

Consumers at the cutting-edge

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The Venturesome Economy

How Innovation Sustains Prosperity in a More Connected World

Amar Bhidé Princeton University Press, \$35, £19.95

In the run-up to the US presidential election, Barack Obama voiced a fear widespread in the US today: that the country is at risk of losing its leadership in technology and innovation.

Certainly, the US has been an innovation powerhouse for decades and technology innovation has been a leading driver of its economic growth and prosperity. Today, as the economy heads into recession, the question of the US's capacity to innovate has become particularly pressing.

The answer, according to a growing number of influential economists and Washington policymakers, is for the US government to invest in maintaining the country's technology leadership, in the form of bigger tax incentives for cutting-edge research and higher public funding to train scientists, among other moves.

In his new book *The Venturesome Economy*, Amar Bhidé painstakingly dismantles such "techno-nationalist" arguments, as he dubs them. Professor of business at Columbia University, and author of *The Origin and Evolution of New Businesses* (2000), Bhidé set out to examine the role of innovation in creating prosperity in a globalised world. The result is a rigorously researched and original analysis that challenges much received wisdom about the process of innovation, particularly in the US.

Counter to the view that generating cutting-edge research is paramount, he concludes that it is "venturesome consumption" – US consumers' and businesses' willingness "to take a chance on and effectively use new know-how and products" – that matters.

In his analysis of innovation, Bhidé distinguishes between cutting-edge scientific discoveries and ideas – what he calls "high-level" know-how – and the kind of know-how needed to turn these ideas into innovative products and services to meet the needs of specific markets ("mid- and ground-level innovation"). He says not enough attention has been paid to this mid- and ground-level activity, in particular to the commercial and organisational effort needed to turn scientific breakthroughs into useful products, or to how well America does it.

According to Bhidé, high-level scientific know-how is a free or relatively cheap resource – published scientific research is free, patent rights are often relatively inexpensive to license – and it is geographically mobile. So an increase in basic research abroad – including in India or China – should not worry the US; in fact, it "provides more material for mid- and ground-level innovations that increase living standards in the US".

Apple's iPod, for example, uses new technologies developed in Asia and Europe – ARM in the UK built the central processing unit. However, its success was in the end based on Apple's ability to integrate these different technologies, as well as on Steve Jobs's marketing genius and on US consumers' voracious appetite for MP3 players – some 80 per cent of global demand before the launch of the iPod.

Bhidé believes that the innovation that takes place closer to the end-consumers – his mid- and ground-level innovation – has a bigger impact on US prosperity than cutting-edge innovation. Americans are more likely to reap the benefits from it, and the US is better at doing it because its consumers play a central role in the innovation process.

US consumers' willingness to embrace new technologies their venturesome consumption, encourages innovative businesses to create new products and services targeted at the US market and to devote significant resources to marketing to US consumers.

This benefits the economy: the venturesome consumption of IT by companies within the service sector "is one of the main reasons that productivity and incomes have grown faster in the US than Japan and Europe since the mid-1990s", says Bhidé.

He highlights the role that businesses play through sales and marketing in realising the economic benefits of innovation. "The commercial success of innovations turns not just on the attributes of the product or know-how, but on the effectiveness and efficiency of the innovator's sales and marketing process," he says. Here managers get equal billing, at least, with scientists in the innovation process; hence his concern about policies to increase support for research and development and training scientists, rather than managers and entrepreneurs.

Bhidé is optimistic about the prospects for continuing technological innovation in the US – as long as US consumers maintain their appetite for cutting-edge gadgets and technologies.

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