Many warn that the next stage of globalization--the offshoring of research and development to China and India--threatens the foundations of Western prosperity. But in The Venturesome Economy, acclaimed business and economics scholar Amar Bhide shows how wrong the doomsayers are.

Using extensive field studies on venture-capital-backed businesses to examine how technology really advances in modern economies, Bhide explains why knowledge developed abroad enhances--not diminishes--prosperity at home, and why trying to maintain the U.S. lead by subsidizing more research or training more scientists will do more harm than good.

When breakthrough ideas have no borders, a nation's capacity to exploit cutting-edge research regardless of where it originates is crucial: venturesome consumption--the willingness and ability of businesses and consumers to effectively use products and technologies derived from scientific research--is far more important than having a share of such research. In fact, a venturesome economy benefits from an increase in research produced abroad: the success of Apple's iPod, for instance, owes much to technologies developed in Asia and Europe.

Many players--entrepreneurs, managers, financiers, salespersons, consumers, and not just a few brilliant scientists and engineers--have kept the United States at the forefront of the innovation game. As long as their venturesome spirit remains alive and well, advances abroad need not be feared. Read The Venturesome Economy and learn why--and see how we can keep it that way.

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The book is a thoroughly researched, eloquently argued and highly persuasive piece. Its central thesis is that technological innovation is a
complex, multiplayer game in which America still leads the world by a long way. American scientific, technological and economic pre-eminence are thus not going away anytime soon. The book goes on to argue that neo-protectionist fears are unwarranted, and shows how they will probably undermine Americas economic might in the long run.

The book comes with impeccable credentials. It is authored by Amar Bhide, the Lawrence D. Glaubinger Professor of Business at Columbia University. Prof Bhide is also a co-researcher of Edmund Phelps, 2006 Nobel Laureate in Economics who is an authority on, among other things, the relationship between investment in education and research on the one hand, and economic growth on the other.

And Prof Bhide could hardly have chosen a better time to weigh in, as anti-offshoring rhetoric can be expected to rise over the next few months. It must be noted that the primary purport of the book is not to support outsourcing or offshoring, and I am sure nothing could be farther from the authors mind than to be painted as a torchbearer for the outsourcing brigade. Nonetheless, the arguments presented therein can be read as making a substantial case for a more liberal approach toward outsourcing.

The author marshals an astonishing array of evidence in supporting his thesis, stitching together data and information from diverse disciplines. He presents data to show that protectionist fears in the 1980s that the US would soon be overtaken by Germany and Japan, which focused on rigorous planning of their scientific manpower, proved baseless as the US prospered while the ostensible aggressors largely floundered. He says things are no different this time, with China and India.

The books arguments can broadly be summed up as follows:

* Wealth arises not so much from creating new technological breakthroughs as from the capacity to benefit from those breakthroughs.

* This capacity to benefit is a higher order capacity that includes elements such as the ability to create products based on those technological breakthroughs, the ability to market those products well, the ability to take risk and freedom from over-regulation. In particular, venturesome consumption - the propensity of consumers to embrace products based on new technologies - is vital.

* The US has most parts of this diverse puzzle - particularly venturesome consumption - and is hence best positioned to benefit from new technologies. This is true even of new technological innovations produced abroad. As an example, the author avers, the exceptional ability of US companies to use IT has been a strong reason why US productivity has outpaced that in Europe in Japan.
Hence allowing technological breakthroughs to happen abroad certainly does not hurt, and possibly benefits, the US. The author offers the example of the iPod, much of whose technology originated in Europe and Asia, but which wouldn't have achieved the success it has without venturesome US consumers - who have in turn reaped huge benefits by so consuming the device.

This higher-order capacity is deeply rooted in various economic, social, cultural and psychological structures and is hence highly sticky, which makes it difficult for the US to lose it - and for other countries to acquire it.

The author also introduces the notion of nondestructive creation (innovation that creates new products and services without displacing existing ones) in addition to the familiar Schumpeterian creative destruction. Such nondestructive creation creates new jobs without eliminating existing ones. At least in the nontradable services sector, these new jobs will have to stay in the US and cannot migrate to low cost locations.

Thus, Prof. Bhide assures us, there is unlikely to be a giant sucking sound anytime soon.

One potential objection that occurs to me, that protectionists may raise: relying too strongly on the nontradable services argument may amount to standing on shifting sands at best. Several services thought to be nontradable have turned out to be tradable after all. IT services themselves were thought to be nontradable for long, until Indian IT service companies showed they could cross borders. Even advertising, which is highly culture- and context-specific - has been offshored (Lenovo has headquartered all its marketing activities outside China in Bangalore).

The book also perhaps bypasses one major theme on the subject of how innovation sustains prosperity in a connected world (and this is also my favorite argument in favor of why developed economies including the US should not be chary of allowing high-end work - and high-paying jobs - to flow abroad): a lot of the prosperity that so leaks away from developed economies comes right back in the form of demand for products and services. As an example, Indian IT outsourcing companies are perhaps the largest airline customers in the world, as tens of thousands of workers travel each year between India and the countries where clients are located. These airlines such as United and Lufthansa are mostly headquartered in developed countries. Similarly, the same India-based outsourcers lap up the laptops, PCs, servers and networking equipment made by Dell, Sun and Cisco. They are huge buyers of software produced by Microsoft, IBM, Oracle and SAP. These companies (and their employees) can safely be assumed to have an insatiable appetite for the latest cellular phones and so forth from the likes of Apple,
Nokia and RIM. These companies also employ legions of workers at or close to client locations - workers who pay taxes and pump money into local economies. Many of these companies are listed on US and European stock exchanges, allowing people there to participate in their wealth creation. Thus, prosperity leaking abroad contributes to prosperity in the developed economies - not in some nebulous, long-term sense but in a way that is direct and almost immediate.

These are but minor quibbles - the book cuts a wide swathe in making its elaborate argument convincing. Along the way, the author explores the question of why companies buy IT. The notorious Productivity paradox, which held that IT has not contributed to productivity gains in business - is firmly laid to rest. He avers that IT has brought new ways of doing business, and also delivered significant benefits to the customers of those businesses that used IT, which are ignored by conventional productivity statistics. Another interesting topic examined is that of why people acquire education (particularly higher education), and how universities perceive the economic value they impart to their graduates.

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