A TREATISE ON
INNOVATION AND ECONOMIC PROGRESS

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'If you build a better mousetrap, the world will beat a path to your door' was a prevalent adage in mid twentieth century, if not long before then. So why, now in the first decade of the twenty-first century, do so many people speak the buzzword 'innovation' as if it denotes a new concept? Surely it merely signifies the taking of one or more new approaches to achieving various tasks? Even so, in relation to economic development, assuredly we want to give it particular meaning?

It is doubtful that innovation has necessarily to be linked with technology; even though enterprising people throughout the last hundreds of years have availed themselves of the latest way to answer the demands of a market that they were amongst the earliest to detect. In the Middle Ages it was using power produced by water mills that enabled the growth of many small industries. Through the succeeding centuries other examples abound of new ways to do things, even though very often these entailed no more than simple adjustments to the practices used by previous generations. It took something like the application of power produced by steam to engender widespread economic growth and, later, development.

It is surely worth remembering also that there can be little or no economic progress when growth occurs without development. Economic Development only occurs when the underlying rate of economic growth is both self-induced and self-sustaining, so that changes in the structures of manufacturing, technological and services industries yield higher productivity and higher real income per working person.

To induce the desired kind of economic growth, there has to be a steady supply of "new initiative, innovation and enterprise"[2] that accepts a hopefully properly calculated amount of risk. While the reverse side of the coin tells us that the key to sustaining their success lies in having top-level management of the dynamics of technology.

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[2] Europe and the Fifth Enlargement – Joseph E. Bigio, pp.119-30, WSHiFM, Warsaw 2004

Clearly, therefore, innovation does play a key role in the generation of economic development, while technology provides the dynamics that open out the development path of the enterprises involved in the process. .But even though innovations may well serve as “the real engine in economic development”[3], I maintain that the drivers of this development are the essential entrepreneurs who assume the risks of using the innovative processes - together with all those other individuals whom they persuade to accompany them in working for their venture. It is their initiative that sets things in motion.

When successful, their innovative activities improve the strength of the economy of the regions within which they are practiced, paving the way for essential transformations in the overall economic structure of their host country. Unhappily, they are all too often subject to the contrary effects produced by the previously prevailing political and business cultures in the regions and countries involved. It is to the analysis of these blocking effects that I devote the major part of this treatise, with a concluding section indicating the measures that could defend the entrepreneurial sector from the anti-competitive activities that, in effect, do much to counter any true economic development.

As I see things, there are four principal *prosperity blockers.* At any rate, they are the four obstacles to new enterprise that have become global in scale - even though they may often prove to be merely local examples of predatory behaviour.

PROSPERITY BLOCKERS

The primary blocker of any enterprising activity, it is usually contended, is Corruption in one or other of its many guises. But I think that this contention should be dissected, so that we may identify the core source of the primary blocking effect. Corruption is an all too human – and often cultural - form of obtaining payment, for providing whatever is being sought, for it to be identified as the overall villain in many situations. Therefore we need to peel away its superficial aspect so as to recognize what underlies the demand. More often than not this turns out to be an inefficient and widespread bureaucracy. Not the judicious Napoleonic variety but the self-justifying kind that is chiefly active for its own sake and benefit.

[3] Horst Hanusch, *Europe’s New Destiny*, UAL and the EU Commission Representation in Portugal, p.63

It is tempting, is it not, for us to sit back and say to ourselves that indeed Bureaucracy is the easily recognizable and primary blocker? I suggest, nonetheless, that it would be a common error to do so; because incompetent bureaucracies are not self-generated. They are merely symptoms of desires for increases in control through centralization of systems of governance. And it is, everywhere, the degree of the centralization of administration that constitutes the extent of blocking activities. The more effective the centralization becomes, the more it stifles initiatives on the part of those who are not in the central circuit. Entrepreneurs take initiatives. These are novelties and, as such, are innately mistrusted by those who work mainly through committees that inevitably require much time for deliberations as well as evidence of past successes before adopting any proposal.

There is another reason why Centralized Bureaucracies constitute primary blocking activities. Competing as they do for large quantities of the money supply, they create ever-growing cost-push inflation through permanent upward pressure on interest rates. In doing so they squeeze out the innovative entrepreneurs whose new ventures need finance from outside the circular flows of already working capital. Nothing can be more inimical to new ventures than a high cost for funding new risk. It soon leads to a situation where the new enterprise is simply working to pay the bank.

SECONDARY BLOCKERS

Almost as strong in their blocking effects, the three other important blockers are, in my view, to be seen as secondary, simply because they are far less difficult to neutralize. This is to say that those of their activities that so undermine the processes of economic development and social cohesion, when recognized, can be eliminated more readily. For it only needs a change in attitudes for the harmful practices to be generally eschewed. Naturally, to generate such changes in attitudes and practices requires considerable effort and persuasion. For these blockers are, specifically: Mergers and Acquisitions (M & A); The use of interest rate hikes for credit containment; The maximization of shorter term profits.

Mergers and Acquisitions (M & A)

M & A provide us with hosts of examples of the predatory – at times to a virulent extent – characteristic of what is generally spoken of as Globalisation. I label this characteristic predatory whenever it provides one of the parties involved with the occasion to acquire the fruit of the efforts of all those who contributed towards the organic growth of the other enterprise/s involved.

Before going deeper into the matter, hopefully you may accept an explanation of why this blocker is a matter of such deep concern, both on a sociological as well as an economic progress level. Put quite simply and starkly, it reverses all the progress that is achieved through the hundreds of new business initiatives that are creating new places of employment in any given region.

It does this, because, while each of the new small enterprises furnishes ten, twenty or sometimes as many as two hundred or more jobs, one or another mega enterprise in the region becomes involved in a strategic change that eventually results in a so-called restructuring manoeuvre and the laying off of several thousand skilled or semi-skilled employees – all with the ostensible aim of generating an early increase in shareholder values.

This is in no way anything resembling Schumpeter's idea of Creative Destruction. It demonstrates instead what I will call Destructive Disregard of Social Consequences, simply because the value of human resources seems never to enter the financial engineers' equations. Why should it? Their game is, after all, one governed by unmitigated greed; and their creed claims everything else should be left to market logic.

In the face of such a scenario, it should be obvious to anyone with the least amount of compassion that <u>the catechism of the capitalist manager needs fundamental reform. Some underlying principle needs to be changed</u>. For instance, the principle that puts competitiveness ahead of all other considerations needs to be rejected. We need to remind ourselves that it is not unbridled competitiveness that is the purpose underlying the creation of an enterprise. It is rather the existence of a business that provides a good and sustainable livelihood for all those individuals who involve and engage themselves in the various tasks of making it prosper.

This fundamental change of principle is not just a current, topical, proposal. It is something required by the basically spiritual desire of many managers and entrepreneurs to be able to reconcile plans, policies and decisions with the second Judaeo-Christian commandment: to love your neighbour as yourself....with all your heart (emotion), with all your soul (spirit) and with all your might (will-power), the second commandment being like unto the first.

To do so is not only to adhere to a moral requirement for all those who, at heart, wish they could act in accord with this injunction on a general, practicable, basis. It also happens to provide a more efficient way to do business – in that it promotes social cooperation and harmony and, thereby, the kind of social cohesion so essential to stable economic development.

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