Growth on the cheap

The OECD tells governments how to unleash business's creative potential.

WINDY talk about innovation is mind-numbingly abundant. Unusually, however, the grandees taking part in a conference in Paris this week organised by the OECD received some pointed advice. The rich-country think-tank has unveiled a thoughtful new report on how governments can do better at spurring and measuring innovation.

The grandees were also unusually attentive. Many governments are facing not only slow economic growth but also big deficits and heavy debts. At the same time, problems such as global warming and rising prices for natural resources demand their attention. Innovation, the OECD argues, offers a way out. It is already the chief engine of productivity in the rich world, and thus holds out the tantalising prospect of sustaining economic growth on the cheap. It could also provide affordable fixes to the thorniest global problems, argues John Kao, the founder of the Institute for Large Scale Innovation, which advocates the use of prizes and contests to encourage breakthroughs on social ills.

But what is the best way for governments to boost innovation? Sensibly if predictably, the OECD urges investment in education, research and "knowledge-supporting infrastructure" (such as broadband internet networks and smart electricity grids). Skimping on this while money is tight, says the agency, will cause growth to suffer in the long term.

The agency also offers several more novel prescriptions. It suggests that governments should not merely encourage the supply of innovation (for example, by funding research) but also try to stimulate demand. Economies, after all, benefit not from the invention of new products or services, but from their diffusion. In countries that are good at commercialising new ideas, such as America and Norway, even newly founded firms coin valuable intellectual property (see chart).

If governments want to see a blossoming of clean technology, therefore, they should use taxes to put a price on environmental externalities (such as carbon) rather than coddle pet technologies. Public-procurement rules that favour green products can spur this market, says Andrew Wyckoff of the OECD, but he cautions against using such rules as a cloak for "creeping protectionism". Indeed, the report recommends opening domestic research programmes to foreign firms, to take advantage of bright ideas from abroad.

The OECD encourages governments to rethink their policies in the light of globalisation and the information economy. It notes that "intangibles" such as knowledge networks and open business models now make up much of the value of firms in rich countries and that many companies produce profitable innovations with little or no research in-house. For example, most of the research behind the iPod was done by other firms, but Apple reaped huge profits from its skill in design, systems integration and marketing.

Henry Chesbrough of the University of California, Berkeley applauds the OECD’s emphasis on intangibles and open innovation, but thinks the report still focuses “too much on product-related notions of R&D”. He notes that services make up well over half of economic activity in most rich countries, but there are no common standards for measuring their inventiveness. Yet many new processes, such as selling software as a service via the internet, have in turn enabled other innovations.

Mr Kao also thinks the OECD could go further. He wants it to measure the value created by social networks and related innovations. But he praises its findings as an improvement on the imprecise and lopsided innovation policies of the past: “This moves us closer to the day when innovation will truly be a discipline.”

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