

# Innovation and the economy

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# knowledge-based economy

- Developing countries can grow quickly on new plant and equipment
- Rich nations have already built big capital stocks
- If they are to sustain growth in the future, they must push out the technological frontier through advances in knowledge

# How innovative is Britain?

## The measure of innovation

- basic scientist work: publication of research paper
- patents: turning scientific discoveries into new products
- R&D expenditures on GDP ratio
- share of R&D staff in employment

Britain is strong only on the first, but not on the rest

# Manufacturing and service

- Switching from manufacturing to services tend to bring down R&D spending
- But investment banks are keen to recruit scientists
- Britain also has a big “creative” sectors: advertising, publishing, broadcasting and design

# Poor schooling

- If innovation were measured more broadly, Britain's performance might look better
- But Britain's poor record in basic schooling should puncture any premature celebration

# GDP redefined

- GDP should incorporate investment in intangible activities
  - software spending
  - R&D and new designs and financial products
  - expenditures to support their brands and organizational skills
- Currently, only software spending is included