

PROMOTING INNOVATION

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Why is innovation important?

What works?

What can be done?



WHY IS INNOVATION IMPORTANT?

Innovation creates wealth

Rising standard of living – depends on rising productivity

Physical resources are God-given (= fixed)

Productivity depends on:

- Enhanced skills
- New ways of doing things (= innovation)

Standard of Living depends on nation's ability to sustain leading edge industries

WHAT WORKS?

Why do some regions/locations achieve dynamic economies of scale & scope?

- A lot of descriptive material
- Limited analytic evidence – data problems
- Microeconomic studies:
 - R&D subsidies not highly effective – evidence fragile esp. Australia
 - VC scheme – poor in Aust. Japan, EU, Canada, but solid in US, Israel
 - Patents marginal effect – but large for some technologies
 - Grants – can be effective, depends on rules

- Holistic studies

- World leading industries – often congregate in regions, persist for many decades

- Govt policies work best if used to enhance emerging comparative advantage

- Policies in isolation don't work – need an integrated package

- Need large, not marginal, policies

- Examples

- N England in C19th manufacturing;

- Silicon Valley ICT;

- Japan steel &an automobiles;

- German chemicals;

- Israeli ICT;

- Finland Nokia;

- Australian mining

- Long gestation periods, persistent
- What appears out of no-where often has deep roots
- General enablers of innovation:
 - Cultural (cope with Δ , can work together/trust)
 - Specialist education & training aligned with specific industry
 - Joint govt-industry specialized research institutes
 - Informal networks – centred around uni (high tech), industry bodies, etc.

Knowledge & technology are ‘in the air’

WHAT CAN BE DONE?

1. Encourage world-leading industries

Can arise spontaneously – but how to expedite this process?

- Supportive environment

- govt provide information to industry. External spectator, macro perspective. Make aware of new developments in international markets, technology, new products. Prod into action. Foot soldiers spread the word.

- support informal networking bodies

- Increase incentives of education & VET to respond to industry needs

- Grants

- eligibility based on industry co-payments (embellish democracy of the market)

- support joint uni-industry research

- diffuse information and knowledge to industry

- Government procurement of local high-tech goods

- Certain demand for new products, reduce risk for industry

2. A 'small fish in big pond' policy

- What is the best business model for exploiting our R&D? (Israeli problems!)
- Can't expect to have capabilities to commercialise all we invent
- Need to be able to capture innovation profits from inventions
 - Global interface (meet the best partners)
 - Certain, cheap and effective IP (esp patents)

Need to work through international IP bodies



FINAL POINTS

- Subsidising emerging industries is a tax on efficient, well-established leading edge industries such as mining and agriculture. ⇒ have to be clear that it is worthwhile
- Myths:
 - we do not have patient, well-informed investment community (look at mining)
 - we are too geographically remote (look at Japan)
 - we are too small (look at Finland. But note problems in Israel)