RIETI BBL Seminar
Handout

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Speaker 1: Andrew W. WYCKOFF (OECD)
Speaker 2: Dominique GUELLEC (OECD)

http://www.rieti.go.jp/jp/index.html
INNOVATION IN THE ECONOMIC CRISIS AND BEYOND

Dominique Guellec
Caroline Paunov

Country Studies and Outlook Division
Directorate for Science, Technology and Industry
OECD
Structure of the presentation

1. Innovation and the macro economy
2. Innovation in the current crisis
3. Policies
4. The Outlook for innovation?
3 key factors of the current business cycle for innovation

_Downturn in Economic Activity_  
_Weaknesses in Financial Systems_  
_High Levels of Sovereign Debt_
What to expect for innovation?

Two factors for aggregate innovation: *i*) innovation performance of the existing system and *ii*) firm dynamics/entrepreneurship

*Reduced demand for products*

→ competition ("creative destruction")

→ resource reallocations

*Public budgetary situation*

*Reduced demand for products*

→ cash flows reduce innovation possibilities

→ demand for high-tech products

→ competition ("rents" for innovation)

*Reduced liquidities*

*Uncertainties*

*Public budgetary situation*
1. The economic crisis that started in 2008 has negatively affected business innovation and R&D in all countries.

2. The crisis and the recovery have been uneven across countries, industries and categories of firms.

3. Some have featured better: countries in Asia, including Korea and China; large multinational firms in high tech industries.

4. VC, start ups and SMEs have been hit the hardest, and have not recovered yet (entrepreneurship still low).

5. The crisis has revealed and amplified weaknesses (and strengths) which pre-existed, across countries, sectors and firms.
Business enterprise R&D has partially recovered after the 2008-9 shock.

BERD funded by business, yearly growth rate (%)

Source: OECD.
A deep through followed by a fragile recovery

Patent Filings are hit by the crisis

PCT Filings; 5 months moving average; yearly growth rates (%)

Source: WIPO.
Large firms have recovered quickly

Growth rates in R&D investments and sales of top EU and US corporate R&D investors, 2008-10 (%)

Source: EU (2011), R&D Scoreboard.
Large medium-tech manufacturers (e.g. automobile) have been hit strongly

Sales, R&D and employment growth for firms in high-, medium-high and low-technology industries, 2008-09 and 2009-10 (%)

Business dynamics: More destruction than creation

Venture Capital Investment has partially recovered in the US

Source: Extracted from the OECD STI Outlook 2012 based on Venture One, Money Tree.
Certain countries have better resisted to the crisis than others: China, Korea

Source: OECD, Main Science and Technology Indicators (MSTI) Database, June 2012.
An further step in the rise of the innovative strength of China and Korea

<table>
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<th>Year</th>
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<th>Netherlands</th>
<th>Germany</th>
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<th>Japan</th>
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Source: OECD, STI Outlook 2012.
The policy reaction to the crisis

Policy responses: Recovery plans (2009) were heavily loaded in S&T and innovation related expenses.

Examples of measures:
- Funding of public research organisations (accelerating ongoing projects);
- Loan guarantees to SMEs.
- Tax breaks for businesses performing R&D
Counter-cyclical STI policies
Government support to business R&D as % of GDP

Direct and indirect government support to business R&D, 2005 or nearest year available

Direct funding of BERD
Indirect support through R&D tax incentives
No cost estimate of R&D tax incentives
Five sources of long-term risks for innovation-based growth in OECD economies!

| 1 Damages to human capital | • Depletion of available skills for innovation due to long-term unemployment  
|                           | • Loss of valuable “tacit knowledge“ for firms with dismissals |
| 2 Damages to investment   | • Foregone investments affect future rate of innovations  
|                           | • Possible “scars” to the innovation infrastructure, not for the big ones so far though |
| 3 Relocation of innovation activities | • Probably takes much longer to materialise, yet if unequal growth performance persists there might be risks |
| 4 Financial market conditions |
| 5 Public support for innovation |
What about innovation policy?

While strong innovation performance contributes to raising growth prospects high levels of public spending in its support can be a challenge for tight budgets.

- seeking greater efficiencies in public sectors’ innovation support
- concentrating funding in sectors of strategic relevance
- exploiting co-operative arrangements with the private sector

Avoid possible damages of the downturn (esp. long-term risks) !!
Support positive trends
The Outlook for Innovation and public support to innovation?

Both constructive and negative forces at work in the coming years:

- The macroeconomic and budgetary picture will not be favourable. BUT:

- Innovation keeps a distinctive competitive factor in a globalised economy, both companies and governments are aware of that.

- Social and global challenges keep calling for more innovation

- Sustained opportunities in a number of industries: ICT, bio, nano
Thank you

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Dominique.guellec@oecd.org
Caroline.paunov@oecd.org