MACROECONOMICS AT WORK EXERCISE

INNOVATION

REFERENCE: 'The innovation brokers' (by John D. Wolpert), *Australian Financial Review*, 17 January 2003, pp.76-7.

CHAPTER RELEVANT TO THIS EXERCISE: Chapter 9.

OVERVIEW

Innovation can be defined as 'applications of new knowledge in a way that creates new products or significantly changes old ones' (p.212) or, more broadly (i.e. in a way that encompasses *processes* as well as simply *products*) 'pursuing radical new business opportunities, exploiting new or potentially disruptive technologies, and introducing change into the core concept of your business' (article, p.76). The sum of innovations made in an economy in any given time period will determine the increase in the *productivity* with which resources are used and hence *economic growth* (the rate at which potential GDP increases over that time). Innovation is the result of a large number of individual decisions made at the level of the firm. The quantum of innovation that takes place is the consequence of a number of factors: the resources that a firm devotes to 'research and development'; the results of that effort (the new products and processes that it brings forth); and the way that those new products and processes are incorporated into the activities of business firms. Innovation can also result from, or be influenced by, the actions and policies of *government* (see pp.214-5). This article, however, focuses on the *former*, namely *the circumstances under which innovation results from the activities of business firms*. In particular it argues that the quantum of innovation (i.e. as a macroeconomic phenomenon) is likely to be 'greater' when business firms pursue information in an 'open' environment, i.e. where the ideas that underpin innovation are *shared*. The fear of 'giving away' ideas to competitors, however, is a disincentive to openness. It is thus the reason that much 'R & D' is maintained within the 'borders' of individual firms. But, the article argues, the use of 'independent intermediaries' can solve this problem and ultimately encourage a higher rate of productivity increase and economic growth.

QUESTIONS

1. Give some examples of innovation.

2. The article notes that innovation is influenced by economic conditions. Explain this observation and comment on its significance.

3. Explain the suggestion that many theories of innovation are 'introspective'.

4. What is the principal problem with the idea of companies 'sharing' innovative ideas?

5. Explain the notion of ‘independent intermediaries’ as mechanisms by which ideas can be shared.

6. What is the ultimate safeguard against violation by intermediaries of the confidentiality of an individual company’s ideas?