Economy: innovation and pro-green policies offer new sources of growth

OECD

Remarks by Angel Gurría, OECD Secretary-General, during the meeting of Chancellor Merkel with the Heads of International Organisations.

Background: The aim of this meeting was to promote the coherence of the International Organisations' work and the policies of their member states. This also follows the recommendations of Leaders of the G8 who both in Toyako and L'Aquila encourage such coherence. The International Organizations commit to continued and closer cooperation in support of a strong, sustainable and balanced recovery responding to the call of G20 Leaders. (read their joint press release [1])

Berlin, 28 April 2010
Chancellor Merkel, Heads of International Organisations, Ladies and Gentleman:

I want to start by thanking Chancellor Merkel for promoting and sustaining this yearly “G 6” summits. This still fragile recovery is posing highly complex challenges and we need, more than ever, to be extremely well tuned. Therefore meetings like ours today are extremely important.

Leaders have managed to avoid the worst. The greatest crisis of our life-times is finally receding. However, the scenario that we are now confronting is full of delicate policy challenges.

Governments are facing one of the hardest balancing acts in the history of policy-making: they have to reduce unprecedented levels of unemployment and unsustainable fiscal deficits and public debt. All this within a framework of low economic growth and a lost output potential of nearly 4%. Let me highlight three of the most important challenges in this respect:

First, **pro-growth structural reform will be needed** to spur labour productivity and to ensure that labour resources are fully utilised. Fiscal consolidation should involve instruments that minimise its adverse impact on trend growth and would also benefit from structural reforms in labour and product markets.

Second, it is indeed a great challenge to try to **improve the employment outlook** especially for our youth and to avoid that the current levels of unemployment become “the new normal” while having to implement convincing exit strategies.

Third and here I would like to put the focus of my intervention on: To face these challenges successfully governments and markets will have to explore **new sources of growth as new engines of growth** for supporting the recovery after

the crisis in a smart way. At the OECD we have focused on two elements: Innovation [2] and Green Growth [3].

The new sources of growth: Innovation

Let's start with innovation. Innovation – which involves both the creation and diffusion of products, process and methods – is a critical part of the solution. It provides the foundation for new industries, businesses and jobs. Innovation-led growth can also provide the manoeuvrability that will make it easier for governments to address pressing social and global challenges, therefore being critical for facilitating the transition to greener economies.

To boost the contribution of innovation to economic growth, we need to see innovation as a system that requires a broader view than simply science and technology policies that have tended to focus on the provision of inputs such as research and development (R&D) and the development of scientists and engineers.

We also need to rethink the role that universities and public research organisations play in our economies. We must perceive them as essential cogs in the innovation machine. This requires granting them more independence, instilling competition, entrepreneurial spirit and injecting flexibility. They need to be set free, made more autonomous and provided with the wherewithal to compete and become world class.

Another critical element in fostering pro-growth innovation systems is the promotion of entrepreneurship. We need to focus on new, young firms, many of which don't stay small for long – the so called "gazelles" – which tend generate large productivity and employment gains. Firms less than five years old accounted for nearly all increased employment in the private sector over the last 25 years.

Governments should try to go beyond administrative simplification and produce a multidimensional stimulus to entrepreneurship. Access to finance is a particular problem for new entrants especially at this very moment of risk aversion and rising costs of capital, since they have no history of success and in many cases their assets consist of intangibles like a patent that are difficult to value.

The new sources of growth: Green Growth

This is particularly relevant to support our inventors of cleaner energies, and to promote green growth, the other crucial new source of growth.

The climate change discussion has made it more than obvious: A new strategic vision is necessary for policies that combine economic efficiency, environmental integrity and social equity, as well as ensuring their coherence both at a national and an international level.

But, Green Growth [3] is not only an environmental imperative it bears also the potential to contribute to better economic performance with new innovative

technologies, new and more efficient productions methods with more sustainable value chains and new green jobs.

On the policy side this requires a new framework and policy support for the shifting towards greener production and consumption patterns, the removal of barriers to green growth such as the removal of fossil fuel subsidies to which the G20 Leaders have committed themselves to. Promoting Green Growth worldwide requires also the acceleration, the development and the diffusion of clean technologies, and the promotion of policies to smooth the labour market impacts of the transition to green growth.

With these and other considerations in mind, at the OECD we have been working for some months now on two Ministerial Mandates to develop two unprecedented Innovation and Green Growth Strategies to help countries develop the full potential of these two new sources of growth and build stronger, cleaner and fairer post-crisis economies.

Our role for coherence and cooperation – an observatory for policy coherence

Fortunately we are not addressing these issues alone. I know that, from different perspectives, all of you have worked and are working to help countries boost innovation and promote green growth. We need to connect our work. We have been working together with the World Bank on Innovation, with the ILO on Labour Market Issues for the G20 Labour Ministerial and with the WTO and others on monitoring trade and investment measures after the crisis. There are many more examples but we can still do better.

We must build a structural coordination mechanism among our organisations as you in your organisations are also working on these issues. We must act as a team, to deliver a multidimensional and coherent support. We must improve our communication and promote the cross-pollination of our assessments, ideas and solutions. The question is: how?

Let me take this opportunity to table one idea that I introduced last year, which could be a good step forward on the line of the excellent initiative of Chancellor Merkel and the Toyako G8 Summit. I am talking about the creation of an Observatory for Policy Coherence, to improve our consultation and exchange of information, making sure that leaders will get the best possible advice for example climate change, green growth, growing inequalities and fighting poverty. I am not proposing a new institution, or more bureaucracy. I propose we create an instrument to better co-ordinate and co-operate among us for the benefit of a sustainable global economic recovery.

Chancellor Merkel, dear colleagues from international organizations, ladies and gentlemen:
The crisis has given birth to a new and more inclusive global governance. We are all aware of this fact. IOs have helped governments to address the crisis, providing timely analytical support for Leaders to reach crucial agreements. We have also

contributed to the solutions by working together on innovative inventories and tools like on the Global Charter on Sustainable Economic Activity [4] and its core values agreed in Pittsburgh, on the Lecce Framework, on Aid for Trade [5] and investment issues with WTO, on Fossil Fuels with the WB and others, and on labor challenges with ILO. And we will continue to work together for the G20 Framework for Strong, Sustainable and Balanced Growth [6].

We must deepen and broaden our collaboration. And we can do this in a more structural way. I am sure that together, through meetings like this one and in our daily work, we will put an end to the era of fragmented global governance and produce a more coherent multilateral architecture for the benefit of a stronger, cleaner and more inclusive world.

Thank you very much.

SOURCE [7]

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http://www.ecnmag.com/news/2010/04/economy-innovation-and-pro-green-policies-offer-new-sources-growth?qt-most_popular=0

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[1] http://www.oecd.org/document/20/0,3343,en_2649_34487_45094676_1_1_1_1,00.html
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