

theLisbonCouncil
making Europe fit for the future

High-Level Working Group on
Innovation for the 21st Century

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Towards an Innovation Strategy for the 21st Century

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Outline

1. Why does innovation matter today?
2. How has innovation changed?
3. Policies for innovation – how should they change?
4. Innovation in the current economic environment.
5. Next steps.
6. Implications for Europe

I. Why innovation matters

- Our growth path before the crisis was not sustainable:
 - Stronger productivity growth to enhance efficiency and remain competitive, in particular following the crisis.
 - Address global problems, e.g. climate change, food security, health, energy.
- OECD mandate for Innovation Strategy: policies that reflect innovation today

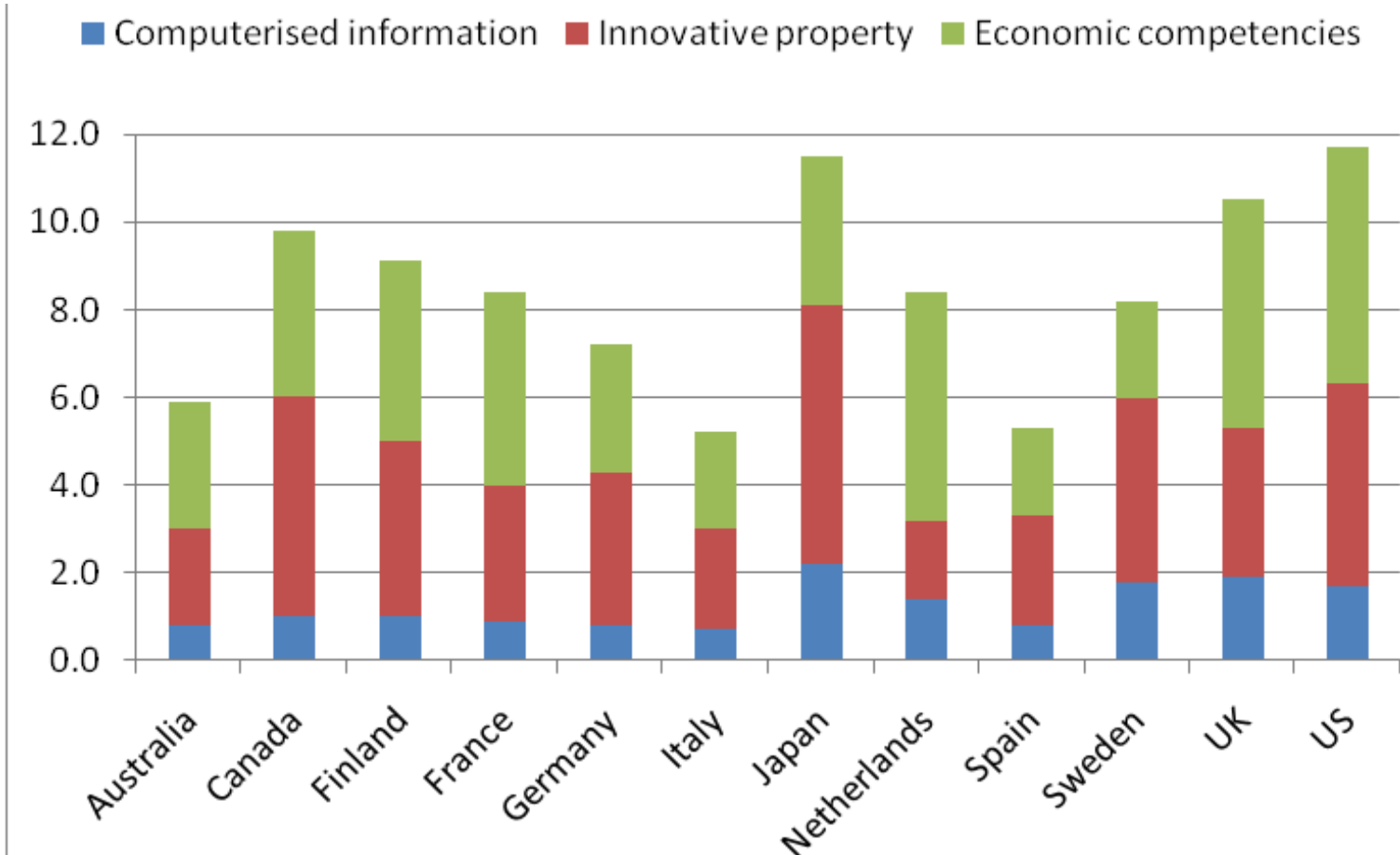
II.

Some features of innovation today

- A wide range of investments
- More collaborative and open
- A broader notion of innovation
- New players and globalisation
- Greater participation, enabled by the Internet
- More actors

Investment in innovation is now just as important as tangible investment

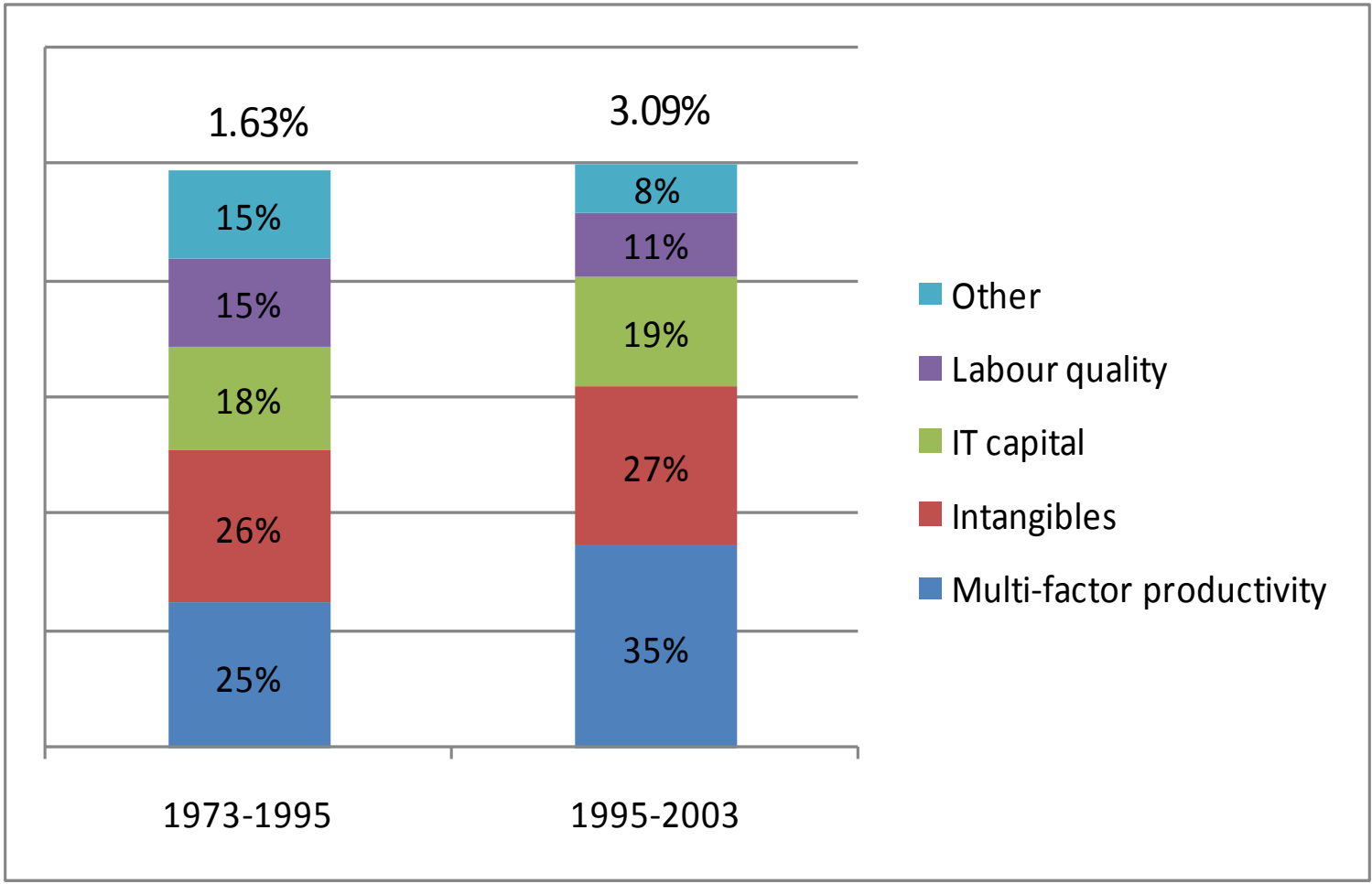
Investment in intangible assets as % of GDP, 2005



Source: OECD, based on national sources.

Innovation accounts for a large share of labour productivity growth

Sources of Growth in US Output per Hour, Non-Farm Business Sector



Source: The Conference Board, 2009.

Firms today no longer innovate in isolation

Then: Closed Innovation

- ❑ Approach: “not invented here”

- ❑ Innovation:
 - Strategy independent of overall business strategy
 - Performed in-house
 - Internal pool of innovators

- ❑ Outputs:
 - Incorporated in firm’s products and services.
 - Product revenues finance next cycles of in-house R&D

Now: “Open“ Innovation

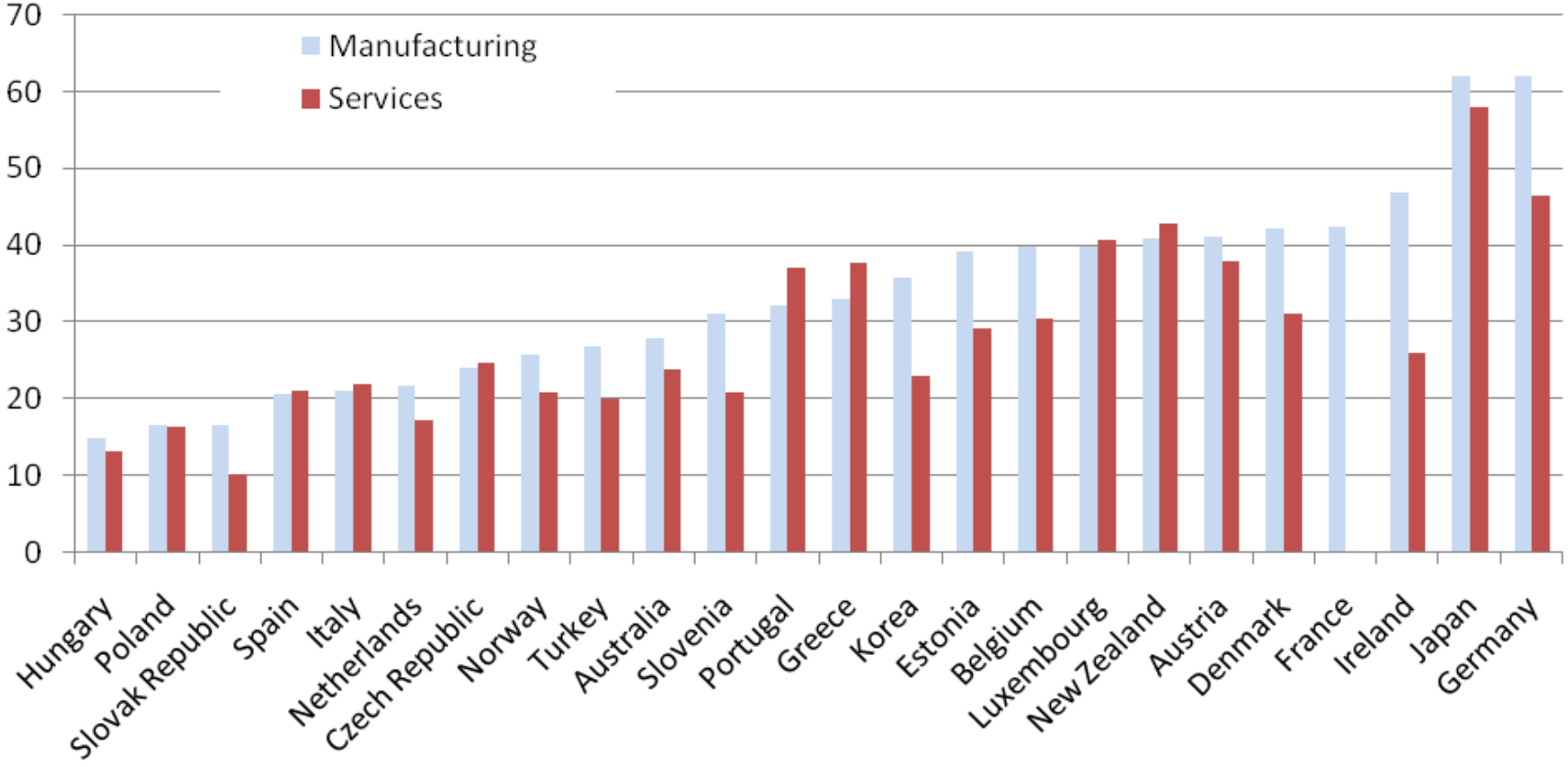
- ❑ Approach: “proudly found elsewhere”

- ❑ Innovation:
 - Business strategy drives targets
 - Technology developed cooperatively or acquired
 - Work with many innovators
 - Leverage own IP

- ❑ Outputs:
 - Both internalized and externalized (*licensing, spin-offs, venturing*)

Technology is only one approach to innovation and value creation

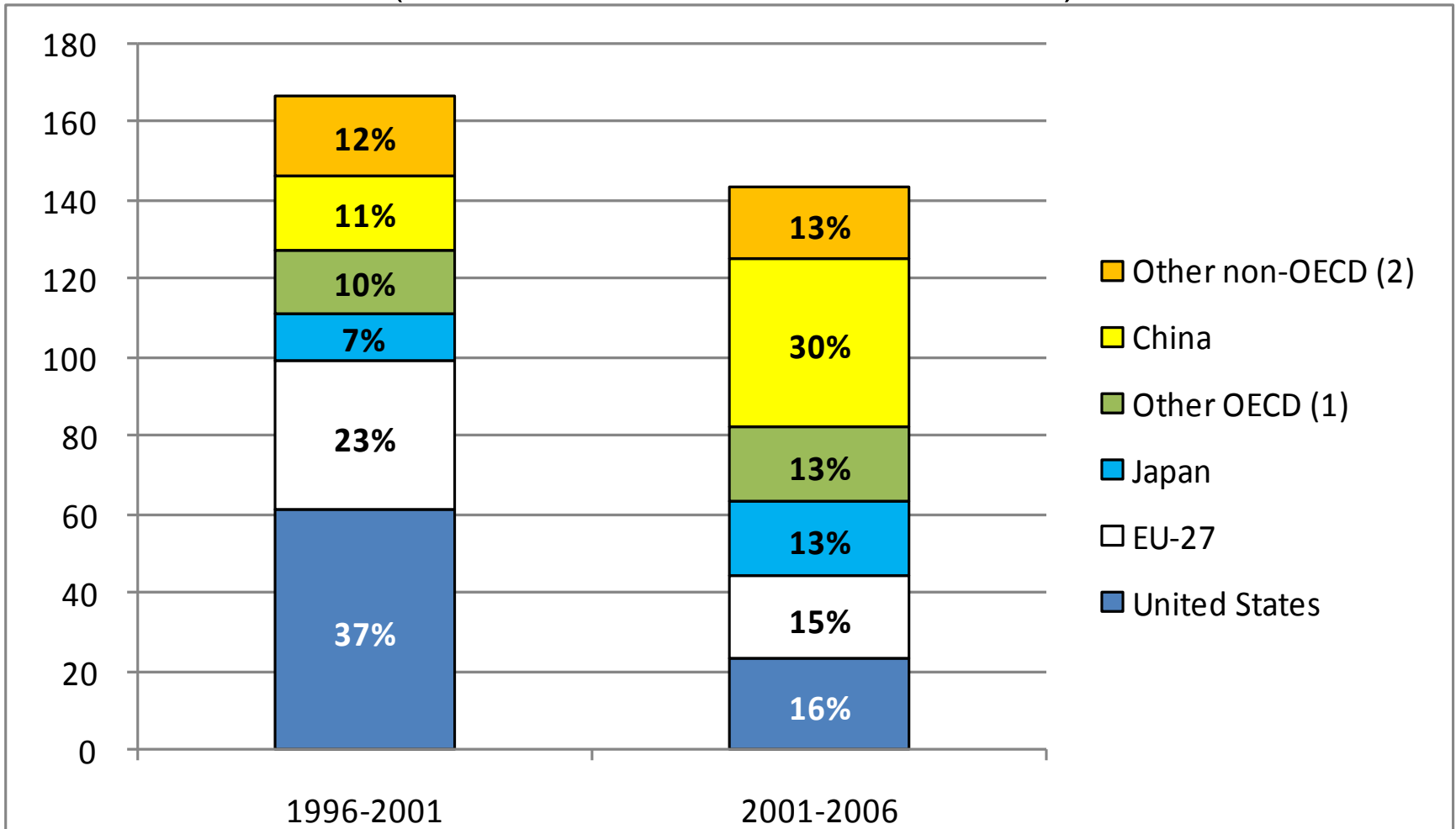
Non-technological innovators by sector, as a percentage of all firms, 2004-2006



Source: OECD, based on CIS and national sources.

New global players have emerged ...

Contributions to growth in global R&D, 1996-2001 and 2001-2006
(in billion constant US PPP and %)

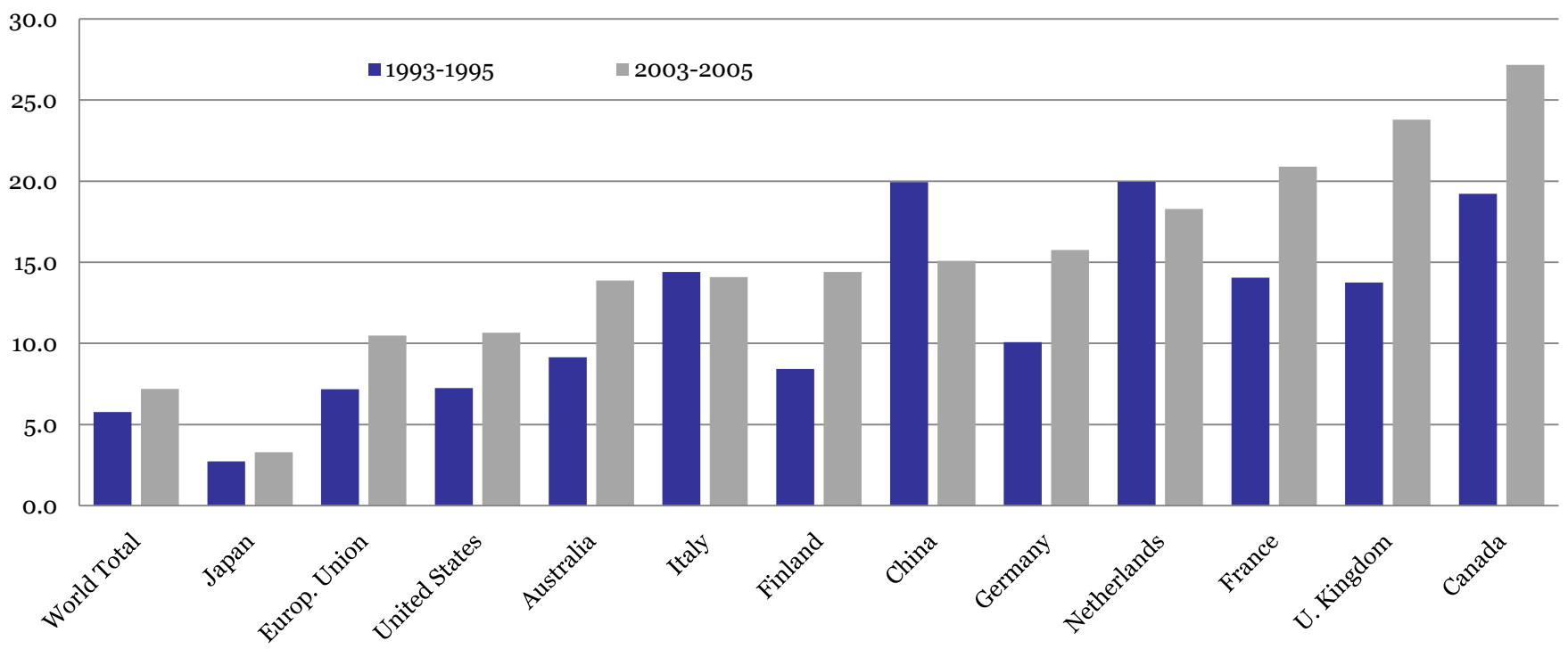


Note: (1) Australia, Canada, Iceland, Korea, Mexico, New Zealand, Norway and Turkey
(2) Argentina, Brazil, India, Israel, Russian Federation, Singapore, South Africa, Chinese Taipei

... and innovation increasingly happens across borders

(institutions, countries, disciplines).

Share of patents with foreign co-inventors (%)



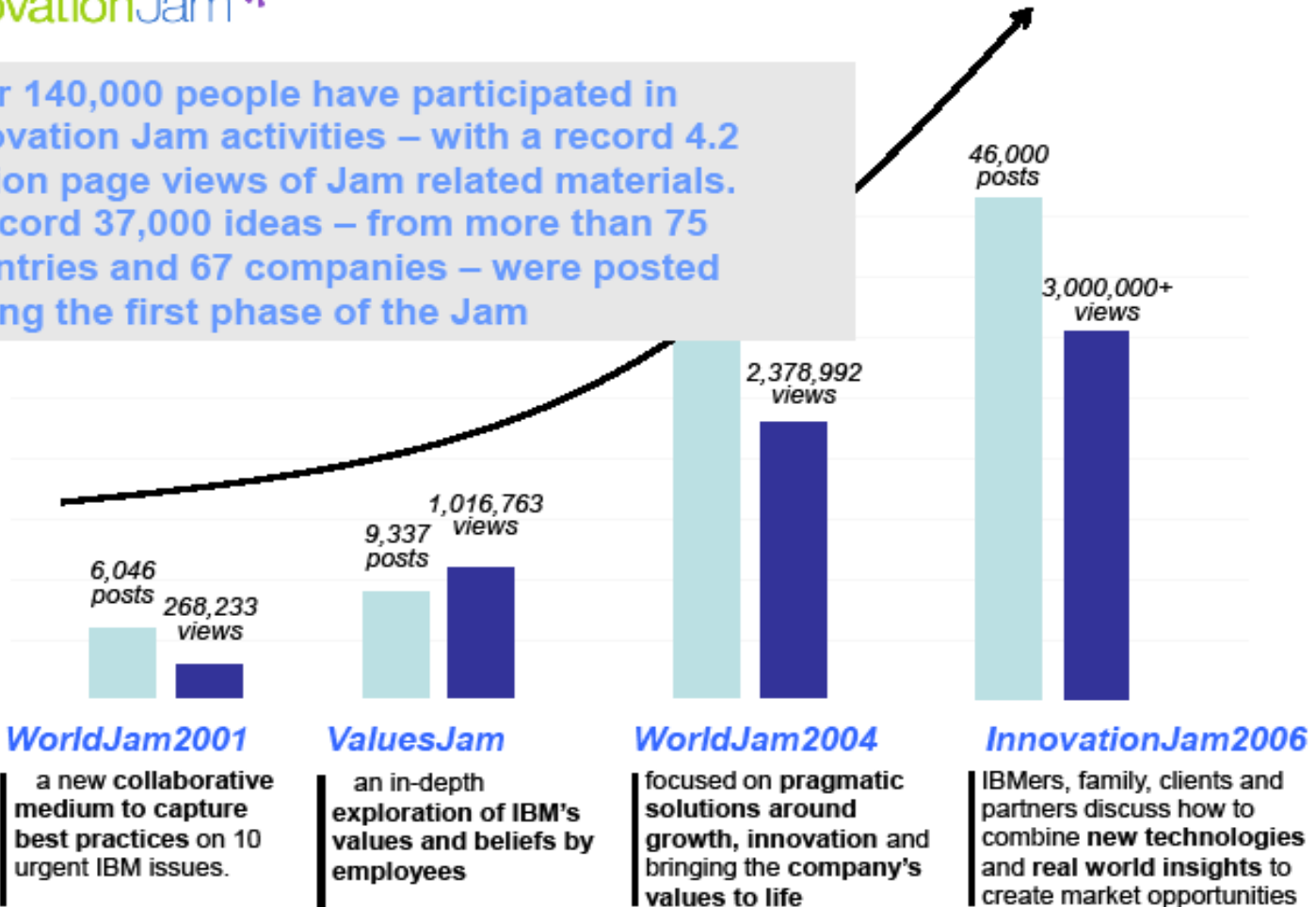
Source: OECD Patent Database.

The Internet is enabling wider participation in innovation



InnovationJam*

Over 140,000 people have participated in Innovation Jam activities – with a record 4.2 million page views of Jam related materials. A record 37,000 ideas – from more than 75 countries and 67 companies – were posted during the first phase of the Jam



More actors are involved

- Wide range of policies, Ministries, and levels of government – not just S&T;
- Wide range of industries – not just high-tech;
- Wide range of actors
- Local clusters matter, but so does involvement in global networks.
- Demand side: firms, governments, consumers, ...

III: Elements of a future policy agenda

1. **People:** participating & benefiting from innovation:
 - As workers
 - As citizens and consumers
 - As entrepreneurs
 - Attracting people, also across borders.
 - Reconsider approaches to education and training.
 - Labour markets that facilitate innovation.

III: Elements of a future policy agenda

2. Investment:

- Climate for investment in all forms of innovation
- Financial markets that enable risk-taking
- Supportive public investment
- Is further encouragement for private investment needed? And what should it look like?

III: Elements of a future policy agenda

3. **Knowledge:** creation and diffusion to create value:

- Reforming research institutions
- Protecting IPR and encouraging diffusion
- Creating value from IPR
- Fostering markets for knowledge

III: Elements of a future policy agenda

4. **Framework conditions:** building on competitive markets and adjusting to new ways of innovation:
- Competition policy – cooperation & competition?
 - Tax policy – e.g. treatment of innovation assets?
 - Fostering markets that encourage innovation
 - Regulatory reform that promotes innovation
 -

III: Elements of a future policy agenda

5. Building innovation networks:

- Keeping markets open
- Removing obstacles to cooperation
- Enabling global networks
- Fostering science-industry links
- ...

III: Elements of a future policy agenda

6. Broadening policies for innovation:

- What policies for non-technological innovation?
- Markets for innovation (the demand side):
 - Market development
 - Enabling user and consumer involvement
 - Lead markets, public procurement, ...
- Innovation in the public sector

III: Elements of a future policy agenda

7. **Addressing global challenges:** focusing the innovation effort on key problems:

- Improving incentives and getting prices right, e.g. carbon pricing
- Public investment and partnerships
- International cooperation, governance frameworks
- Involving NGOs and philanthropies

III: Elements of a future policy agenda

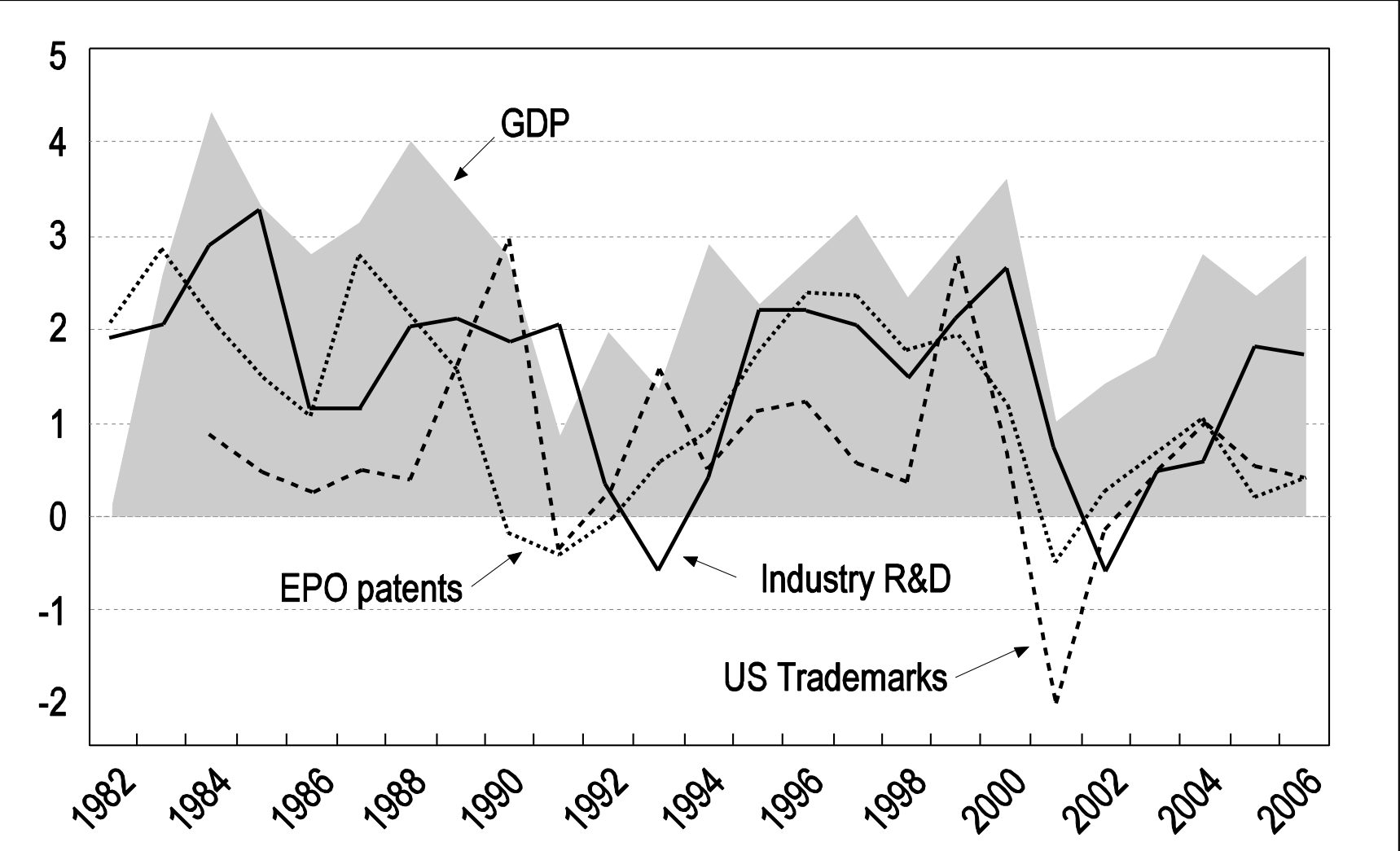
8. **Mainstreaming policies for innovation:** making innovation a core concern of governments:

- Governance – aligning policies across ministries, agencies, local governments, ..
- Linking innovation better to key political goals – growth, employment, social challenges
- Priority setting and leadership
- New measurements and monitoring frameworks to support policy

III: Elements of a future policy agenda

- Policy principles, not a one-size-fits-all strategy; OECD country reviews are a complementary tool.
- Some elements will require further work and more policy experience – a living agenda
- A draft strategy is currently being developed.

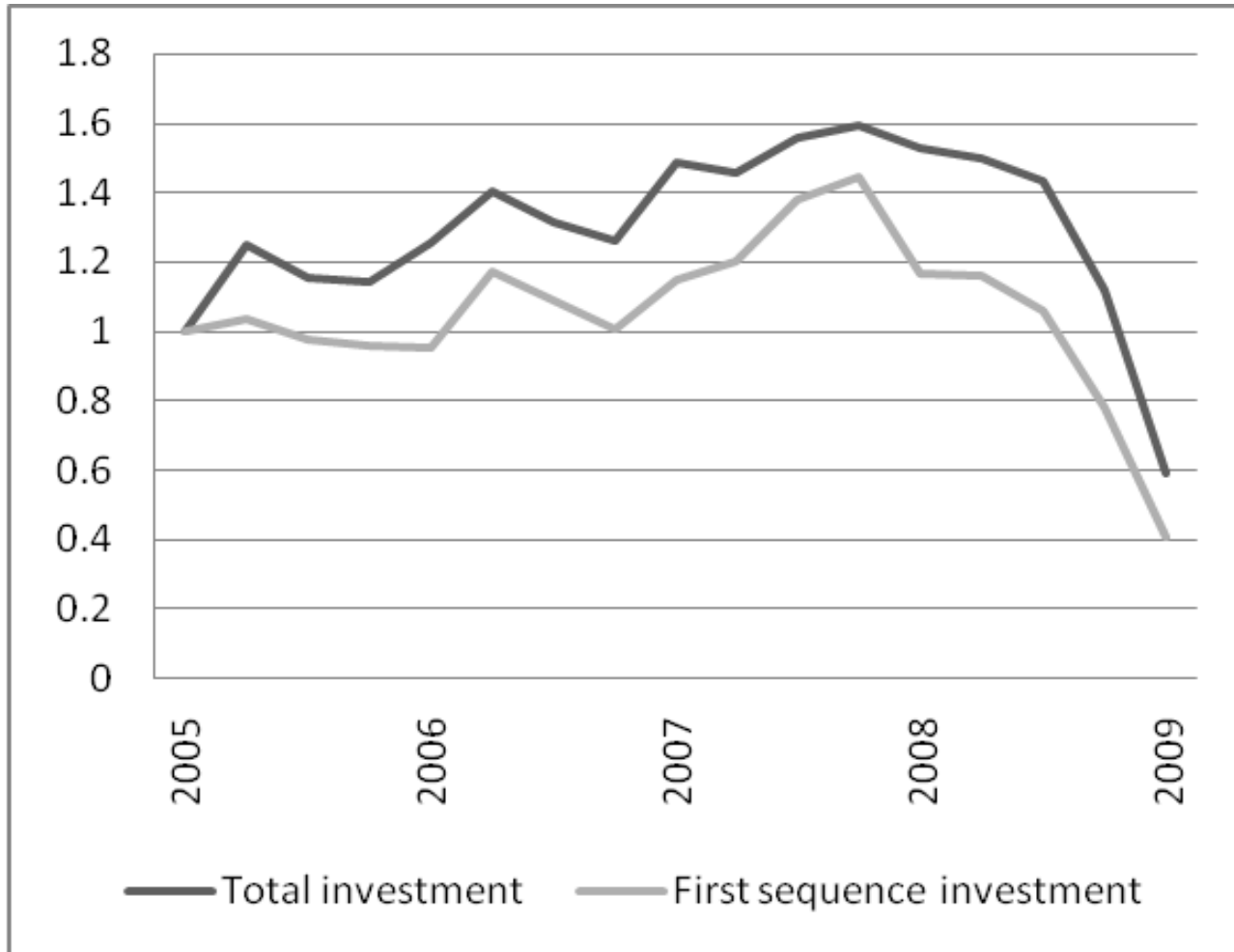
IV: Innovation in the crisis - we know that innovation will suffer in the downturn ...



Source: OECD.

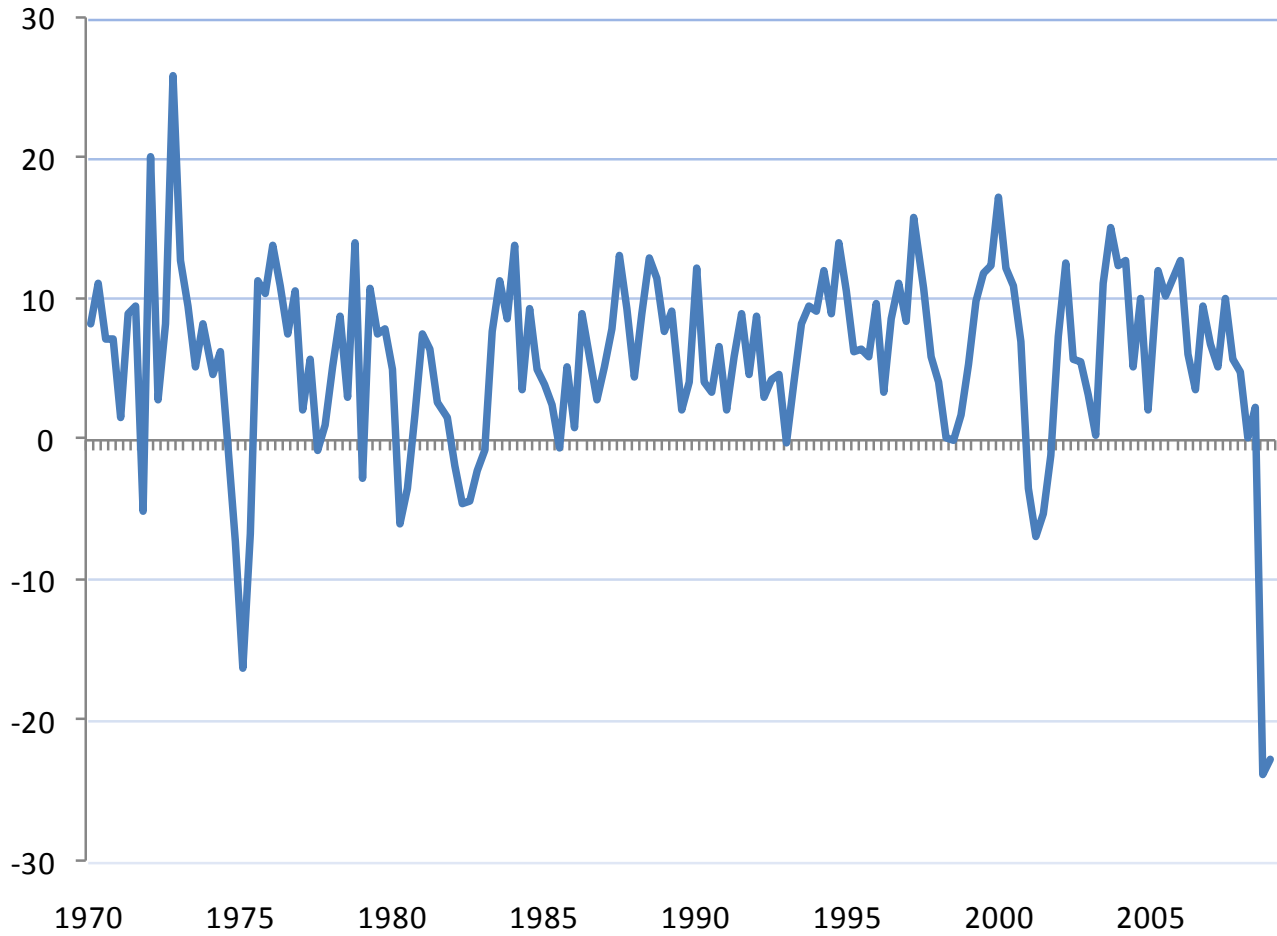
.. with a strong decline in venture capital ...

(Venture capital investment in the United States, index: 2005 Q1 = 1)



... and possible repercussions on global innovation networks

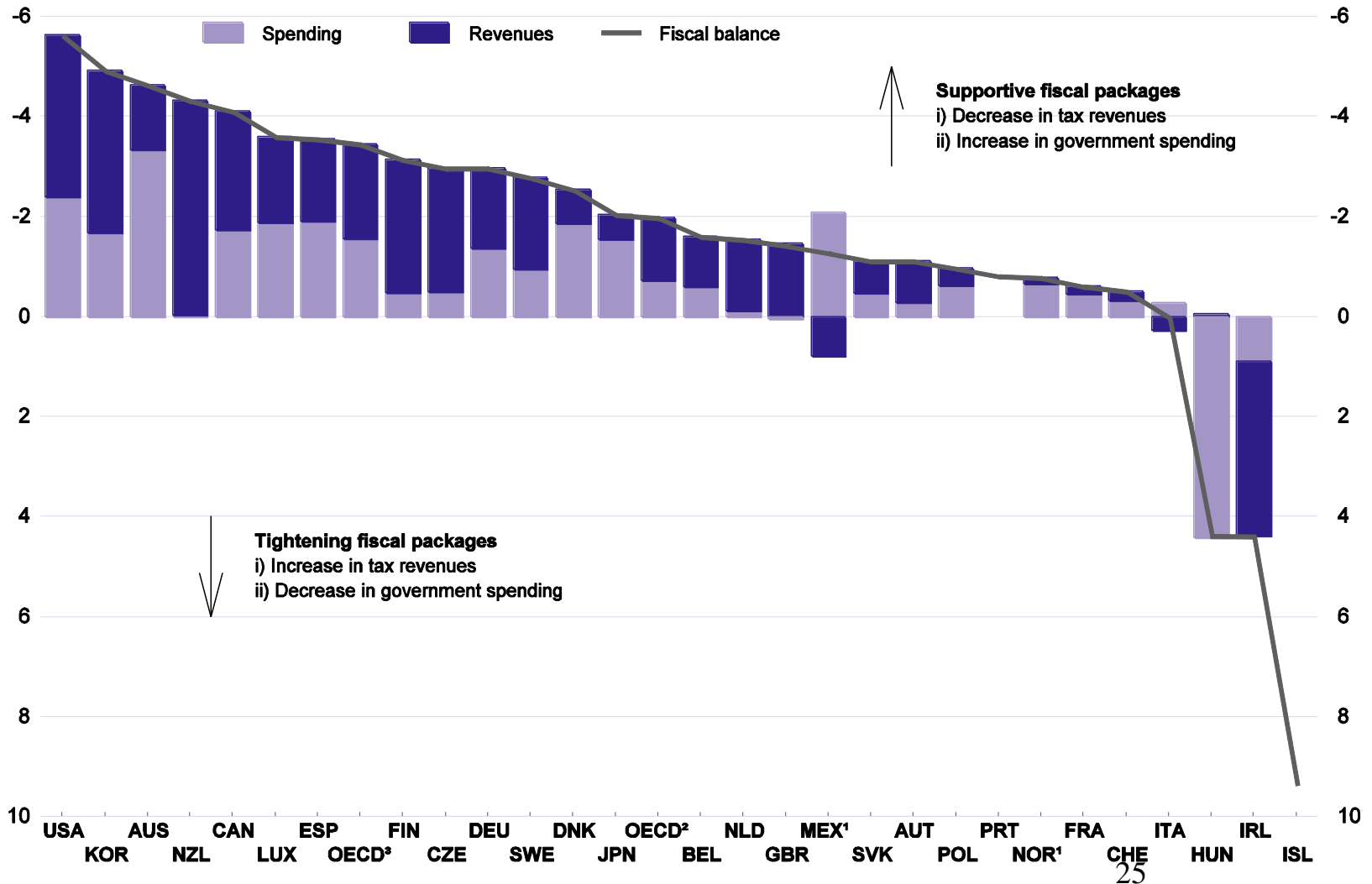
Annualised quarter on quarter growth in world trade (%)



Source: OECD.

Government responses: fiscal packages

Cumulative impact of fiscal packages over the period 2008-2010 on fiscal balances as % of 2008 GDP



Innovation and growth measures in the stimulus packages

Improving infrastructure (e.g. roads, transit, broadband)

Support for R&D and innovation

Investment in human capital, education/training

Green technologies and energy-efficiency

Support for innovation and entrepreneurship (incl. support for SMEs, venture capital)

Reconciling the long and short term

- Looking for **double-dividend actions** that can strengthen demand and support growth, e.g.:
 - Well-designed investments in infrastructure or innovation
 - Spending on training and active labour market policies
 - Easing of entry restrictions to create new markets.

- Long term actions can:
 - Increase **credibility** by moving to a stronger growth path
 - Serve as an **opportunity** to accelerate structural change

Some policy issues for the short term

- **Support innovation:** with increased risk-aversion and less liquidity, young innovative firms, in particular, need support.
- **Encourage restructuring and renewal:** Encourage new firm entry, avoid locking in old structures and business models.
- **Create new opportunities,** e.g. for environmental innovation - a clear policy signal will help improve incentives.
- **Resist protectionism and ensure competition.**

V. Next steps

- Short paper for OECD Ministerial of 24-25 June.
- Policy strategy being developed for autumn.
- Final report for OECD Ministerial in 2010.

VI. Some implications for Europe

- Further improvements in framework conditions, e.g. integration of markets (labour, financial, product, knowledge).
- Policies for innovation are more than R&D policies.
- Building on new opportunities – e.g. green.
- Continuous innovation – is Europe doing enough to benefit from new ICT developments?
- People – reforms to education and training
- Platforms for innovation
- ...

For further information

OECD Innovation Strategy:
www.oecd.org/innovation/strategy

Innovation and the Crisis:
www.oecd.org/innovation/crisis

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