

Doc 2: 2001 Treasury Incoming Government Brief – Structural Reform

Innovation

Outline of issue	<p>Innovation policy should be focused on remaining areas of market and institutional failure.</p>
Origin of issue	<p>Implementation of <i>Backing Australia's Ability</i>.</p>
Next steps	<p>Innovation policies should be considered in the Budget Review by the Programme Review Task Force.</p>
Key points	<p>The innovation system encompasses a vast array of activities (R&D, management, skills, technology uptake, finance, exporting), institutions (firms, public research and education bodies, government) and cultural norms (eg, attitudes to entrepreneurship).</p> <p>Sound innovation performance depends on <i>all elements</i> of the innovation system working effectively in harmony.</p> <p>'Blockages' in the system can stifle innovation, and poor performance in one area can be due to weaknesses elsewhere. For instance, firms may do little R&D if other elements of the system — like venture capital — are not available.</p> <p>The Government has already invested heavily via <i>Backing Australia's Ability</i>. Future innovation initiatives should:</p> <ul style="list-style-type: none">• Avoid further spending in areas where major initiatives are already addressing market failures, such as subsidies for R&D.• Tightly target initiatives on market and institutional failures including: education and training (see the <i>Overview</i> on the need for microeconomic reform in the education sector, page 7); commercialisation of public research; management/entrepreneurship; early stage venture capital market; and tapping into international science and technology.• Wind back ineffective industry policies, including sectoral programmes propping up declining industries. <p>The complexity of the innovation system suggests that a whole of Government approach to policy development is required, especially in the current fiscal situation.</p> <p>Policy processes would benefit from more economic rigour, as they are currently dominated by science, education and industry lobbyists on the Prime Minister's Science Engineering and Innovation Council (PMSEIC).</p>