

INFORMAL SEMINAR ON SUSTAINABILITY AND THE ROLE OF INNOVATION POLICIES IN THE CURRENT FINANCIAL CRISIS, PARIS, 16 FEBRUARY

SUMMARY AND CONCLUSIONS

The context of the seminar

1. The recent financial crisis is having important repercussions on OECD countries. As the crisis has taken hold globally, domestic and foreign demand has fallen sharply and investments have slowed down, also because financing has dried up. World trade has collapsed, partly due to lower consumer and business confidence in future economic development. Most governments initially have launched policies to stabilise the financial system followed by actions to stimulate short term demand, and many have also launched policies that aim to strengthen long-term economic growth.

2. This seminar focused on policies to strengthen growth in the medium or long term, called “innovation” policies for the context of this seminar. Such policies typically aim at strengthening the economic structure of OECD economies and thus reinforcing the potential for long-term economic growth. However, some policies in this area may also have more immediate effects, *e.g.* if they help in addressing barriers to growth or if they help tap into unexplored sources of demand.

3. Innovation policies are currently being implemented or considered in many OECD countries, including in the context of stimulus packages, involving actions to foster research, entrepreneurship, investment in infrastructure, including ICT networks, human capital, and “green” technologies. However, no silver bullet or best practices exist and the actions being implemented by different countries show a large variety, also due to the different size and impact of the economic downturn on economies. Sharing of country-specific experiences and practices can help to move policy thinking in this area forward, at what is a crucial time for policy elaboration.

4. This seminar examined this long-term perspective, with a particular focus on the role of innovation policies. The outcomes of the seminar will provide input for the interim draft of the OECD Innovation Strategy that will be delivered to the 2009 meeting of the OECD Council at Ministerial-level (MCM) and for the OECD’s Strategic Response to the Financial and Economic Crisis (see document C(2008)191/FINAL). A further seminar is planned on 1 April, linked to the meeting of the Committee on Industry, Innovation and Entrepreneurship and further events may be planned, as needed.

Main findings and conclusions

5. A number of key messages emerged from the seminar:¹

- i.* **Innovation policy plays a role in addressing the crisis.** The past experience of countries such as Finland and Korea shows that reforms aimed at strengthening innovation in the context of broader reforms to address the crisis can help countries emerge stronger from the crisis and help put them on a more sustainable growth path. Finland used a strong innovation strategy to overcome the crisis during the 1990s. In the past Korea has used the crisis to introduce structural reforms (*e.g.* regulatory and labour market reform) to increase confidence and used innovation policy reforms to create the right incentives for reviving the economy. In certain countries, such

¹ A brief description of the seminar is attached on the last page of this note.

as Denmark, existing strategies for innovation were considered as providing an appropriate framework for long-term economic growth and public policies were considered sufficiently resilient to address the crisis.

- ii.* **Policy responses need to be broad-based, and based on good governance and strong political leadership.** The experience of countries such as Finland and recently developing strategies for innovation in other countries demonstrates that policies to foster innovation need to be broad, combining a wide range of policy actions, implying a need for policy coherence and good governance. To guide and lead policies to foster long-term sustainable growth, strong political leadership and a long-term perspective were considered essential.
- iii.* **Short-term stimulus packages can help strengthen innovation and long-term growth.** Ongoing OECD work on the content of various stimulus packages shows that key areas of planned investment and policy reforms include research and innovation; entrepreneurship and SMEs; infrastructure, including ICT networks; human capital; and “green” technologies. If well-designed and planned, these actions can help strengthen innovation and long-term sustainable growth. Integrating this long-term perspective into short-term objectives can strengthen outcomes.
- iv.* **Policy making to foster innovation in the crisis is faced with important challenges.** The discussion during the seminar pointed to a number of important challenges for policy making, including:

 - The risks to competition: Stimulus policies should not be primarily aimed at protecting incumbents, but also provide room for new entrants and new innovators. Avoiding protectionism and defensive government support was considered essential. Participants noted that all countries operate in a global innovation system, but the benefits emerge at the local and national level.
 - Developing new comparative advantages: Participants pointed out that many countries seem to have the same policy objectives, *e.g.* in developing green technologies, and questioned how this could be achieved.
 - A new divide? The crisis may increase the gap between countries with strong innovation policies and sound public finances that can use the crisis as a springboard for stronger innovation and structural reform, and countries with important innovation policy challenges and little room for fiscal stimulus.
 - The limited evidence base for policy: For example, not enough is known on how businesses will respond to the current crisis in terms of their innovation activities and R&D spending. Building on existing policy strategies and accelerating planned investments in *e.g.* physical, ICT- en knowledge infrastructure might be a wise starting point in developing stimulus packages.
 - The potential systemic nature of investment in knowledge and R&D: Participants discussed to what extent investments in knowledge and R&D should be considered of systemic or strategic importance to OECD economies, as they are increasingly the key drivers for long-term sustainable economic growth. If this should be considered the case, supporting such investments, including in the private sector, during the crisis should be of great importance.

- Speed versus efficiency: Participants noted the need for speed in responding to the crisis, but suggested this could go at the cost of the efficiency of public spending.
- v. **As government is faced with a new role, the quality of government intervention is key.** While markets remain central to the innovation process, government's role has increased over the most recent period. Smart, well-designed interventions, such as public-private partnerships, voucher schemes to connect or support innovators, as well as policies to support entrepreneurship, can help strengthen long-term growth. Government can act as a catalyst; setting priorities and making long-term strategic choices were considered essential in this context.
 - vi. **Policy needs to continue its support for risk takers.** Firms and individuals that are willing to take on risky task of innovation are essential for economic growth. As financial institutions are avoiding risk, government policy will need to play a role. How to manage risk was considered an area in need of further exploration, in the financial sector as well as for innovation.
 - vii. **Policy responses need to be better co-ordinated and well integrated to achieve strong outcomes.** As policy is seeking to achieve a strong response from its public investments, greater understanding is needed of the impact of specific measures and how they could be integrated to achieve a stronger response. International co-ordination was also considered important as a global crisis requires a global response. As national stimulus packages will spill over to other countries and nationalistic approaches might harm world trade, international co-ordination is needed.
 - viii. **The downturn may also have beneficial impacts on innovation and economic restructuring:** As some traditional industries and incumbent firms decline and workers and innovators become unemployed, opportunities emerge for new firms and for innovators that can help foster new innovations and new industries. The economic downturn will bring about a process of "creative destruction" pushing the economy towards the survival of more innovative and productive firms. As during the economic downturn destruction might prevail over the creation of new activities, government strategies should invest in newcomers and in innovation. As prices in the short run do not reflecting scarcities in the medium term (*e.g.* as regards energy) governments should adopt a medium term perspective in their recovery plans.
 - ix. **New policy instruments should be considered:** To stimulate innovation, policy instruments could focus more on the innovators – as most knowledge is embodied in people – instead of only on the firms and institutions that employ them. Voucher schemes to support innovators were mentioned as a possible new tool, although these should avoid incentive traps.
 - x. **The OECD can play a role in exchanging best practices, in enhancing transparency and in fostering international co-operation.** As governments are faced with great uncertainty on the scale of the problem, the OECD can help in creating greater transparency on existing policies, and compare and analyse policy approaches. Moreover, exchanging good practices and developing a toolbox for policy makers was considered helpful. Important policy questions remain, such as how to strengthen the financing of innovation and the role of non-technological innovation and innovation in business models.

Background

6. The discussion during the seminar was divided in 3 sessions:

7. **Session 1: Using innovation policies during a crisis: lessons learnt and current policy responses.** This session focused on how countries can use innovation policies during periods of economic crisis to foster the transition to a stronger and more sustainable path of economic growth. Past experience shows that governments have sometimes successfully used crisis periods to launch policies that have helped strengthen their long-term performance. Based on the experience of Finland and other relevant OECD countries, this session addressed the following questions:

- *What contribution can innovation policies make in addressing the crisis?*
- *How can existing strategies help; how should they be adapted to the new context?*

8. **Session 2: Responding to the current economic crisis: planned policy responses and their contribution to restoring growth.** Most economic stimulus packages that have been launched thus far primarily aim at stabilising the financial system and stimulating short-term demand. However, most government packages also include measures that aim to foster medium-to long-term growth, *e.g.* through investments that can strengthen the supply-side. Based on an overview of current plans by the OECD and the experience of OECD countries, this session addressed the following questions:

- *What are the main reasons for the inclusion of these long-term public investments and policy reforms in recent stimulus packages?*
- *What are the expected impacts of the various long-term investments and policy reforms in “innovation” on short-term demand and on the recovery?*
- *What areas of investment and policy reforms are likely to be particularly important and effective in strengthening and supporting the recovery?*

9. **Session 3: Making innovation policies work in support of a recovery - key policy considerations.** As many OECD governments are undertaking reforms and making investments in research and innovation; entrepreneurship and SMEs; infrastructure, including ICT networks; human capital; and “green” technologies, a question arises on how these investments can be made in an efficient manner to support and strengthen an economic recovery. This session explored how governments can make their policies work and should help in identifying “good” policy practices. It explored the following questions:

- *What complementary policy reforms in research and innovation, entrepreneurship, infrastructure and broadband networks, “green” technologies and human capital should be considered to strengthen the recovery?*
- *How can policies aimed at the economic crisis facilitate the transition of OECD economies to a more sustainable, “green” growth path?*
- *What actions are needed to ensure that government policies are effective and efficient? How can competition be ensured and protectionism avoided?*
- *How should policy strike an appropriate balance between government intervention and market functioning? To what extent can government substitute for, or stimulate, market forces?*