

Big questions in policy reviews

The Rudd government is making its first clumsy foray into industry policy, writes economics editor **Alan Mitchell**.

In at least one respect, the Rudd government is off to a bad start.

The Industry Minister, Kim Carr, has announced a review of the "national innovation system", while the Transport Minister, Anthony Albanese, has foreshadowed a review of coastal shipping.

There is nothing wrong with an incoming government reviewing the policies it has inherited. But in these two cases it seems the ministers already know the answers they want — or, at least, the ones they don't want.

The review of innovation will not be conducted by the Productivity Commission, despite its extensive research into the subject. Carr has set up his own expert panel.

It is also unlikely that the government will ask the Productivity Commission to review coastal shipping. On both subjects the ministers have made it pretty clear that the last thing they are interested in is the commission's economy-wide perspective.

Indeed, if Carr were attracted to the Productivity Commission's take on the issue of innovation, he already has everything he needs. The commission published a 900-page report on public support for science and innovation last year.

He is looking for something else. But what?

In its report, the commission found that there were large dividends for the community in providing support for science and innovation. But it argued that the assistance should be generally available to help overcome the market failures that plague investment in research and development and innovation generally. Assistance for R&D and innovation should not become a form of industry-specific assistance.

This was an issue at the time of the commission's last inquiry into the car industry. The car industry argued that it should receive special assistance because its R&D and innovation created benefits that spilled over to the rest of the economy. This problem of spillovers is the textbook market failure affecting R&D. Innovations can be readily copied and adapted by others, so that the original innovator is rewarded for only a fraction of the benefits generated by the original investment.

The commission agreed that there were significant beneficial spillovers generated by car manufacturers. But it argued that this still left open questions such as whether the spillovers were