Public Support for Industrial R&D Efforts: The Perspective of the Organisation for Economic Co-operation and Development (OECD)*

Udo Pretschker, OECD, Paris, France

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1. The Mission of the OECD Concerning Public Support to Industrial R&D

1. It is a great pleasure for me to be with you here today to address the OECD perspective on the methods of funding research and, more specifically, the perspective of the OECD on subsidies and other instruments of public support to industrial R&D efforts.

2. Pursuant to Article I of the OECD-Convention, the OECD shall inter alia promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy; and

- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

3. Such a mission places the OECD well to analyse and to monitor public spending on business R&D from different angles. In my capacity as the Secretary of the OECD’s “Working Party on Public Support to Industry”, and in the context of a conference on “Ethics for Science and Engineering Based International Industries”, I would like to focus my considerations on issues affecting trade and competition in relation to public funding of research and development. In particular, this paper will be on the potential of public support to industrial R&D to distort competition and trade at the international level.

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The Organisation for Economic Co-operation and Development (OECD) is an international organization founded in 1961 to stimulate economic progress and world trade. Information at WEB@OECD.ORG Address for correspondence Udo Pretschker, Principal Administrator, OECD, 2 rue André Pascal, 75775 Paris Cedex 16, France.

4. When the OECD launched the public support project more than ten years ago, both the distortion of international trade in selected industries, and the negative effects of subsidies on structural adjustment were major concerns of OECD Ministers. Ministers, on several occasions, have reaffirmed the important role of the Organisation in strengthening the multilateral trading system and the multilateral rules necessary for the proper functioning of a globalised economy. Recent communiqués of meetings of the Council at Ministerial Level explicitly urged the OECD to continue analysis of national support policies, to pursue its efforts towards increasing international transparency and discipline of industrial subsidies, and to tackle unfair business practices, including the combating of bribery and corruption in international business transactions.

II. Basic Facts and Figures

5. Technological progress—the creation of new products or the adoption of more efficient methods of production—is the main source of economic growth and enhanced quality of life. Governments influence firms’ capabilities, provide incentives to innovate, and set the preconditions for technology diffusion, directly through a mix of financial support measures, and indirectly through the provision of a macro-economic environment and regulatory conditions under which technological progress can flourish. In the area of research and development and technological innovation, financial support schemes constitute the predominant type of governmental policies, whereas support to R&D infrastructures and regulatory interventions, unlike in national science policies, only plays a minor role.

6. Gross domestic expenditure on R&D consistently increased in the OECD area. Measured in purchasing power parities, expenditure which equalled US$ 345 billion in 1990 rose to US$ 410 billion in 1995. This overall development mirrors the steady growth of expenditure in almost every Member country with the exception of three new OECD Members which were in a period of transition from a state economy to a market economy in these years. Gross expenditure in 1995 represented a share of 2.16 percent of GDP in OECD Member countries.

Table 1. Gross Domestic Expenditure on R&D

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<tr>
<td>Total OECD&lt;sup&gt;1&lt;/sup&gt;</td>
<td>317 403.4</td>
<td>344 973.6</td>
<td>363 034.1&lt;sup&gt;a&lt;/sup&gt;</td>
<td>377 022.5</td>
<td>379 847.7</td>
<td>387 827.9</td>
<td>409 120.2&lt;sup&gt;a&lt;/sup&gt;</td>
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<td>GERD-Compound annual growth rate in % (constant prices)</td>
<td>3.9</td>
<td>4.2</td>
<td>-0.1</td>
<td>-1.4</td>
<td>-0.1</td>
<td>3.5</td>
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<tr>
<td>North America&lt;sup&gt;b&lt;/sup&gt;</td>
<td>150 529.4</td>
<td>161 952.6</td>
<td>169 661.4&lt;sup&gt;b&lt;/sup&gt;</td>
<td>174 585.3&lt;sup&gt;a&lt;/sup&gt;</td>
<td>176 078.2</td>
<td>180 346.0</td>
<td>191 526.2&lt;sup&gt;a&lt;/sup&gt;</td>
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<tr>
<td>European Union&lt;sup&gt;b&lt;/sup&gt;</td>
<td>101 568.6</td>
<td>109 449.3</td>
<td>114 927.8</td>
<td>120 774.0</td>
<td>121 685.6</td>
<td>124 461.0</td>
<td>127 634.3</td>
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<td>Nordic countries</td>
<td>7 954.7</td>
<td>--</td>
<td>8 718.9</td>
<td>--</td>
<td>10 187.9&lt;sup&gt;p&lt;/sup&gt;</td>
<td>--</td>
<td>12 049.9&lt;sup&gt;p&lt;/sup&gt;</td>
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Notes:  
<sup>a</sup> Break in series with previous year for which data is available.  
<sup>b</sup> Secretariat estimate or projection based on national sources.  
<sup>p</sup> Excludes most or all capital expenditure.  
<sup>PCA</sup> Provisional  
Source: OECD, EAS (MST database), November 1997.