

OECD FORUM 2007
Innovation, Growth and Equity
14-15 May 2007, Paris

Keynote Session

Pedro Solbes, Deputy Prime Minister and Minister of Finance, Spain

Good morning to all of you,

It is a pleasure to address this forum, where you have been discussing the topics of innovation, growth and equity throughout Monday.

Innovation, like trade, has a great capacity to contribute to prosperity. It is the economy's great engine of "creative destruction" and is absolutely essential in order to continue to increase our living standards. Economists have long recognized this, even if it only became formalised with "endogenous growth" models in the last 25 years. So much so that promoting innovation is one of the very few areas in which there is general agreement among economists that the Government has a role to play. It is therefore imperative to have an economic environment which fosters entrepreneurship generally (which is the breeding ground for innovation) and innovation specifically.

But, as we know since at least the late eighteenth century, innovation can also generate notable social dislocation. New products displace old ones, new ways of producing substitute old ways. This can have a substantial social impact: first, at the company level, as old companies disappear or are forced to downsize; but also, at the local or regional level: specific sectors tend to concentrate in specific areas, so that sectoral shocks tend to rapidly become local or even regional shocks, creating disruption in the different communities. Ultimately, of course, the relevant impact is borne by families, who are faced with income losses, the need to emigrate or extensively retrain, and generally changes, sometimes of a drastic nature, in their way of life. More social inequality can be one of the end results of all this.

This creates two problems: on one hand, material prosperity is not the only factor with an influence on social welfare, other factors –such as social stability- also play a part in it. As politicians, we have to take both into account, always bearing in mind that the benefits of innovation are permanent while the most of the social costs are purely temporary. As Minister of Economy and Finance, my specific role is obviously to promote change and try to counter the usual resistance to it in society.

The second, probably more important, problem is that the fear of social dislocation can ultimately deter innovation or economic progress. The first waves of industrial innovation led to social unrest and the destruction of textile machinery by luddites, as workers, bereft of voting rights, violently expressed their anxiety over technological changes. Nowadays, this frustration is fortunately channelled through the political system. But,

none the less, an electorate wary of technological advances means a higher likelihood that the political system will end up generating obstacles to innovation or entrepreneurial activity.

Therefore, it falls to us politicians to deal with these two partially contradictory objectives and try to find a positive result for society as a whole. An outcome which defuses the inevitable tensions that innovation may generate, by assisting displaced workers and helping them retrain, or by means of a redistributive policy which attenuates the possible effects of economic change on equity. An outcome which thus helps innovation along, by making society more favourably disposed towards it.

But politicians can be aided in this pursuit by social agents, trade unions and business organizations. In Spain we have consolidated a model of “social concertation” in which labour and business representatives are recognized a key role in social and economic reforms. They have shown a great degree of understanding and willingness to come to agreements, and that has helped to smooth many of these reforms, which have been very beneficial to Spain but sometimes painful in the short term.

In political terms, trade unions and business internalize many of the conflicting interests that economic change generates, and are therefore well-positioned to participate in the decision-making process. Which, of course, does not discharge the Government of its obligations. It is the Government who has ultimate responsibility before the citizens and is accountable to them. And in some instances there are relevant interests besides those of workers and businesses, particularly those of non-corporate taxpayers, which have to be taken into account. But the “social concertation” model has generally worked very well: labour relations in Spain have been peaceful for the last few years, and labour and business organizations have generally had a very constructive role in the reform efforts of past governments.

We recognize that this is not necessarily a model for all countries, for a variety of reasons. But it has undoubtedly been a key component of Spain’s relative economic success in recent years.

In the end, the objective is, with the appropriate nuances, the same in all countries: when confronting economic change, help tide the affected agents over its negative side effects so that great disruption and political resistance to change are avoided, and thus ensure that society as a whole can enjoy the long-term benefits of innovation. In other words, our goal should be to smooth out the rough edges of the “creative destruction” process, so that the creative part is maximized while the consequences of destruction are tempered. I believe that this will be a key political economy issue in the future, and hope that governments and social partners will be successful in dealing with it.

Thank you