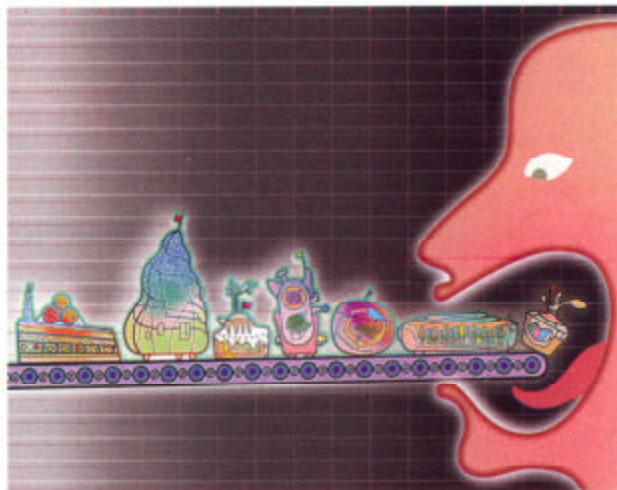


Economics focus | Venturesome consumption

In praise of America's fearless consumers of new ideas and products



DISMAL scientists are finding more reasons than ever to worry about the prospects for America's economy—even though the country's GDP somehow still manages to grow at a decent lick. Oil prices are high, of course; partly as a result, inflation is rising. Consumer debt is at record levels. America is borrowing from abroad on a gargantuan scale to finance its current-account gap. And the housing bubble may be bursting.

For a growing number of economists and policymakers, however, the greatest fear of all—not least because its long-term consequences may be so deep—is that America is losing its global lead in technology. In the battle to invent and innovate, China and India, in particular, with their gazillion-strong cohorts of engineering and science graduates, will soon overwhelm the dullards and liberal arts students churned out by America's education system. Nor is this a uniquely American worry. You hear similar worries in Europe too, although there the fear is less of losing the lead than of falling even further behind.

Such ideas, expressed in alarming books such as "Three Billion New Capitalists: The Great Shift of Wealth and Power to the East", by Clyde Prestowitz, once a trade negotiator in the Reagan administration, are being cited increasingly by supporters of a wide range of potential remedies. These include getting more Americans to study science and engineering, bigger tax breaks for research and development, and trade protection to prevent the innovative hordes from China and India from storming America's gates.

Innovative thinking

In a marvellously contrarian new paper*, Amar Bhidé, of Columbia University's business school, argues that these supposed remedies, and the worries that lie behind them, are based on a misconception of how innovation works and of how it contributes to economic growth. Mr Bhidé finds plenty of nice things to say about many of the things that most trouble critics of the American economy: consumption as opposed to thrift; a plentiful supply of consumer credit; Wal-Mart; even the marketing arms of drug companies. He thinks that good managers may be at least as valuable as science and engineering graduates (though given where he works, perhaps he is talking his own

book). But he has nothing nice to say about the prophets of technological doom.

Mr Bhidé says that the doomsayers are guilty of the "techno-fetishism and techno-nationalism" described in 1995 by two economists, Sylvia Ostry and Richard Nelson. This consists, first, of paying too much attention to the upstream development of new inventions and technologies by scientists and engineers, and too little to the downstream process of turning these inventions into products that tempt people to part with their money, and, second, of the belief that national leadership in upstream activities is the same thing as leadership in generating economic value from innovation.

But nowadays innovation—a complex, gradual process, often involving many firms making incremental advances over many years—is not much constrained by national borders, argues Mr Bhidé. Indeed, the sort of upstream innovation (the big ideas of those scientists and engineers) most celebrated by those who fear its movement to China and India is the hardest to keep locked up in the domestic market.

The least internationally mobile innovation, on the other hand, is the downstream sort, where big ideas are made suitable for a local market. Mr Bhidé argues that this downstream innovation, which is far more complex and customised than the original upstream invention, is the most valuable kind and what America is best at. Moreover, perhaps the most important fact overlooked by the techno-nationalists, notes Mr Bhidé, is that most of the value of innovations accrues to their users not their creators—and stays in the country where the innovation is consumed. So if China and India do more invention, so much the better for American consumers.

The most important part of innovation may be the willingness of consumers, whether individuals or firms, to try new products and services, says Mr Bhidé. In his view, it is America's venturesome consumers that drive the country's leadership in innovation. Particularly important has been the venturesome consumption of new innovations by American firms. Although America has a lowish overall investment rate compared with other rich countries, it has a very high rate of adoption of information technology (IT). Contrast that with Japan (the original technology bogeyman from the East) where, despite an abundance of inventive scientists and engineers, many firms remain primitive in their use of IT.

One reason why American firms are able to be so venturesome is that they have the managers capable of adapting their organisations to embrace innovation, says Mr Bhidé. Pressure to be venturesome may have come from America's highly competitive markets. And America's downstream firms are arguably the world's leaders in finding ways to encourage consumers to try new things, not least through their enormous marketing arms and by ensuring that there is a lavish supply of credit.

No doubt, even venturesome consumers can overdo their enthusiasm for innovation, just as venturesome investors overdid it during the dotcom bubble. Yet, if Mr Bhidé is right—and a lot more hard data would do wonders for his case—then America's policymakers should worry more about how to keep consumers consuming than about the number of science and engineering graduates, at home or in the East. ■

*"Venturesome Consumption, Innovation and Globalisation", presented in Venice at the CESifo and Centre on Capitalism and Society conference, July 21st-22nd.