Lessons for Policy-Making

If the question is: how can policy makers use new knowledge to shape policies that can help lift groups of firms, regions or entire economies to achieve sustainable growth? Policy-makers may wish to consider the following:

**Moving levers to improve management practices.** Management practices are not typically seen as part of the policy arena but have an important impact on the productivity and consequently the economic well-being of an economy. Some of the factors found to be associated with good management, such as product market competition, facilitating foreign direct investment and privatisation of publicly owned firms, are already part of the policy repertoire of liberal industrialised economies. Other more direct measures, such as providing basic business education to a large portion of the population or removing tax advantages for certain forms of ownership, have not yet entered the policy discussion, in the case of tax breaks because of their controversial nature; nor has business education previously been clearly linked to economic growth. The results from this programme strongly suggest that these levers should be considered as key elements of a forward-looking set of policies to secure economic well-being.

**Facilitating international mobility of goods, employees and services.** An international dimension can improve productivity by enabling firms to make use of innovative knowledge generated abroad, by putting pressure on domestic firms to improve their management practices, or by letting firms focus on activities in which they possess a comparative advantage. Protectionist policies and erecting ‘hidden’ trade barriers like national product standards may well have the short-term effect of allowing a country to stabilise its existing industry structure and composition, but it will eventually distance it from the improvements made possible by internationalised markets. Sustainable growth also implies an economy’s ability to restructure and reshape, which will be aided by the impetus coming from firms or employees located abroad.

**Promoting policies to improve environmental performance and evaluating them on their primary aims.** Policies designed to improve environmental performance are sometimes dismissed because they are perceived to stand in the way of unfettered productivity growth. An alternative school of thought considers such policies a panacea for all sorts of societal issues including job growth and innovative performance. In this way of thinking, the expectation is that the right incentives will encourage firms to invest in energy-saving technologies and implement them, leading to job creation in future growth industries and the widespread adoption of process innovations. Neither view should be considered key in the implementation of environmental policies: the fact that firms will respond to incentives such as the 2001 climate change levy in the UK by shifting their energy consumption to less expensive types of energy illustrates this. It appears that well-managed firms are better at spotting such opportunities, but there is no immediate side-effect that encourages firms to ‘go green’ across the board and invest heavily in other (non-incentivised) energy-saving technologies. Setting appropriate incentives for reduced energy consumption is difficult enough, so hoping for additional shifts in behaviour is unrealistic and puts an undue burden on the policy in question. If a policy achieves its main aim – a reduction in the consumption of a particular energy type, for example – that policy should be considered a success.

**Recognising interactions across productivity drivers.** Interactions and interdependencies occur across the different drivers of productivity growth. Policies, on the other hand, have
typically addressed just a single dimension – tax credits for research and development, broadband subsidies and technology transfer initiatives, to name just a few. Future policies aimed at securing sustainable growth need to reflect such interdependencies and should be designed accordingly. For example, incentives for firms to adopt ICT must be complemented by subsidies for training in the skills needed to use ICT effectively. Further, such incentives will have to take into account that ‘not all ICT is equal’ and that firms will benefit from different ICT systems depending on their strategies and organisational structure. For instance, incentives to adopt Open Source (OS) software may benefit firms that frequently change and adjust their ICT systems because their environment and structure demands it, while firms with centralised decision-making power may be encouraged to adopt software that does not match the rest of their organisation.

These four areas are those in which policy-making has urgently to catch up with scientific evidence. Some drivers of growth have been ignored so far (business education, for example); some policies, including those on environmental incentives, are evaluated on the wrong criteria; some, such as the opening of markets, are resisted in favour of short-term domestic gains; and many policies are treated in isolation (innovation or ICT policies, for example). Policy-making has to be kept up to speed with the demands of globally connected economies striving for sustainable growth: the additional dimensions uncovered in this research programme will help policy-makers shape their policies accordingly.