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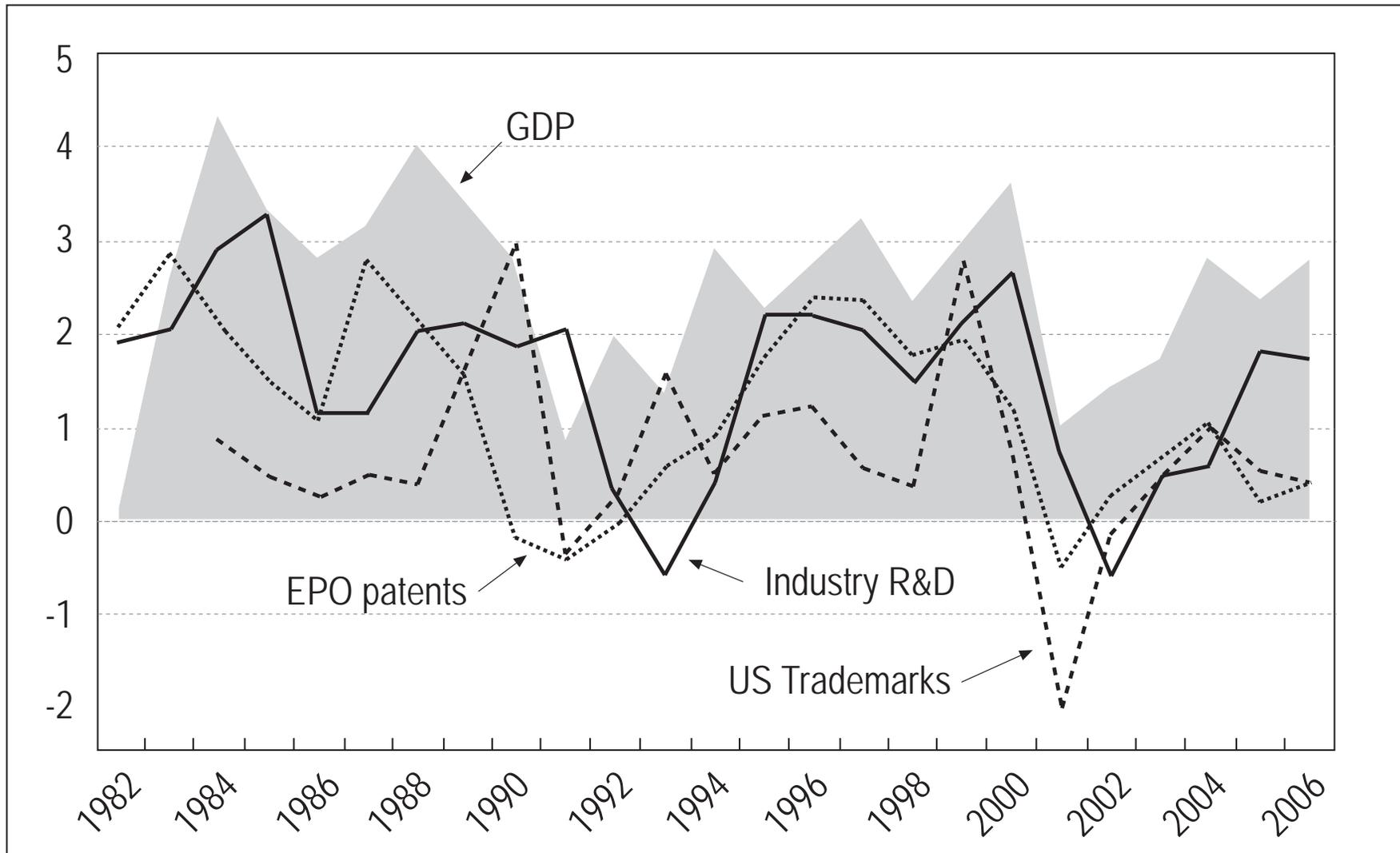
Innovation and the Crisis: Turning Opportunity into Action

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We know that innovation will suffer in the downturn ...





... as is confirmed by current trends

- Investment in R&D is falling in many firms:
 - A growing focus on development, instead of research.
 - Though some firms are increasing investment.
 - And some key firms were born during a period of creative destruction (e.g. Microsoft, Nokia)
- Small firms are most affected:
 - Financial constraints are more pressing
 - Sharp increase in bankruptcies and insolvencies
 - New innovative firms have difficulties in entering and exiting (e.g. through IPOs).



The crisis has other impacts on innovation

- Consolidation is leading to less competition and increased risk aversion
- Fall in trade disrupts global innovation networks.
- Unemployment leads to depreciation of human capital
- **But** can also be an opportunity and game-changer
 - Will activate “creative destruction”...
 - Economic stimulus packages are full of measures that can strengthen innovation
 - Growing realisation that a new growth model is needed.

An unprecedented stimulus with a strong focus on innovation

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)



What can be done to strengthen innovation?

1. Continued support for R&D and innovation

- Investments in innovation are of strategic importance:
 - Governments can cushion the impact of the crisis on private innovation expenditure (through support for R&D, public/private partnerships, etc.).
 - Investment in research may strengthen short-term demand and provides the seeds for long-term growth
- We need to link innovation closer to economic and social needs (e.g. ageing, climate change, etc); this is where future opportunities and markets will be.

2. Financing for small and innovative firms

- Firms that are willing to take risks are essential for innovation - support for risk takers and small innovative firms is key.
- The scope for government action includes:
 - Enhance cash flows, e.g. by shortening payment delays for public procurement (or changes to tax payments and export credits).
 - Enhance access to liquidity, e.g. by extension of loans and loan guarantees (or by mediation with banks).
 - Strengthening the provision of risk capital.
 - Strengthen the financial system.

3. Fostering industrial renewal

- Governments are providing considerable support to firms and industries in need, sometimes indirectly:
 - In assisting existing firms or industries, policy needs to avoid locking-in old economic structures and business models – give room to new firms and business models.
 - Make support conditional on restructuring and rationalisation.
- And give room to new entrepreneurs!
 - Remove barriers to entry, exit and growth.
 - Foster new markets and growth opportunities.

4. A networked recovery

- Invest in broadband networks to:
 - Lower the barriers to entrepreneurial activities and new growth areas
 - Help deliver important social services (training, healthcare)
 - Make other investment (green buildings, the grid, etc.) smarter.
- Maintain a competitive environment to minimise cost and maximise benefits:
 - Accessibility is key: non discriminatory and open

5. The time for green innovation has come

- Green growth offers a new opportunity for innovation, and can help address environmental challenges.
- There are important win-win options:
 - Removing subsidies on fossil fuels.
 - Cutting trade barriers on environment-friendly products.
 - A large scope for efficiency improvements
- Establish a clear and stable signal to investors and the public to change incentives and behaviour.
- Infrastructure spending and R&D can help drive green innovation and offer new business opportunities.

OECD projections for a recovery depend on stimulus measures



- OECD has corrected its growth estimates upward.
- Recession could have been worse.
- But massive fiscal stimulus built into the projections - important that measures are implemented promptly
- Prospects of uncharacteristically weak recovery, with high debts and high unemployment
- **Already before the crisis and even more now: Need to revive productivity growth to return to higher growth levels**
- **Innovation will be key.**



In sum

The crisis offers new opportunities to undertake structural change and help shape the future of OECD economies

More than ever, innovation is key:
stronger, fairer and cleaner growth.

OECD is elaborating a comprehensive policy approach for stronger innovation, to be released in May 2010

References to OECD work

- OECD on Innovation and the Crisis, [page](#)
- OECD (2009), Policy Responses to the Economic Crisis: Investing in Innovation for Long-term Growth, June 2009, <http://www.oecd.org/dataoecd/59/45/42983414.pdf>
- Interim report on the OECD Innovation Strategy, <http://www.oecd.org/dataoecd/1/42/43381127.pdf>
- OECD (2009), Green Growth : Overcoming the Crisis and Beyond, <http://www.oecd.org/dataoecd/4/40/43176103.pdf>
- OECD work on stimulus packages, <http://www.oecd.org/dataoecd/3/62/42421337.pdf>
- OECD interim economic assessment, September 2009, <http://www.oecd.org/dataoecd/10/32/43615812.pdf>