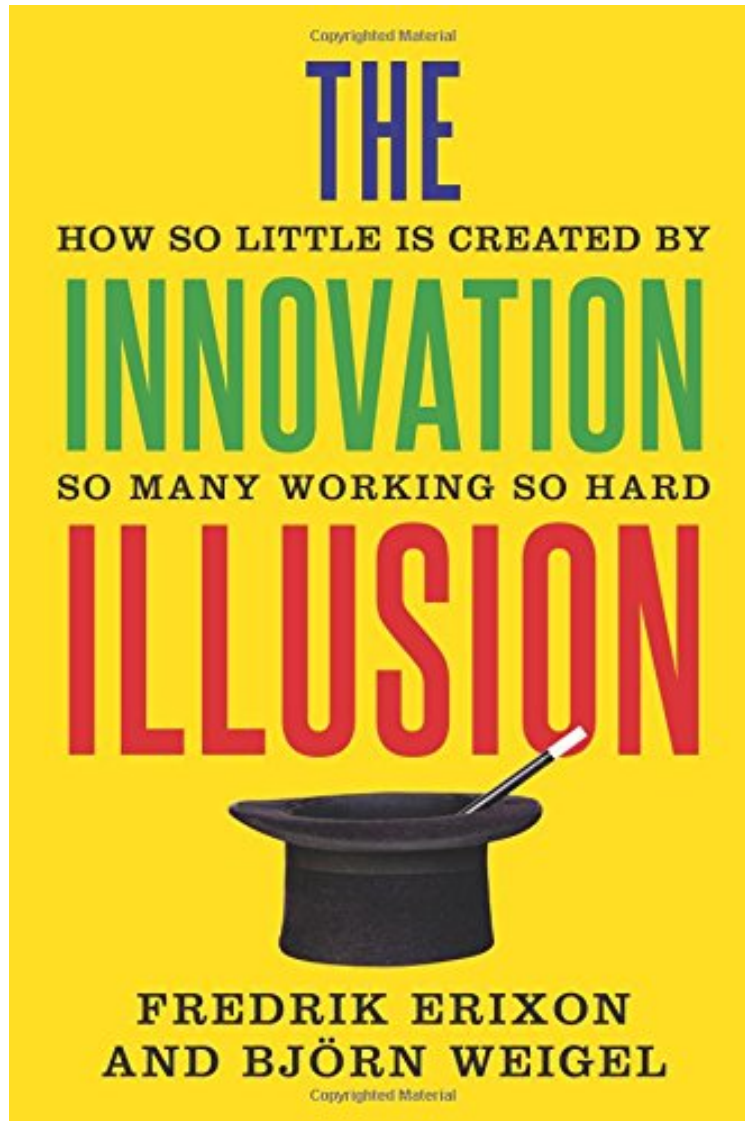


The Innovation Illusion: How So Little Is Created by So Many Working So Hard

Fredrik Erixon, Björn Weigel

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Fredrik Erixon, Björn Weigel : The Innovation Illusion: How So Little Is Created by So Many Working So Hard before purchasing it in order to gage whether or not it would be worth my time, and all praised The Innovation Illusion: How So Little Is Created by So Many Working So Hard:

1 of 1 people found the following review helpful. The Middle Age of Sclerotic Capitalism?By Alan F. SewellAuthors

Fredrik Erixon and Björn Weigel explore the question of why capitalism has become so sclerotic. In the mid 1990s, capitalism triumphed. Milton Friedman's free market doctrines spread. Socialist governments in Europe and Latin America tumbled and privatization prevailed. The Communist empires either dissolved, as in the Soviet Union, or morphed into something so close to capitalism as to be practically indistinguishable from it, as in China and Vietnam. And now here we are twenty years later and capitalism is seemingly teetering along a decade after the Financial Collapse of 2008 nearly killed it. Has capitalism defeated itself? Erixon and Weigel portray capitalism as having become complacent and risk-averse, as many human beings become after reaching prosperous middle age:=====If ever there was a cathedral of capitalism, the painted ceiling would now be more likely to picture someone who is gray-haired, worldly, and efficient, content and anxious at the same time, especially about their own health. Divorced from past aspirations, drifting away from the pursuits of younger generations, this is a capitalism that is planning for those long, dull and monotonous years associated with middle age. Capitalism no longer carries many promises of human development and improved economic expectations. Its future feels cloistered. It no longer champions that go-getting spirit and optimism about the future that defined its past. The economy instead weakens the conditions for economic experimentation and entrepreneurs to contest markets. In such an economy, expectations about fast and furious innovation are, at best, illusions. At worst they cause a political reaction that reinforces the barriers to a dynamic economy.=====That certainly describes the way many feel about capitalism, especially those over 50 who remember the days when capitalism in the USA and Europe came with the certainty of being able to support oneself through gainful employment.=====Western capitalism is not in good health. For a simple diagnosis, just look at the West's saturated corporate sector: it is brimming with cash but glaringly short of ideas for how to use excess capital to grow companies and innovate markets. The low level of economic dynamism in the Western economy has prompted some observers to blame Western societies for a lack of inventiveness or a falling appetite for new knowledge and innovation. The four factors that have made Western capitalism dull and hidebound are gray capital*, corporate managerialism, globalization, and complex regulation.*The authors define gray capital as indirect ownership of companies by Wall Street money funds who control companies without hands-on management. This indirect ownership presumably results in the money funds bilking companies of their cashflow and steering them into bankruptcy after their assets have been monetized and liquidated for the benefit of financial institutions.=====In the main, I agree with the authors' theories. Companies in the USA no longer innovate as much as they used to. Most enterprises that grow through innovation sell themselves to Wall Street by going public when they reach a certain size. Wall Street strip mines the companies it acquires by firing their R&D Departments, outsourcing the rank-and-file work to China or Mexico, milking the cash flow, and encumbering the paid-off assets with junk bonds whose proceeds go straight into the pockets of Wall Street money managers instead of being used to augment the firm's working capital. Few, if any companies taken over by Wall Street have happy futures. Wall Street's mania for destroying employment in the USA and Western Europe --- either by eliminating jobs through MA, shipping them to low-wage countries, or bringing in lower paid foreigners to displace higher-paid citizens --- means that the Middle Class is in decline. It is being propped up now by trillions of dollars of public debt. The debt will eventually be defaulted on, and the USA and Europe will revert to Third World countries. Two questions come to mind: 1. How dominant is this trend toward non-innovation? Perhaps there may be counter-trends that are overlooked? 2. What can be done to accentuate the counter-trends and restore innovation to the economy before it is too late? The clue to the first question may perhaps be found in the ages of the authors: The Innovation Illusion starts in the early 1970s, which also happens to be the time when both of us were born. Being born in the 70s, they began noticing the world outside the home in the early 1990s, the very time when capitalism peaked. There has not been all that much visible innovation since the 1990s. The world now is essentially the same as then. Perhaps it is even worse now because in the USA and Europe 1/3rd of our people no longer have employment opportunities that will sustain a middle class standard of living. People are more pessimistic about the future than at any time since WWII. Is this period of non-innovation temporary or permanent? Perhaps the answer is to be found in the length of the timeframe considered. A person born in 1850 who lived to be 98 would have come of age during the Civil War and passed away after WWII. He/she would have been born in a world of muzzle-loading rifles, horses, and extreme mortality. He/she would have passed away in a world of atomic weapons, jet planes, rockets, automobiles, and modern medicine. Yet even in that wonderful century of progress, there were periods of lagging innovation and economic regression. So, perhaps the authors' lives happen to coincide with one of those times of economic backfilling and stagnation that will end soon. New innovative wonders like computer / brain interfaces may soon come on the scene to drive innovation and economic growth to new heights. But what if this period of non-innovation turns out to be very long-lived? Can anything be done to jumpstart innovation? The authors are realistic about the difficulties involved:=====Unfortunately, capitalism's future does not look brighter. The factors that have shielded it from new ideas in the last four decades or so will not disappear. A decline in the creation of new prosperity is naturally unsettling, but it shrinks in comparison with the damage done to human aspirations. Economies that cannot inspire visions of a better life and future. Westerners have already lowered their expectations of the future. That is true even in the United States, otherwise known for its sunny optimism. Pessimism is a self-fulfilling prophecy: the gradual erosion of optimism in thinking about the future has invited fear of technological change, and political

reactions in response to people who are nostalgic about the past and anxious about the future.====What, then is the fix? The authors warn us not to count on globalization. Imagining that were going to bail out failing Western economies by investing in Third World countries turned out to be a fantasy. Trade, even between wealthy countries, is declining, as countries are becoming relatively poorer under sclerotic capitalism that makes them less able to afford importing each others goods and services. They mention the difficulty of optimizing the right amount of regulation on the private economy. Regulation impedes growth, but the power of modern technology requires it. The regulation of the pharma industry resulted from the Thalidomide disaster of the early 1960s when thousands of babies were born without arms and legs after their pregnant mothers took the Thalidomide sleeping pill. Modern societies do not tolerate the deaths of workers and consumers as we did in prior ages when human life was cheap. Companies are regulated to insure compliance with worker safety, consumer safety, and environmental laws. So, it become a question of optimizing regulations, not eliminating them --- a lot easier said than done, because human safety is difficult to quantify on an economic basis. Likewise, banks are the subjects of intensive regulations. No surprise here, because the larger banks committed every fraud known to man, and wrecked the economy with their fraud in 2008. So why shouldnt they be regulated? The authors then point out the dampening effect of gray capital":====The greatest danger to Western capitalism is the gray capital stampeding through it and changing it beyond recognition. Capitalism simply cannot recover its health unless the takeover of companies by institutions and anonymous owners is halted, and its future will remain bleak unless actions are taken with the effect of boosting distinct capitalist ownership of companies. investment institutions from draining companies of capital. gray capital must be stopped from taking complete hold of corporate ownership.====But how do we harness gray capital and make it work more effectively in the public interest? That would require vigorous government action to bust the largest conglomerates back into the independent, more competitive and innovative, business units from which they assembled themselves. It would require thousands of pages of government regulations and an aggressive federal bureaucracy to separate company managements from influence by Wall Street. It would require the dissolution of many multinational companies and a prohibition on many forms of foreign trade, which are often used to stifle innovation by moving production to cheap-labor countries instead of investing in productivity-enhancing technologies in the home countries. So, we are left with the usual paradox of conservative, free-spirited economists advocating for government solutions to revive flailing free markets! For the record, I agree with the authors on their diagnoses of the symptoms of our economic malaise. I would be more aggressive than anything they propose in reviving our economy. I would propose: 1. Busting most large companies back into smaller units. Perhaps this could be done by a progressive corporate income tax that discourages companies from growing by mergers and acquisitions, which serve no purpose other than to reduce competition and reduce employment. 2. Eliminating imports of foreign-made manufactured products, except with countries that run neutral balances of trade with us. Keeping production in the USA would force companies to invest in productivity-enhancing machinery and automation instead of searching for inefficient cheap labor pools in China and Mexico. 3. Taxing financial transactions (such as buying and selling stock and options) at higher rates in order to encourage companies and individuals to invest in innovating new and improved goods and services instead of stockjobbing with pieces of paper. Of course, Wall Street and multinational companies, and the politicians they carry about in their pockets, would fight this hammer and tongs. It is going to be a long and arduous fight to overthrow the entrenched political and economic Establishment. Perhaps we have begun this process with the 2016 elections. 6 of 7 people found the following review helpful. Radical, Big Innovation Famine on the Rise in the West By Serge J. Van Steenkiste Fredrik Erixon and Bjrn Weigel relentlessly burst the myth that America and Europe are at the vanguard of an innovation revolution. The slowing economic growth experienced in the West has been a reflection of the lack of disruptive innovation since the 1970s. Western capitalism has pursued mostly incremental, uninspiring innovation. Messrs. Erixon and Weigel attribute this under-performing mutation of capitalism to four mutually-reinforcing factors: 1. Gray capital; 2. Corporate managerialism; 3. Globalization; 4. Regulations. Gray capital is best defined as rentier capitalism. Gray capital is mostly about short-termism, (higher) dividend payouts, and/or stock buybacks, not about economic renewal. Highly dispersed ownership interests, the growing financialization of the economy, and the aging of Western societies embed themselves into the structure, culture, and ambition of corporations. Firm managers have equally contributed to the gradual corrosion of capitalism. The appetite for creative destruction is too often missing in action. Instead, a custodian corporate culture often reigns. It is both defensive about the future and protective of its boundaries. Furthermore, the increasing organizational complexity of many companies too often leads to the silo curse. None of these characteristics is conducive to the spirit of winning. In the past 25 years, multinationals shifted strategy from contesting markets to defending their positions, partly because the fragmentation of value chain pushed companies to draw their firm boundaries closer to their ownership advantages. This mindset change does not emphasize disruptive innovation. Finally, elected politicians have embraced managerialism in the past few decades, i.e. a marked preference for market stability and innovation predictability. The deregulation of Western economies is an illusion. Precautionary regulations often compound the deleterious impact of non-precautionary regulations on innovation. These regulations address problems that may occur, not existing problems. To insufflate new life into Western capitalism, the authors have three recommendations: 1. Severe the link between gray capital and

corporate ownership; 2. Give competition a real boost; 3. Nurture a culture of dissent and eccentricity. As long as most Western pension plans are not financially stable, they will continue to drain companies of capital through (higher) dividend payouts, share buybacks, and/or short-termism. Furthermore, the usage of dual class stock structures would help reestablish and maintain entrepreneurial spirit. Ownership democracy is another illusion ripe for the culling. Boosting competition, especially in the service sector, in Western markets requires changes in national and cross-border regulations. Finally, radical innovation cannot prosper without the tolerance of the unknown and acceptance of experimentation. Reforms cannot make it happen. In contrast, encouraging a culture of dissent and eccentricity can further encourage innovators and entrepreneurs to articulate and pursue their unconventional ideas. In summary, Messrs. Erixon and Weigel clearly demonstrate that in Western economies both entrepreneurship and openness to contestability are receding and depressing the capacity of capitalism to foster and diffuse new technology. Will the Western economies be up to the task of embracing radical, big innovation for their own betterment? 0 of 0 people found the following review helpful. Where was the "illusion" By jcn The title is intriguing, but somewhat obscure. There was no obvious "illusion", the actual subject was the wide spread lack of innovation. The author presented several reasons for this problem, but he spent forever describing and discussing these reasons. It became frustrating and tedious. It seems the text should have been shorter and more succinct. I could not finish reading. I tried hard and hoped he would get to the "illusion", but it became too much of a "grind". The problems he discussed were interesting, but not that surprising. The only references were quotes from a number of sources, but no detail. Considering the extreme detailed and repetitive description, there should have been more detail regarding the references. It was not entirely convincing. The only companies mentioned were large existing corporations. He mentioned how old these companies were in some of the European countries. Except for a slight mention of "exceptions" nothing else was mentioned. I feel that old large companies are the last place I expect innovation. At present four of the 5 largest companies in the USA are new, very innovative, and growing extremely fast, but were not mentioned. It felt like the book discussed a limited section of industry, in exhausting detail, where one would least likely find innovation.

Timely, compelling, and certain to be controversial a deeply researched study that reveals how companies and policy makers are hindering innovation-led growth. Conventional wisdom holds that Western economies are on the threshold of fast-and-furious technological development. Fredrik Erixon and Bjorn Weigel refute this idea, bringing together a vast array of data and case studies to tell a very different story. With expertise spanning academia and the business world, Erixon and Weigel illustrate how innovation is being hampered by existing government regulations and corporate practices. Capitalism, they argue, has lost its mojo. Assessing the experiences of global companies, including Nokia, Uber, IBM, and Apple, the authors explore three key themes: declining economic dynamism in Western economies; growing corporate reluctance to contest markets and innovate; and excessive regulation limiting the diffusion of innovation. At a time of low growth, high unemployment, and increasing income inequality, innovation-led growth is more necessary than ever. This book unequivocally details the obstacles hindering our future prosperity.