

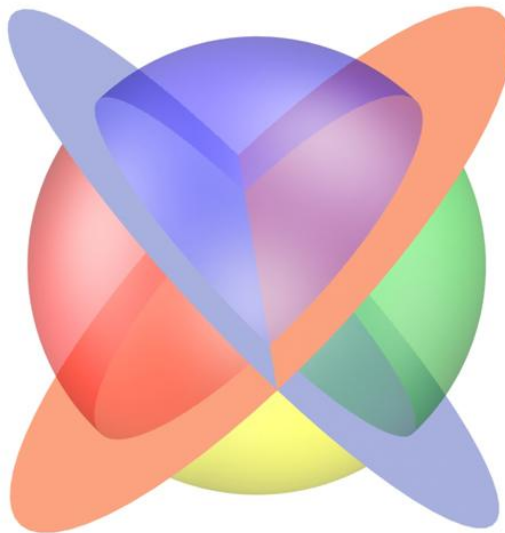
Excerpt

Chapter 1:
CONNECTIONS
by Charles D. Weller

THE THEORY OF PRODUCTIVITY, INNOVATION
AND UNIQUE VALUE

The Theory of Productivity, Innovation and Unique Value is a dynamic economic theory of wealth and prosperity that provides the connections unifying this book. It is an empirically driven theory of economic prosperity and human dignity, of long-term consumer welfare, principally developed over the last quarter century by Michael Porter of Harvard Business School.

Figure 1-1:
Theory of Productivity, Innovation and Unique Value



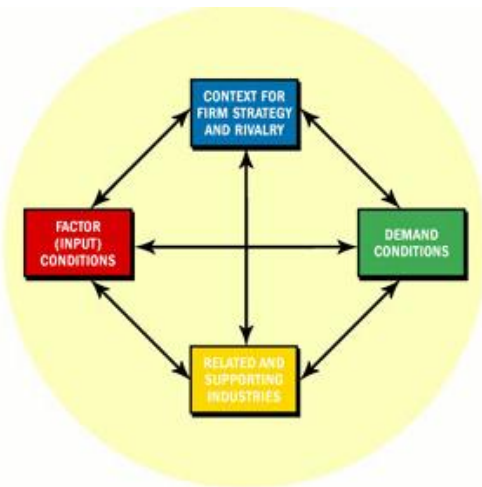
Five Forces	(red "slice")
Type (Sophistication) of Competition	(blue "slice")
Business Environment "Diamond"	(4 color "globe")

© Michael E. Porter "Unique Value," "Five Forces," "Business Environment 'Diamond,'" "Type (Sophistication) of Competition."
© Charles D. Weller graphic (with special thanks to Nottingham-Spirk Design Associates, Inc., Cleveland Ohio).

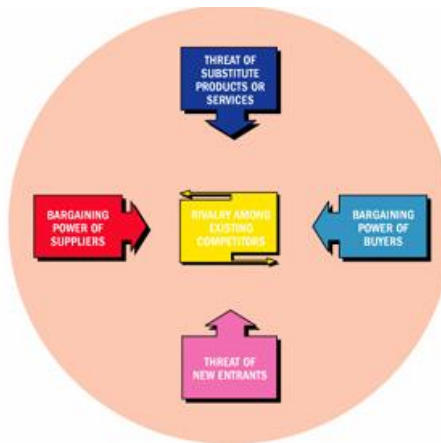
THREE KEY VARIABLES

<u>Variable</u>	<u>Graphic</u>
Five Forces	Red "slice"
Type (Sophistication) of Competition	Blue "slice"
Business Environment "Diamond"	Four color "globe"

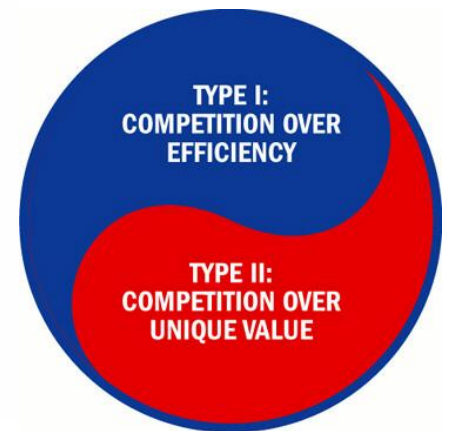
Diamond



Five Forces



Type of Competition



© Michael E. Porter “Diamond” and Five Forces graphic;
 © Charles D. Weller (yin-yang graphic)(with special thanks to Nottingham-Spirk Design Associates, Inc., Cleveland Ohio).

The Theory of Productivity, Innovation and Unique Value differs from standard micro and macro economic theory in a number of ways, including:

- “Positive Sum,” Not “Zero Sum,” Economics: it is a dynamic economic theory that increases wealth through innovation creating unique value and raising productivity, not a static “Zero Sum” economic theory that assumes scarce resources, and that the key economic issues are allocative efficiency and wealth transfer.
- Productivity, not Efficiency, is the central focus.
- Unlimited Wealth and Unlimited Resource: Knowledge, since knowledge has become the largest driver of wealth and knowledge is an unlimited resource, the Scarce Resources assumption of conventional theory

- High Wages and High Profits are celebrated as the result of “Positive Sum” Competition based on innovation creating unique value, greater productivity, and long-term consumer welfare.
- Three Key Variables: it uses three key variables: Five Forces, the Type (Sophistication) of Competition, and the Business Environment "Diamond" (Fig. 1-1).
- In antitrust, high profits are not presumed to indicate illegality, and determining the relevant market and HHIs become unnecessary.

Although Prof. Porter’s rigorous empirical and theoretical ideas are well-known worldwide to those in the business community (one of his books is in its 58th printing, in 17 languages), in many other fields this complex Theory and its empirical applications are not known in any depth, including such important fields as antitrust, education, economic department economics, healthcare, and government (with exceptions, of course).

This book shows how the Theory provides a new vision and solutions for wealth and prosperity in advanced countries like the U.S. in a global economy, antitrust, healthcare, education and beyond.

ORGANIZATION AND CONNECTIONS IN THE BOOK

In the rest of Part 1 of this book, entitled “New Foundations: Productivity and Innovation,” Prof. Porter in chapter 2 provides an Overview of the Theory; in chapter 3 he describes the Theory in some detail; in chapter 4 he applies the Theory empirically to the United States and 102 countries around the world, and in chapter 5 Professors Porter and Stern apply the Theory to analyze Innovative Capacity in 78 countries around the world.

Part 2 is titled “Competition and Antitrust,” and in chapter 6, Prof. Porter advances antitrust policy in the U.S. and worldwide beyond static, short-term consumer welfare theory to the next level with a new economic model based on productivity growth, not efficiency, “Competition and Antitrust: A Productivity-Based Approach.” Short-term consumer welfare and economic efficiency theory has been the basis for American antitrust policy for the last twenty years, making as a matter of theory “limiting price/cost margins,” limiting “firm profitability,” and “limiting market power” the “most important outcome for consumers,” and defining the “ideal a world where there were a bunch of competitors imitating each other and cutting price.” Short-term consumer welfare theory, however, will short change consumers and the public in advanced countries like the U.S. because it is a theory of “an economy that is briskly standing still,” a theory of “zero sum” competition, rather than a theory based on productivity growth and “positive sum” competition based. In Chapter 7 I show how, as a litigation matter, defendants can win lawsuits to drive needed changes in antitrust and how certain U.S. Supreme Court precedent strongly supports a New Rule of Reason and antitrust analysis based on the Theory, and, hopefully, as a result, to persuade government agencies to move to this next level by changing policy as soon as possible.

In Part 3, “Math-Science and ‘Meta’ Education,” Pete Staudhammer and I apply the Theory to the nation’s math-science literacy problem and to the problem of education generally (Pete is the scientist that led the TRW team that designed the rocket engine that took Neil Armstrong to the moon and rescued Jim Lovell and the Apollo 13 crew; he retired as TRW’s top scientist worldwide in 2002). By linking education to the knowledge economy using the Theory, the “Gutenberg Bible of our times,” which is the interactive web, and recent breakthroughs in the

neuroscience of the human brain, we develop “Meta” education for productivity, innovation and high income employment in a knowledge economy, 24/7, for students of all ages, and all places (see Part 3 cover below).

In Part 4, “Healthcare,” I apply the Theory to healthcare, which shows the need to re-group providers and others, and how they are paid, by Patient Condition (broadly defined). The result is a "next generation" model for healthcare that I call "Science Teams By Disease When Ill." It can be implemented with existing health benefits, private or public, such as employee benefit programs, Health and Welfare funds, Medicare, Medicaid, insurance plans and HMOs -- without "takeaways."

PART 3:

MATH-SCIENCE AND "META" EDUCATION

**Peter Staudhammer
Charles D. Weller**



**Co-Author Peter Staudhammer with
Jim Lovell and the Rocket Engine
Used to Rescue Apollo 13 and
Land Neil Armstrong on the Moon**

**Cleveland Museum of Natural History
January 2002**