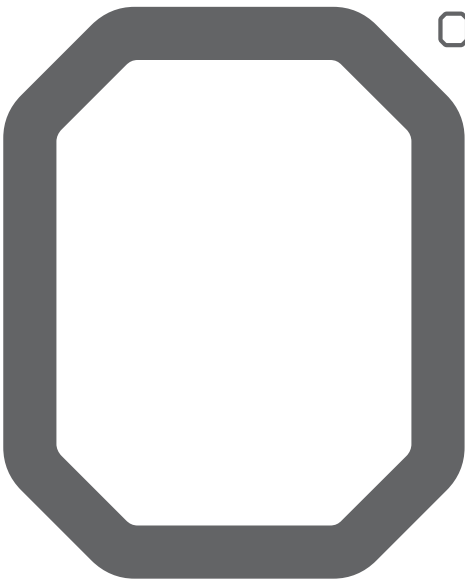




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Opinion

Innovation Is Overrated: A Provocation

*Digital innovation is not working in the interest of the whole of society.
It is time to radically rethink its purpose without sacrificing the benefits it entails.*

THERE IS A parallel between rising economic inequality and the current wave of technological disruption in which the world is mired. Economists around the world are debating about the need to rethink a model of economic prosperity based exclusively on growth. Critics of such model point out that GDP growth, the once referential metric of a country's progress, is no longer apt to capture the complexity of modern-day economies, which face challenges like staggering levels of inequality and the climate emergency. Against this backdrop, an increasing number of economists around the world are pushing back against such a growth-obsessed model to support an alternative paradigm based on redistribution, sustainability, and circularity.

Why are we not having a similar debate when it comes to technology? In little over a decade, software has eaten the world and moved a great portion of the economy online. At the same time, the technology born out of this revolution has become concentrated among

a handful of private companies. The result is that, on the one hand, we live in a phase of technological abundance. On the other, we depend on a few corporations to provide the digital infrastructure and services that are so indispensable for our everyday lives.

To some, this should not be a concern. Successful digital companies escape competition by occupying new markets, establishing monopolies, and reaping greater profits. Monopoly, in this perspective, is a by-product of innovation. To others, corporate concentration is a nefarious outcome that stifles innovation and should be addressed by breaking up existing digital monopolies.

Admittedly, the rise of tech giants has prompted a revival in antitrust and regulatory activity in the West. Regulation attempts span a gradient that goes from lighter-touch approaches to more radical solutions like breaking up firms. Yet all of them follow one polar star: protecting and nurturing innovation. To companies, innovation is life insurance in the face of growing regulatory scrutiny. To justify their

market power, firms can demonstrate their value by pointing to the benefits they bring to consumers. According to this narrative, social media has created a globally connected community (has it?), new generation networks will bridge the connectivity gap and bring the Internet to everyone, while artificial intelligence (AI) will enhance humans and bring about momentous progress in a variety of fields. In a culture so obsessed with innovation as the highest achievement of human output, such rhetoric is undoubtedly powerful. Yet it conceals a perception of innovation as always good per se, almost as if innovation automatically corresponded to concrete benefits for society, even if this is not necessarily the case. This mindset risks working more in the interest of the companies that own the technology rather than the groups whose life the technology is supposed to improve.

Because innovation is crucial to economic development, enforcers and politicians who want to regulate a sector need to demonstrate that government intervention in a market will not ham-



per innovation. Let's take the example of mergers and acquisitions. Two merging companies, especially if not directly competing, may claim the merger will result in greater efficiency to the benefit of consumers. If enforcers want to prevent a merger from happening, they must put forward reasonable theories of harm (ToH) and support them with evidence to justify such measure. In doing so, they often face claims by the merging companies that blocking the deal will inhibit their incentives to innovate, with cascading negative consequences for our welfare as consumers.

A Different Kind of Innovation

What if our focus on protecting incumbent innovation was the wrong target? What if such a narrow focus on innovation was shifting away our attention from the real challenges we ought to address in the face of greater technological disruption? As even Joseph Schumpeter—an economist traditionally associated with welcoming monopoly power as a source of innovation—observed, not all innovations are

created equal. Some of them are merely “incremental,” which might be welfare-enhancing in the short-term but not necessarily disruptive. Others, instead, are “radical” in the Schumpeterian sense of being truly creatively disruptive.⁵ But those innovations take place mostly outside the incumbents, at the periphery of an economic system where smaller entrants—who have less to lose from disruption—experiment with new ideas. With its laser-like focus on consumer welfare, it seems the current regulatory framework is destined to protect (even if involuntarily) incumbents' incremental and routinized innovations rather than facilitating the radical ones that societies need to address their most fundamental challenges.

Radical innovation might not be welfare enhancing in the short term, but this would not be a good reason to stop pursuing it. For radical innovation to happen in our platform-dominated world, for example, we must ensure broader access to a fundamental resource: data. Having access to large amounts of data is crucial to train and

perfect the algorithms that power digital technologies. Yet start-ups often have limited access to training data. Thus, fostering radical innovation could ultimately entail ensuring broader access to data through regulation. This might temporarily harm consumer welfare as large incumbents would be forced to open up their data to competition and diminish their short-term incentives to innovate. But it would most probably result in long-term innovation to the broader benefit of society.

Finally, as demonstrated by the preceding example of merger and acquisitions, a narrow focus on welfare-enhancing innovation and efficiencies might inadvertently exacerbate another perverse trend of technology markets, that is, the tendency of dominant firms to buy up innovative start-ups before they pose a threat to their business, a trend now well documented by empirical research.³

Any remarks on the need to rethink the role of innovation in modern societies, as well as the excessively narrow interpretation of it that can affect our

regulatory approach to digital technologies, are usually met with skepticism. “You cannot stop progress,” some might argue. “Technological advancements have brought prosperity and abundance to humanity,” others could rebut. All this is sensible. Indeed, technological developments have brought us prosperity in the past and can do so in the future. However, equating technological development with progress—or the idea of the inevitability of technology—is at least problematic as it can lead to inaction or the belief that societies have no control over a technology’s trajectory and need to live with its potential negative consequences. For example, fears about AI displacing workers are largely inflated. Empirical evidence shows that new technology often creates more jobs than it destroys,¹ hence we can reasonably expect AI will produce the same outcome in the long term. This should not dispense policymakers from acting on the accelerating pace of replacing technologies and their disruptive impact on modern societies. Such challenges are complex, and a narrow focus on innovation alone can only take us so far.

Like focusing on indefinite growth is not a viable response to today’s economic challenges, the constant obsession with a possible loss of future innovation might well be hindering our efforts to make technology work for societies. This plunges us into a state of uneasiness where we are constantly projected on the next technology wave without having harnessed the previous one. Playing catch-up with innovation means being caught in a never-ending struggle. Whoever dares to point at this fallacy, though, risks being dismissed as yet another Luddite, their arguments disregarded as void complaints against technological progress. To suggest alternatives to the current technological zeitgeist is often enough to be labeled against technology.

Escaping the Hype

Few will dispute that the world is still grappling with the political and social fallout of recent digital technologies. From social media disrupting the public sphere and widespread disinformation campaigns, to AI nationalism and technological decoupling between the West and China, corporate surveillance, algorithmic unfairness, the rise

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of cybercrime as a service, societies around the world are struggling to mitigate the potential misuses of digital technologies.

Yet policymakers, regulators, and the business community are already moving onto new targets, drowning in the hype cycle of the next technological fad. First came Web3, a foggy, blockchain-based new version of the Internet that would supposedly usher in a decentralized and more democratic cyberspace. Then the crypto bubble crashed, and venture-capital investment in the sector seems to have withered away. Next came the Metaverse, a blend of virtual and augmented reality meant to bring users a new immersive online experience, before everyone forgot about it and its proponents were forced to curb their expectations.

Now, large language models (LLMs) such as ChatGPT are having pundits musing about the impact of generative AI. Yet for all the marvels produced by recent AI developments, the technology will not escape the logic of concentration that characterizes digital markets, with all its economic and societal consequences. The extensive computing power required by machine learning applications to run, for instance, is already forcing AI start-ups to strike deals with cloud computing hyperscalers to drive down costs, bringing considerable control over the technology back to a handful of tech giants.⁴ Evidently, such a state of affairs suits incumbents that profit from the status quo. These have a vested interest that the public marvels at the next big thing. It distracts it from pitfalls in the current system. But can we really afford such an outcome?

As recalled, the current debate of how to modernize our economies is not about getting rid of economic growth. To propose that would be foolish. Growth is indispensable to dragging

people out of poverty, creating wealth, and bringing prosperity. Rather, it is about focusing less obsessively on growth as the only objective to pursue, and more on redistributing value. By the same token, rethinking our relationship with digital technologies is not about demonizing innovation and the prosperity it generates. It is about realizing more powerful, radical forms of innovation. In other words, if innovation does not create widespread societal benefits, then its very purpose is being defeated. It is not about *stopping disruption*, it is about *sharing disruption*.

To achieve this means first and foremost crafting regulation that truly enhances competition, for example, by promoting interoperability.² But it also entails moving beyond a narrow focus on incremental innovation and rethinking our relationship with technological development. Only then will we be able to address the challenges brought by current technologies, before we move on to the next ones. This may well result in more political stability and equality, even at the cost of a temporary loss of innovation.

The digital revolution requires a shift in our conception of innovation akin to how climate change and rising inequality force us to rethink our relationship with traditional models of growth.

Are we doing enough to meet the challenge? C

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