



Part 4



4.2 Policy brief 10

Developing a Strategic Policy Framework (SPF) using the 17 Sustainable Enterprises Policy Pillars

FAIR COMPETITION

- ❑ National competitiveness is defined as the set of factors policies and institutions which determine the productivity of a country. These factors are not static and will evolve.
- ❑ Raising productivity (i.e. making better use of available factors and resources) is the driving force behind rates of return on investment and which determines growth rates. Prosperity is sustainable, if it is based on the productivity enterprises can reach given they conditions they face in an economy. No single factor alone can ensure competitiveness. A comprehensive mixture is required.
- ❑ By limiting entry and exit barriers, such as state monopolies or state licences, competition forces unproductive enterprises out of the market, increasing the economy's overall productivity.
- ❑ Enterprises experiencing strong competitive pressures are more likely to innovate than those reporting no such pressures.
- ❑ Business Research & Development (R&D) has significant positive externalities in terms of technical and economic spillovers. R&D plays a key role in enhancing business innovative performance, which in turn enables firms to differentiate their products and services from those of low-cost producers in integrated global and deregulated markets.
- ❑ Many businesses already partner with universities to undertake shared Research & Development (R&D) but more businesses may in the future seek to do so as a means of carrying out innovation activity which would otherwise be constrained by businesses' finances.
- ❑ Long-term economic growth and productivity improvement is driven by the accumulation of knowledge-based factors of production through R&D and human capital investment, which prevent the marginal return of physical capital from falling below profitable levels.
- ❑ R&D can increase multifactor productivity (MFP)¹. There is also a correlation between R&D and the ability of countries, sectors, and firms to identify and adapt new technologies.

¹ Multi-factor productivity (MFP) relates a change in output to several types of inputs. MFP is often measured residually, as the change in output that cannot be accounted for by the change in combined inputs. (OECD definition).

- ❑ R&D only forms an input into the innovation process. Commercialization is crucial in determining whether R&D efforts lead to successful innovation. It is often the case that innovation fails to go anywhere because the effective paths to market and the end-user fail to materialise. If innovators are successful in commercializing their R&D inventions, these products, services, or processes are likely to be adopted, imitated, and built upon by others, in what is known as the process of diffusion.²
- ❑ Without a proper protection of intellectual property rights, firms fear expropriation of investment of their intellectual property and intangible assets. They then invest more in tangible assets, which are less subject to government expropriations as the resale value upon exit would be higher for tangible assets than for intangible ones.
- ❑ A poor culture of competition and monopolistic practices stifles debate on increased choice.
- ❑ Significant informal economic activity is a severe drag on competitiveness and productivity. The causes of informality may include: insufficient incentives for job creation, inadequate education and training, weak government institutions, low productivity coupled with high transaction costs, poor regulation, corruption and inefficiency, prohibitive taxation, an absence of property rights and law enforcement, and lack of access to credit. These problems can be compounded by a lack of access to technology and information, labour market rigidity, and rural-to-urban migration.
- ❑ Productivity must not lag behind wage growth: wage levels can impact on the capacity to employ, and jobs can be impacted on by simple wage increases.
- ❑ Minimum wages must at all times be carefully considered with due regard to the impact on job creation and maintenance.
- ❑ The best way to share gains through wages is to support productivity growth and the capacities of employers and employees at the workplace level to pursue productivity improvements by mutual agreement.

² ACCI: Pre-budget submission to the department of treasury, *The New Research and Development Tax Incentive – Exposure Draft Legislation and Explanatory Materials*.