

Innovation Matters And Policy Can Do Something About It

Today, innovation is central to advanced and emerging economies alike; in many OECD countries, firms invest as much in the knowledge-based assets that drive innovation, such as software, databases, research and development, firm-specific skills and organisational capital, as they do in physical capital, such as machinery, equipment or buildings. The use of information and communication technologies has become universal in only a few decades and new applications emerge daily. But while innovation is all around us, its impact on growth and wellbeing is not always evident and remains hard to quantify.

Seizing innovation's potential, actually turning it into growth and jobs, improved well-being and better health outcomes, or in solutions to problems like climate change remains a challenge in many countries. There is no silver bullet, and innovation policy alone is only part of the answer. Instead, policy makers will require a broader set of **policies for innovation**, which will vary depending on the context of each country, and that need to go beyond narrowly defined research and innovation policies.

The OECD's 2015 **Innovation Strategy** argues that policy makers can help in seizing the benefits of innovation. Concentrating on **five concrete areas for action** will help foster more innovative, productive and prosperous societies, increase well-being, and strengthen the global economy in the process:

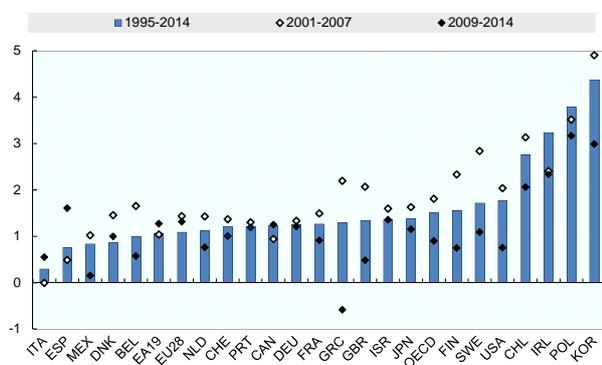
- 1. Effective skills strategies:** Innovation rests on people that have the knowledge and skills to generate new ideas and technologies, bring them to the market, and implement them in the workplace, and that are able to adapt to structural changes across society. But two out of three workers in OECD countries today do not have the skills to succeed in a technology-rich environment. A broad and inclusive education and skills strategy is therefore essential.
- 2. A stable, sound, open and competitive business environment** that encourages investment in technology and in knowledge-based capital, that enables innovative firms to experiment with new ideas, technologies and business models, and that helps successful firms to grow and reach scale. Policy should foster open markets and sound competition and avoid favouring incumbents over young firms as this reduces experimentation, delays the exit of the least productive firms and slows the reallocation of resources from less to more innovative firms.
- 3. Sustained public investment in an efficient system of knowledge creation and diffusion:** Most of the key technologies in use today, including the Internet and genomics, have their roots in public research, illustrating how essential public investment is. At a time when the world economy faces many long-term challenges, public investment needs to focus on durable benefits to society, rather than short-term outcomes. Support for business innovation should be well balanced and not overly rely on tax incentives. Well-designed, competitive grants can complement tax incentives, are better suited to the needs of young innovative firms, and can be focused on areas that have the highest return to society.
- 4. Increased access and participation in the digital economy:** Digital technologies offer a large potential for innovation, growth and greater well-being. However, policy action is needed to preserve the open Internet, address privacy and security concerns, and ensure access and competition. Digitally enabled innovation requires investment in new infrastructure such as broadband, but also in ensuring we have enough spectrum and Internet addresses for the future.
- 5. Sound governance and implementation:** The impact of policies for innovation depends on their governance and implementation, including a strong commitment to learn from experience. Policy learning rests on a well-developed institutional framework, strong capabilities for evaluation and monitoring, the application of identified good practices, and an efficient, capable and innovative public sector.

Policy makers in all OECD countries can do better in marshalling the power of innovation for a stronger economy and for better lives. Strong leadership at the highest political levels will be essential.

Figure 1. Some key challenges for innovation today

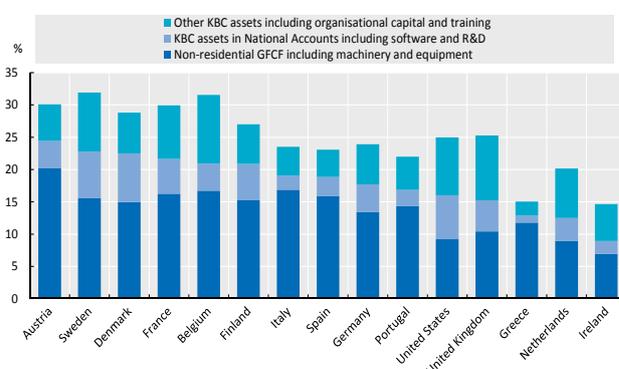
Productivity growth has fallen across the OECD

GDP per hour worked, total economy, annual % change



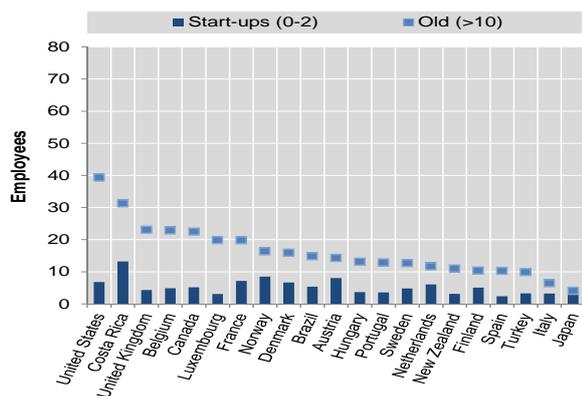
Business investment in knowledge-based capital, 2013

As % of business sector value added



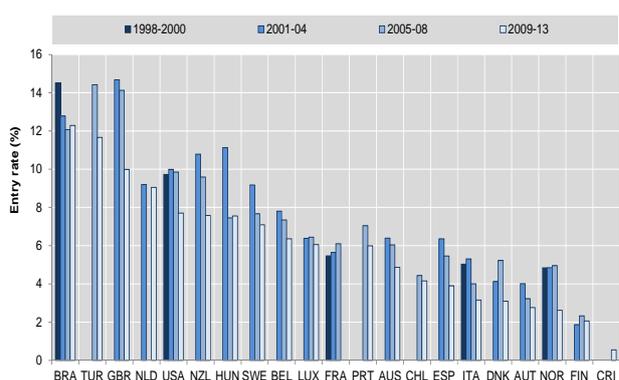
Firms in many countries don't scale after entry

Average size of start-ups and old firms, services



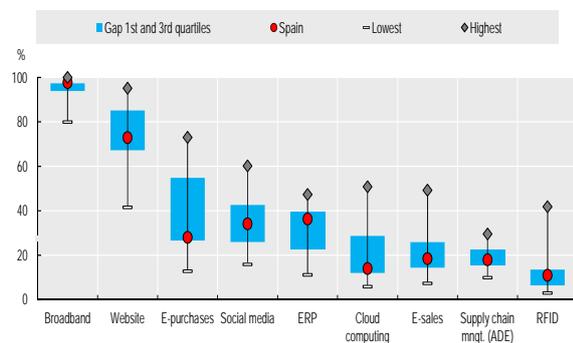
Start-up rates have fallen in many countries

Firm entry rates, in %



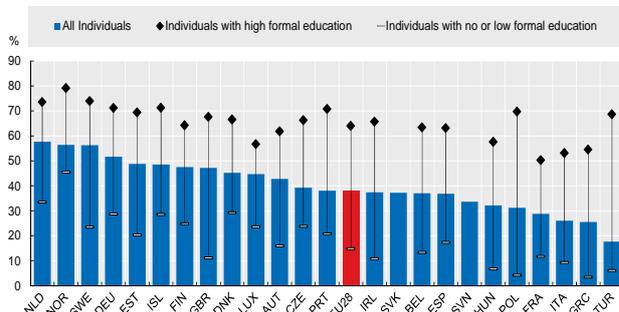
Effective use of digital technologies remains low

As a % of enterprises with ten or more persons employed, 2014



Skills for innovation are a concern in most countries

Individuals who judge their computer skills to be sufficient if they were to apply for a new job within a year, 2013 (% of all)



Source: OECD. For more detail see OECD (2015), *The Innovation Imperative: Contributing to Productivity, Growth and Well-being*, oe.cd/innovation and OECD (2015), *OECD Science, Technology and Industry Scoreboard 2015*, oe.cd/sti-scoreboard.

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