

Innovation and Economic Performance: Policy Options

Joseph Schumpeter, the economist that introduced the notion of “creative destruction” to describe how the economy grows and prospers, suggests that firms face two uniquely different types of competition: ordinary and quality. Ordinary competition reflect firms that compete on price and price alone. These firms achieve higher levels of profitability by focusing on reducing costs. For these firms, a positive business climate represents low taxes, limited regulation, inexpensive labor and cheap land. Quality competition reflects firms that compete by bringing new innovations to the market. A positive business climate for innovative firms could be characterized by communities that are willing to tax themselves to make investments in their community, build public-private partnerships to facilitate networking and sharing of ideas, and focus on investing in people. The investment in people is vital because the innovations upon which these firms thrive are derived by what people accomplish. Rather than labor being a cost, labor is a key asset to be promoted.

One way to think about the quality competition is to revisit the notion of economic clusters that Wisconsin embraced several years ago. The idea is that Wisconsin has certain comparative advantages that makes us more attractive to certain types of industries. But dynamic clusters are more than a geographic concentration of certain types of businesses. Effective clusters are collections of learning and innovative firms not simply a geographic concentration of similar firms looking to maximize profitability by reducing costs (ordinary competition). The policy implication here is to create an environment that helps facilitate networking and learning opportunities.

Within this cluster of innovative firms, Morgan (2007) suggests that policies should aimed at promoting three different types of competencies. Technology competence, the ability of firms to adopt and master technology that is relevant to its needs. Entrepreneurial competency, the ability to integrate relevant technology and new processes with the wider strategies of the firm. Part of this competency involves the willingness of firms to experiment with and constantly seek out new ideas or innovations. Learning competency, structure and culture of the firm to enhance the ability to absorb and process information concerning changing market conditions and new innovations. While investments in public education plays a key role here, more nuanced policies focused on promoting of public-private partnerships that can facilitate networking opportunities for not only key principals of the business but more importantly the workforce.

Another way to think of policy within this quality competition or innovation environment is what Cooke (2001) calls “innovation infrastructure”, “soft infrastructure” and “network infrastructure”. Here the use of the word “infrastructure” helps visualize what needs to be in place as an enterprise support subsystem for economic growth and development. Public policy is aimed at fostering that infrastructure which allows for networking and continuous learning. A simple example would be local and regional economic development organizations working with business partners (i.e., public-private partnerships) to offer continuous learning opportunities for specific industries and the labor force.

To help better understand these different types of infrastructures Cooke (2001) offers a set of simple characteristics that distinguishes ordinary and quality competition that can help guide policy discussions (Table 1). One can also think of these as different characteristics of business climate. One set of characteristics focuses on reducing costs through lower taxes, limited regulations, antagonistic relations with labor and other firms within the industry (geographic cluster). The second set of characteristics focuses on creating a continuous

Table 1: Ordinary versus Quality Competition

<u>Ordinary Competition</u>	<u>Quality Competition</u>
Competitive culture	Cooperative culture
Individualistic learning	Interactive learning
Self-acquired skills	Worker mentoring
Antagonistic labor relations	Harmonious labor relations
Low taxes	Investment in community
Limited regulations	Flexible regulations
Piecemealed innovation projects	Regional university-industry synergies
Stand-alone R&D	Interactive innovation
Closed door policy discussions	Inclusive policy discussions
Reacting	Monitoring
Authoritative	Consultative
Hierarchical	Networking
Security	Experimentation

learning environment where labor is a central asset that requires constant reinvestment. Firms work cooperatively through business associates and public-private partnerships. Because people, particularly educated and skilled workers, or what Richard Florida (2014) might call the “creative class”, are vital, firms will seek out communities that are attractive to these types of workers. Alternatively, firms will work with communities to make the investments required to make the communities attractive to the educated, skilled and innovative or creative people. If this requires higher taxes and regulations, firms are willing to accept the associated costs.

Just like businesses that are willing to make long-term investments in research and development (R&D) innovative communities with a positive business climate take a long-term view of the community. Rather than taking a self-serving confrontational approach, which is inherent to the ordinary competition oriented business, a collaborative partnership approach is embraced. Through these public-private partnerships and higher levels of networking within and across the community more effective short- and long-term strategies can be put in place.

"Capital isn't so important in business. Experience isn't so important. You can get both these things. What is important is ideas. If you have ideas, you have the main asset you need, and there isn't any limit to what you can do with your business and your life."

— Harvey Firestone

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