

The Venturesome Economy

How Innovation Sustains Prosperity in a More Connected World

Princeton University Press: Autumn 2008

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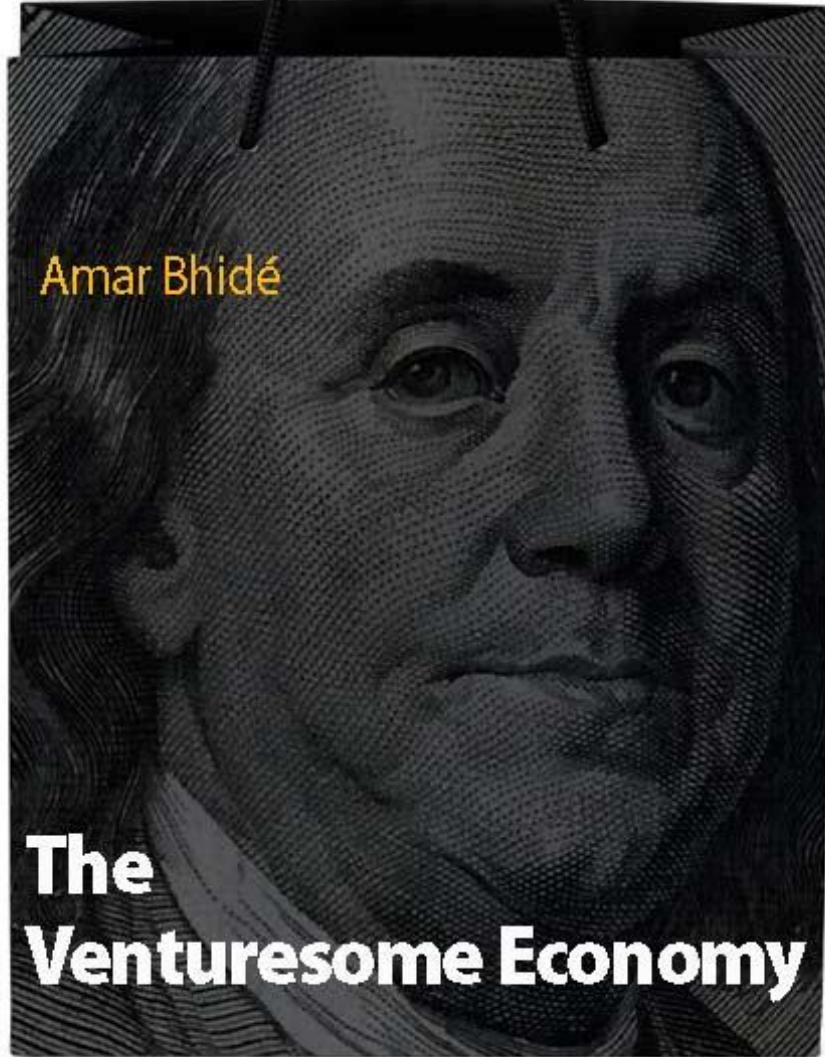
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This Draft: July 08

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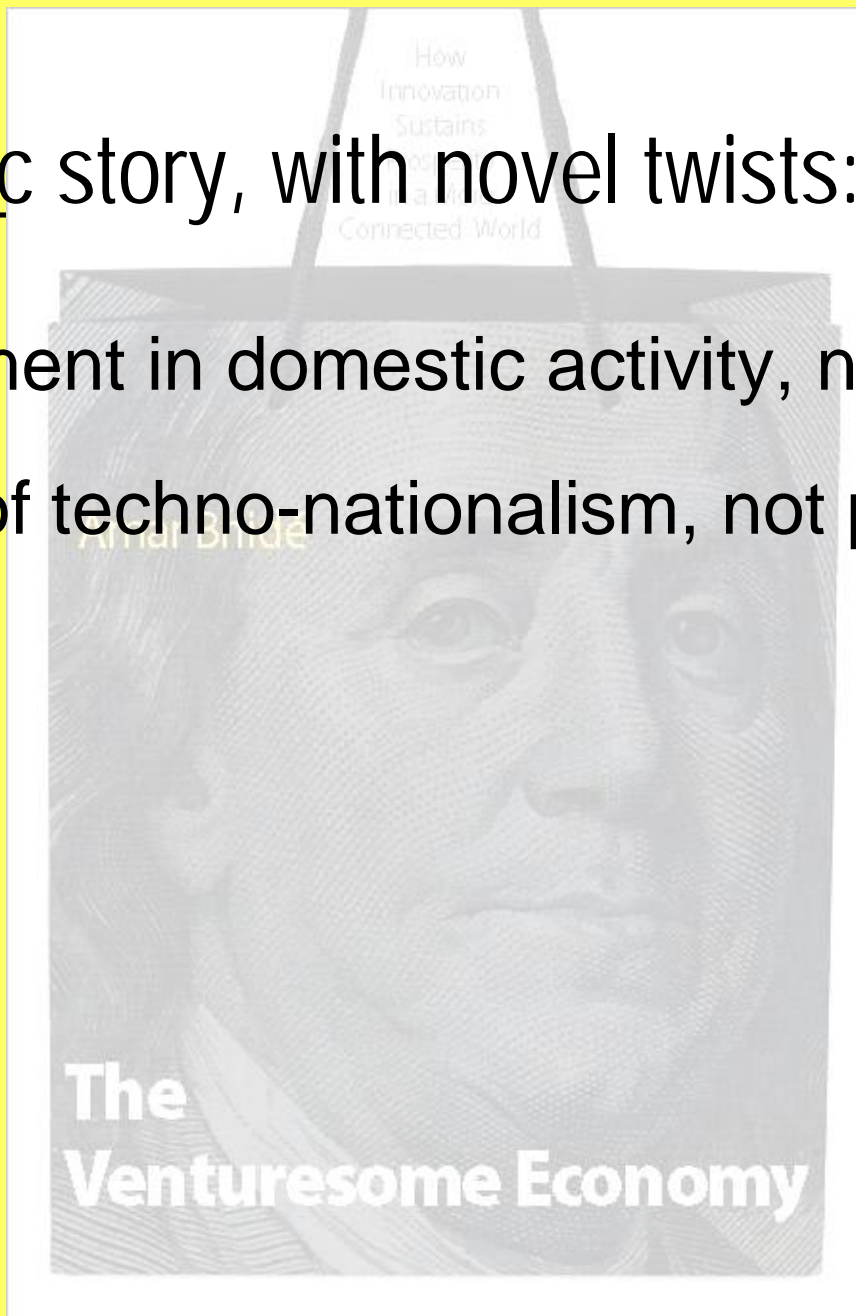
**The
Venturesome Economy**



Optimistic story, with novel twists:

Improvement in domestic activity, not exports

Critique of techno-nationalism, not protectionism



Techno-Nationalistic view: Lead or Lose

Equate national prosperity with international leadership in high-level science and technology

Puzzle:

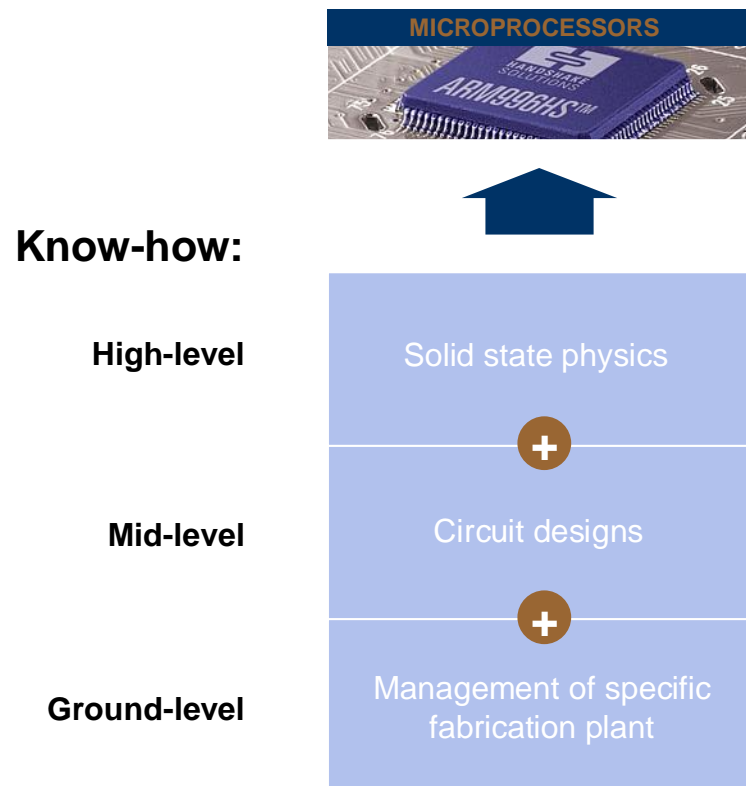
Why has the US maintained (or possibly expanded) its productivity and per capita income lead while the EU and Japan have increased their shares of PhDs, scientific articles etc.?

Hypothesis: Techno-nationalists ignore crucial features of modern economy

Crucial modern reality

Development and effective use of innovations
requires multi-level, multi-faceted advances

Multi-level know-how: microprocessors



Multifaceted... new technologies complemented by:

New sales and marketing practices

Managerial and “business model” innovations

Why reduced share of high-level scientific and technological research doesn't harm

Value appropriated by innovators small –
consumers capture most of the surplus

Massive unbundling of manufacturing and
innovation (going on for decades)

○ Great high-level research doesn't necessarily create much
domestic value-added

***But why is more China/India research good for
the US?***

1. High-level know-how more mobile.

More offshore high-level research

- Provides more raw material for lower level innovations
- Encourages domestic innovators to exploit comparative advantage in lower level innovations that must be locally developed and deployed
- Increasing domestic consumer surplus

Productivity/wages domestic workforce?

2. Growth of Service Economy

Everything isn't becoming globally traded; offsetting trends:

- More trading of tradeables

- But also large and growing 'un-traded' service sector – 70% of GDP/employment

Localized service sector innovations crucial

Increase productivity of large proportion of domestic workforce (and consumer surplus)

But must be well-adapted to local conditions

And, locally deployed

Why should innovators invest in localization and marketing in 'mature' economies?

3. Venturesome Consumption

Assumption: Passive, undeserving beneficiaries

Reality: Users play 'venturesome' ('entrepreneurial')
role...

...Venturesomeness stimulates innovations and is
essential to realizing their economic value

The U.S. economy: Winning by Using

Trade deficit in high tech symptom of strength

IT < 10% of GDP

But significant impact on the other 90+%

Source of productivity edge over Europe and

Japan: More -- and more effective -- IT

spending especially in the service sector

But what if service jobs go away?

4. Non-destructive Creation

Essential feature of technological progress, although overshadowed by “creative destruction”

New products, even if manufactured off-shore, generate domestic service employment and value added.

Offsets losses due to creative destruction and offshoring

Its not zero sum

“Should the industry of Ireland, in consequence of freedom and good government, ever equal that of England, so much the better would it be... for England. As the wealth and industry of Lancashire does not obstruct but promote that of Yorkshire, so the wealth and industry of Ireland would not obstruct but promote that of England.”

Adam Smith, 1779