

The east's innovators are no threat to the west



By John Kay

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US.

Innovation is a word like democracy. Everyone is in favour of it, but different people attach different meanings to it. Sometimes the term is used to describe anything that differentiates one product or process from another. At other times, innovation is the product of men in white coats who conduct rarefied experiments in biotechnology or electronics.

Is **Easyjet** an innovative company? Along with **Ryanair**, the company transformed the European aviation market. But everything the company did was already done by someone else, and the entire product and process were close to those South West Airlines had pioneered in the

There is no purpose in arguing about what is the correct definition of innovation. What matters is that people understand what they are saying when they talk to each other. The frequent, often unnoticed, shift between wide and narrow definitions of innovation may be seriously misleading. Generalities about the importance of innovation in creating competitive advantage in business are translated into specific policies to subsidise research and development and the promotion of particular kinds of scientific education.

Such policies are described as “techno nationalism” in an important recent book called *The Venturesome Economy* by Amar Bhidé. Techno nationalism is derived from the belief that economic growth depends on high technology and that we will benefit fully from it only if it is our own high technology. Techno nationalism is as common in Europe, which believes it is falling behind, as in America, which fears it may be overtaken. But the fear that western economic prosperity is endangered by China’s flood of engineering graduates is not only exaggerated: it may be the reverse of the truth.

The central fallacy of the New Economy bubble was that most of the benefits of new technologies would go to pioneering companies. But the repeated experience of economic history is that competition ensures that the larger part of the benefits of these technologies accrue to users. In an admittedly speculative calculation, the American economist Bill Nordhaus has suggested that consumers get more than 97 per cent of the value of innovations.

What is true of companies is also true of states. The US has a world leading position in information technology but the products of that technology are available everywhere with minimal delay. And cheaply: the profits of Microsoft, though large in absolute terms, are less than 0.1 per cent of the national income of the US and Europe.

That is why economist Paul Romer can observe that: “In 1985, I paid \$1,000 per million transistors for memory in my computer. In 2005 I paid less than \$10 per million and yet I did nothing to deserve or help pay for the windfall.” But Prof Bhidé is not so sure that Prof Romer did nothing to deserve it and nor am I.

What distinguishes the US is not just its innovative technologists, but its innovative manufacturers, retailers and consumers. Discoveries are made in an environment that is responsive to ideas, ready to embrace change and always willing to try out something new. People who are likely to invent things want to be part of a culture that is open to novelty, and cultures that are open to novelty are those that will reward innovators best. That is why there are so many entrepreneurs of Chinese and Indian origin in the US – and Britain – even as more and more mundane jobs are outsourced to China and India.

The pesky American students who are ready to challenge every assertion the instructor makes

contrast with students from other cultures who believe their aim is to transcribe every authoritative statement that is delivered. These voluble business students are the bane of the MBA teacher's life. They are also the people who make American business great.

Commercial and economic success, even in technological industries, depends not on the quality of technology, but on the match between technology and the needs of its customers. That is why the growing technological capabilities of China and India create more commercial opportunities than threats for American and European businesses.

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