entrepreneur-spirits," just like those of the Borders brothers. These are the individuals who make things work in the economy by discovering new and better ways to deliver products and services. When consumers are served better, the entrepreneurs are rewarded. As Perry wrote: "In the end, Borders itself fell victim to Amazon's online dominance, the emergency of Kindles and other e-readers, and an evolving marketplace that left Borders behind in a digital wake of 'creative destruction.' "

But it's not accurate to blame Amazon or Kindles for the demise of Borders. It's the consumer of books who is to blame. "After all," noted Perry, "neither Borders nor Wal-Mart can force consumers to shop at their stores; all they can do is offer low-priced alternatives to the higher-priced independent booksellers and downtown merchants. If the small local merchants don't survive, it's consumers ... that should get the blame..."

In the end, the consumer wins. In a market economy that operates free of government ham-handed meddling, the consumer always wins. It is because of the self-seeking actions of consumers like Stephanie who no doubt uses a Kindle to download books from Amazon that giant organizations like Borders are humbled and erased from history, only to be replaced by better, swifter, more efficient and lower cost companies like Amazon and Wal-Mart. Perry is right: the operation of the free market is a glorious thing.



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