

## **Creative Consumption**

The greatest threat to monopoly power is innovation. Monopoly provides a company with the opportunity to make large profits which cannot be eroded by competition. Such is the attraction of monopoly, that many firms can be incentivized to find new ways of operating, discover new products, or even develop completely new markets. This hunt for innovative solutions enables non-monopolists to overcome, or bypass, the entry barriers of the incumbent monopoly. In such a way monopoly, spurs innovation, which spurs economic growth.

It is for these reasons that much emphasis has been placed on innovation. The world's largest innovator is the US. Each year the US economy spends more on research and development, has the largest number of scientists and research institutes and lodges the largest number of patents. Europe trails the US in innovation and has for many years been trying to catch up. Governments have ploughed money into universities and provided companies with tax incentives to invest in research and development. The biggest threat to the US and to Europe now comes from India and China, where local universities are churning out millions of engineering and science students. All of which stands in stark contrast to the popularity of social sciences and media courses in Europe and the US.

Before conceding defeat to the new economies it is important to recognize that for innovative production to have an economic value it also requires innovative consumption. Innovation has to be marketable. If companies cannot commercialize innovation and consumers are not interested in searching and experiencing innovation, then the value of innovation is lost. This is where Europe currently falls down. Much of the patented R&D in Europe is generated within universities. In the US a greater percentage of patents are registered by commercial bodies. While European universities are quickly recognizing the commercial value of their science teams, they are not well versed in the arts of commercialization. US research-intensive companies are.

Lavish marketing budgets and access to credit all form part of the ingredients necessary to make consumers take on innovative ideas, products and services. This raises the question of where the emphasis on innovation should take place within an economy. Clearly, upstream value-enhancing science-based innovation is necessary, but it is

equally important to understand how downstream users of innovation can also impede or embrace new knowledge. Firms with an ability to understand how new and innovative ideas can be commercialized are as equally important as consumers who are willing and conditioned to undergo innovative consumption.

### **Questions**

1. Are monopolies good or bad for an economy?
2. In light of the arguments made in the above discussion is it possible to understand why a company like Apple is based in the US?