

**Opening Remarks by Under Secretary Cynthia A. Glassman
Under Secretary for Economic Affairs
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**at the House of Sweden Seminar on Innovation and Technology:
Measuring Competitiveness**

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Thank you Ambassador Hafstrom. It is a pleasure to be here at Sweden House today and participate with the embassy in your “theme” for the next few months of “Innovation and Competitiveness”. The Department of Commerce is very pleased to team with you to highlight the innovative and competitive successes of our two countries.

In early 2006, our Secretary, Carlos Gutierrez, asked our economists to show him measures of innovation that would demonstrate the impact of innovation on the economy and on economic growth. The U.S. statistical system has extensive measures of economic activity in many areas. But the Secretary was surprised to find that existing innovation measures—such as the amount spent on research and development, the number of patents, or the number of scientific and technical workers—give us a useful, but very incomplete, picture of innovation.

As a result, the Secretary asked my group to establish and manage his Advisory Committee on Measuring Innovation in the 21st Century Economy. It is not a very catchy name but it had a mandate to figure out how we should be measuring innovation.

An impressive and enthusiastic group of members took on the assignment. The 15-member panel, chaired by Carl Schramm of the Kauffmann Foundation, consisted of CEOs of a number of companies you may recognize – including Microsoft, IBM, and UPS – among others. And it also had five outstanding academics. I will not name every one of the members, but you can find that and other information on the Committee’s website at www.innovationmetrics.gov.

The first meeting of the Advisory Committee was held just one year ago. The group held to a tight schedule and presented their report to Secretary Gutierrez last month. The report contains a comprehensive set of recommendations for action by the government, the business community and researchers. A complete list of those recommendations is available in the report and on the website. I have brought copies of the report here.

The Advisory Committee’s recommendations give us a roadmap for using our Federal statistical system to enhance our understanding of innovation and the economy. Indeed the broadest measure of our economy, Gross Domestic Product, is produced under my purview at the Commerce Department at the Bureau of Economic Analysis. Our Census

Bureau produces many economic measures that are components to GDP. Thus, we have many of the tools needed to improve our understanding of innovation in-house at the Department of Commerce. To the Committee's credit, they understood this and created a framework for improving the data by building on what we already do. There was no need to start over.

For many years, we have used GDP as a shorthand measure of how well our economy is doing. But GDP is not a static tool. It has evolved since its design in the 1930s and its implementation as Gross National Product in the 1940s. GDP has changed with our economy. In the 1950s, inflation adjustments were added. In the 60s and 70s more fixed assets and consumer durable goods were covered. And in the 80s, BEA began to account for the increasingly rapid improvement in the quality of goods that result in price declines for new products. We see this phenomenon in computers and TVs. That adjustment has allowed us to keep up with the breathtaking advances in computers and in all types of consumer products. When a flat-panel TV shows a better picture this year than last, at half the price, well, our system can actually measure that change. It makes sense then that in the 21st century we enhance GDP to account for the innovation phenomenon.

Let me highlight for you several of the Committee's recommendations and explain what the Secretary would like to see done.

The first thing we need to do is to develop a more complete and integrated picture of the economy's overall growth and productivity. By better integrating BEA's measure of GDP with the Bureau of Labor Statistic's measure of productivity, we can get a clearer notion of the sources of growth in both GDP and productivity.

The Bureau of Labor Statistics and researchers elsewhere in government and academia have made great progress in developing measurements of the economy's overall productivity. The Advisory Committee has provided valuable suggestions for how we should go about improving measures of productivity and integrating them with our national accounts. Integrating productivity measurement with our national accounts is important because the building blocks for estimating productivity for the entire economy, as well as by industry, have until now been developed independently at different statistical agencies. And they often use different data sources, making it difficult to produce consistent estimates of productivity. Now is the time to build on past work to fit these building blocks together to produce consistent, accurate, and detailed measures of productivity growth on an annual basis.

With improved and better integrated GDP and productivity measures, we should be able to better understand what causes productivity to grow and to be able to measure the relative importance of such components of innovation as more effective training or research and development.

In the years ahead, BEA would like to produce annual estimates and develop integrated estimates for major sectors and detailed industries.

Next, BEA will design a supplemental innovation account for intangibles such as intellectual property capital stocks (including patents, copyrights, and trademarks) and human capital. By January 2009, we will see a detailed description of a prototype supplemental innovation account published in the Survey of Current Business. Such an account, when ultimately integrated into the National Income and Product Accounts, will provide more complete pictures of companies' intangible investments in innovation and the role of such investments in enhancing our ability to produce more with the same capital and labor inputs.

BEA already produces an R&D satellite account that tells us that GDP would have been about 2.9 percent higher between 1959 and 2004 if R&D had been treated as an investment in the U.S. national accounts.

We might see similar effects on growth if we tracked innovation as an investment in a so-called supplemental or satellite account.

For example, we learned from our advisory committee members:

- How Wal-Mart's output is enhanced by revolutionary advances in supply chain management;
- How Synovus created a whole new credit card servicing industry with an innovative concept and implementation; and
- How UPS optimizes service with innovative training, tracking, and delivery.

Traditionally, these changes would be considered expenses in our national accounts. Under this initiative, they will be recognized for what they are – investments in innovation.

We also need legislation to improve data consistency and accuracy across the various statistical agencies. The Council of Economic Advisors, the Office of Management and Budget, the Departments of Treasury and Labor are working with us to find an approach to data synchronization that is beneficial to the agencies, acceptable to Congress, and protective of confidentiality. Such legislation would enable more productive collaboration among the statistical agencies. Currently, if BLS classifies a particular company in one bucket, Census may classify that company in another bucket. This situation makes data reconciliation difficult, especially since the statistical agencies are not permitted to tell each other where they are off course.

Another important recommendation is the Committee's desire to have us conduct forums on the drivers and impediments to innovation. In response to this recommendation, we are scheduling a series of such forums over the next year in different parts of the country, starting next month.

The Committee's recommendations also call for continued international dialogue on innovation measurement. We look forward to continuing our work with Sweden and others in the international community to exchange ideas and best practices. The Committee's report recommends that the government ensure that our innovation efforts are internationally compatible to the extent possible. I fully support that recommendation. While our approach to innovation measurement is not identical to that of other countries, we must recognize the value of international compatibility and strive to make our innovation measure as compatible as possible. We intend to do that.

This is not a project for government alone or for the U.S. or Sweden alone. Measuring innovation is a collaborative process. The Committee's recommendations recognized that businesses and academics must work together to expand and assess our understanding of measures of innovation. Research is needed to identify best practices, gaps in the data, and outcome measures.

While this Committee's work ended with the publication of their report, I am confident we are seeing the beginning, not the end, of this effort. Programs such as today's are an important continuation of the work that the Committee has undertaken.

Thank you.