

Stats fail to reflect investments in knowledge economy

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The way productivity performance is calculated in official statistics may be selling UK businesses seriously short, according to new research funded by the Economic and Social Research Council (ESRC).

The true impact of today's 'knowledge economy' is hidden by out-dated forms of measurement, argues a study led by Professor Jonathan Haskel of Queen Mary, University of London, through an Advanced Institute of Management Research (AIM) Public Services Fellowship.

It is good news for Britain's managers accused of failing when productivity falls. When the 'intangible' assets of modern business activity are factored in, productivity is shown to rise.

According to official statistics, the UK's productivity performance declined after 1995, despite major investment in information and communication technology. And US productivity growth has accelerated recently, leaving the EU behind, particularly in retailing.

The study highlights that whilst investment in 'knowledge' type activities is increasingly important, innovations such as the use of iPods and the way software has revolutionised supply chains, customer analysis and staff organisation, have hardly affected UK economic performance indicators.

The project, supported also by HM Treasury and the Office for National Statistics, found that in 2004, business investment of £120 billion - or

about 15 per cent of gross value added in the market sector of the economy – went on intangible assets such as software, research and development, design, training and branding. This sum equalled UK companies’ total investment in ‘tangible’ assets such as machinery.

When intangibles are brought into the equation, the level of nominal market sector gross value added in 2004 rises by about 13 per cent, and the share of nominal investment in GDP rises from 22 per cent in 1970 to 25 per cent in 2004, rather than remaining constant at about 16 per cent.

Researchers found that about half of intangible investment went on advertising and market research to support brands, training employees and boosting management expertise, and 32 per cent on design. The other 18 per cent was spent on computerised information.

Professor Haskel said: “When the British economy was based mainly on investments in tangible assets such as machinery, the methods used for calculating Gross Domestic Product (GDP) were broadly fit for purpose.

“But in an economy increasingly investing in intangibles, we could be missing some key aspects of economic activity.

“We set out to research their contribution to productivity and its growth – and the results were striking. Our findings suggest that, in recent years, traditional measurement techniques may have considerably underestimated the importance of science, innovation and knowledge-based industries to the UK economy.”

Figures produced by Professor Haskel and his colleagues were referred to by Chancellor of the Exchequer Alastair Darling in his pre-Budget

report in October, when he told MPs that “Britain’s future success will depend not just on investment in physical capital, but also skills, innovation and intellectual property.”

However, Mr. Darling was able to tell MPs that the new analysis showed that Britain could now be investing as much in intangible assets as the US, with almost £250 billion a year – up to a quarter of today’s income – going into the priorities essential for future prosperity.

Source: Economic & Social Research Council

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