

EXPERT PANEL SUMMARY

Public Sector Leadership: New Ideas Need Innovative Public Policy

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Background

Panellists investigated the role of public policy in innovation. Governments can stimulate innovation through flexible frameworks. Sometimes there is a need to steer innovation towards overarching policy objectives, such as sustainable development.

The Panel

- Moderator: **Louis Ranger**, Canada
- **Charlotte Brogren**, CEO, Swedish Government Agency for Innovation Systems, Sweden
- **Tera Allas**, Chief Economist, DFT, UK
- **Michael Robson**, Secretary General, European Rail Infrastructure Managers
- **Jean-Eric Pacquet**, Acting Director, Trans-European Transport Networks & Smart Transport, Directorate-General for Mobility and Transport, European Commission
- **Dirk Pilat**, Head of Division, Structural Policy Division, OECD
- Prof. **Sanjivi Sundar**, Distinguished Fellow, The Energy and Resources Institute, India

Conclusions

Innovation is key:

- Innovation is crucial in meeting global challenges including climate change and resource scarcity. It is also needed to stay competitive. Innovation should be a priority but awareness of the urgency of the need to innovate is sometimes lacking.
- Innovation is not just or even mainly about new technologies or procedures - implementation is key but is sometimes slow. For many problems reasonably good solutions

exist, so there is no justification for policymakers to wait until the ideal technological fix comes around. Many problems are pressing and need to be tackled now.

- The economic crisis and public pressure to make progress on problems such as climate change are push factors that help overcome complacency and make policy-makers more receptive to change. Fiscal consolidation will force transport providers to work smarter and cheaper, so will push policymakers to be more agile.

The need for a vision:

- Innovation is traditionally seen in terms of entrepreneurs generating social benefits and contributing to economic growth, where the market is the litmus test. But given overarching policy concerns relating to sustainable development, there is a growing perception that innovation needs steering to address these concerns. This need is particularly strong in the transport sector because it is characterised by multiple market failures and strong public involvement, so that strong reliance on market incentives is less appealing.
- Visions on what the transport system could or should look like in the future help guide innovation. Such visions can be developed in cooperation between decisionmakers, stakeholders, and the public (see for example the 2020 Vision of the European Commission, or the preparatory work for the 2010 International Transport Forum). Policy leadership helps implement innovations. While necessity often provides the impetus to change, visions help determine the direction.
- Disappointment with past performance of the public sector in innovation is fairly widespread, with perceptions that public involvement with the sector often - inadvertently - stifles innovation. Public initiatives to boost innovation are often insufficiently targeted to address transport specific issues. This rather negative assessment should not lead to the conclusion that government needs “to get out of the way”, but that there is need for innovation in public policy. Public involvement is not micromanagement or a proliferation of support measures. It is instead about providing transparent and reliable framework conditions, including incentives to steer where the market falls short (possibly creating markets), and including communication with industry and stakeholders to give the process direction and make sure opportunities are exploited.

A comprehensive view:

- Innovation includes technological improvement and much more. Processes, business models, regulations, institutions, and governance affect transport and all are susceptible to improvement.
- Innovation is risky so a stimulating environment requires tolerance for failure. This is not always present in governance frameworks, or at least is not sufficiently strong. The consequence is that not all beneficial changes are implemented, or that they are implemented at unnecessarily high cost. For example, extreme risk aversion regarding the public acceptance of congestion charging mechanisms has driven up investment and operational costs in Stockholm.

- Incentives to innovate in the public sector differ strongly from those in the private sector. Proxies for market discipline in the public sector may boost innovative effort, although the public sector cannot and should not emulate the market.
- Policy needs to be used more effectively to drive innovation. Transparent and reliable frameworks are highly conducive to innovation. Radical innovation often comes from new firms, so frameworks need to be flexible so as to allow them to emerge.
- Fragmented policy responsibilities hinder effective policy-making. A comprehensive view on the transport sector and policy is needed. Lower level governments have little time for institutional learning so could benefit from assistance with sharing good practice. The scale of transport problems exceeds national borders, making international coordination indispensable.
- Good policy requires evidence. The widespread deployment of information technology broadens the scope for data collection considerably, and efforts should be made to make sure this opportunity is not foregone. Measuring innovation effort and output is hard but progress is made, for example within the OECD Innovation Strategy. Ex post project and policy evaluation is extremely useful as it stimulates learning and improvement.

Harnessing innovation:

- Steering innovation towards particular policy goals requires more than providing effective frameworks. Public procurement, test-arenas and pilot projects should be deployed more widely. More generally, the public sector can help create markets, an increasingly important function. Nevertheless, while the development of markets can be stimulated, no markets can be created if there is no demand to support them: harnessing innovation requires participation of governments, suppliers, and consumers.
- Attaining policy goals in transport requires recognizing that the sector is a system consisting of various transport modes for passenger and freight movement. The supply of the various services relies on a combination of public and private initiative in a context of multiple market failures and imperfect governance and regulation. With imperfect markets and policy, relying on private initiative alone for innovation is particularly risky. Public sector involvement may be needed more strongly than elsewhere, even if making innovation happen at the system level is a major policy challenge.