Putting the "I" in Globalization: The Role of the Institutions and Individuals in Global Growth

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Danny Leipziger: It is entirely fitting that we are speaking about economic growth and innovation here innovating in a variety of ways. Korea's success is really an innovation story. It is also noteworthy that we are in Korea, a country that has jumped in record time into the ranks of the OECD and has done so not only by investing wisely in education and infrastructure, but also by adapting technology, driving productivity and preoccupied with the theme of innovation in 2012, almost 100 years to the day that Joseph Schumpeter first completed his manuscript on the theory of economic development in Vienna in 1911. As described by Sylvia Nasar in her recent book *Grant Pursuits,* Schumpeter identified three "local elements of industrial and commercial life" that drove the dynamic growth process: innovation, entrepreneurs and credit.

We have seen these factors help drive phenomenal economic growth in Korea, creating world-class, innovative companies that compete favorably in many global markets. Schumpeter described innovation as the profitable application of new ideas — here these ideas can refer, as innovation does today, to new products, new processes, new management, supply methods or organizational arrangements. With global economic growth lagging, many are looking to innovation to be the silver bullet. While that goal may be beyond what innovation can deliver, it continues to play a dominant role for countries seeking to increase productivity and competitiveness. In fact, recent OECD data shows most of the recent gains in per capita GDP emanating from productivity gains, with much of those gains due to intangible assets, which now account for more investment than investment in physical capital in many major OECD countries.

In a recent symposium organized by the growth dialogue that I head and the OECD we focused on the changing geography of innovation — the shift eastward. A number of emerging market economies are increasing their public R&D expenditures. This is only part of the story, however, and the first link in the chain leading to higher productivity and more robust economic performance.

The necessary corollary to public spending is business spending for innovation. Evidence is mixed on the balance between public and private spending on R&D, but the evidence is absolutely clear that the innovation process requires: first, competitive internal market; second, active venture capital markets or equivalent access to credit; and third, supportive government incentives and policies. An interesting OECD finding is that many successful innovators are firms that themselves do not invest that much in R&D, but they know how to adapt it and use it effectively.

What do we know about the entrepreneurs that make innovation successful? A great deal of attention goes to where the best basic research is done and on the location of knowledge clusters, but far less on the characteristics of entrepreneurship, so let me focus on that. Entrepreneurs tend to be younger, more risk-taking, and more innovative. They need less capital, but they require low barriers to entry. They need Schumpeterian soil to take root, and they require supportive public policies and dynamic and open business sectors. Newer aspects of the innovation story focus on the transmission of knowledge and its applications, especially for services, that now account for 70% of GDP in the OECD economies. Some say that where R&D is conducted doesn't matter since the global transmission channel is so rapid and firms are so global. I would like to take issue with that view to the extent that the new geography of innovation is not immune to institutional factors surrounding those innovation efforts. Here I speak of the protection of intellectual property that is at the heart of R&D and successful innovation. In this arena, all countries must play by the same rules.

Newly emerging economic powers will need to quickly step up to be among the custodians of the global economic system if the full benefits of innovation are to be captured. We are facing a world of slower growth, greater competition, increased societal stress based on joblessness and widening internal income disparities, even as we see some global income convergence. This requires newly emerging economic powers to accept additional global responsibilities at an earlier stage of development. And it is in their interest to do so.

As Neil DeGrasse Tyson has lamented in the abandonment of the U.S. space program that had spawned many modern-day innovations, we need to look at the benefits that innovation and open innovation systems can provide. The externalities are many and the beneficiaries cross many borders. Individuals thrive when they have chances to succeed in economies, and societies benefit from that entrepreneurial drive that Schumpeter described.

Innovation efforts suffer, however, when economies are controlled by vested interests and when companies rely excessively on short-term profits. Moreover, innovation cannot flourish in a global environment dominated by economic nationalism. It is for that reason that the international community needs to bolster its global institutions and its global commitments to the multilateral system that, while by no means perfect, has fueled great improvements in global well-being in the last half century. As the OECD notes, innovation is seen as being critical to blunt the economic downturn by fostering new and sustainable sources of growth. It offers individuals the chance to escape poverty. It affords firms the chance to discover, adapt and prosper. It offers countries the possibilities that Korea took advantage of to modernize and transform their economies.

Innovation requires individual effort, government effort, and international effort to be successful. These must operate at the same time. I worry least about the individual entrepreneur. I worry some about actions of governments that combine the powers of the state with commercial objectives. But I worry most about the institutional arrangements under which innovation operates.

It is for that reason that I would like to advocate a renewed investment in those institutions and understandings that have driven economic growth in the post-war period and which are now in my view in need of refurbishing. To maximize the future benefits of innovation, we should not take them for granted.