

Are innovation and creative industries policy converging?

At a large 'innovation and commercialisation' convention a few years back, the chair warmed up the audience by asking how many scientists there were in the audience. Lots put up their hands. Then he asked how many lawyers, managers and accountants were attending. Quite a few put up their hands. Finally he asked how many arts people there were. I and a few other people put up our hands. It's good to see all the scientists here, the chair said – they tell us why things work the

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way they do. The accountant and the lawyers, they tell us how things work. And the arts people say: "Do you want fries with that?"

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handshake and there is some reciprocation.

Second, innovation thinking has been mugged by the reality that advanced economies are overwhelmingly services-based and thus there is a need to provide a framework for services innovation in policy. Most services sector innovation is not dependent on breakthrough science but on incremental and local efficiencies, attention to process and, increasingly, to R&D and business models which take greater account of the demand side and of innovations generated by users or consumers.

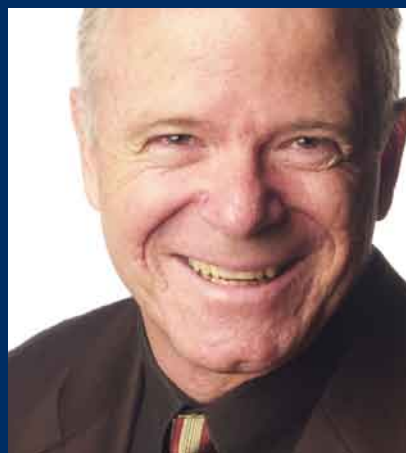
Third, it is becoming apparent that the claims of science to be able to promote innovation are hindered

in practice by its dilemmas in public communication. For example, a recent study by the National Academies Forum into *Understanding the Formation of Attitudes in Australia: The Case of Nuclear Power* reveals that

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First, social scientists, working closely with engineering and technology specialists, have generated a great deal of evidence for the interdependence

of knowledge production, knowledge management and knowledge transfer. This has given rise to claims in the literature for 'fifth generation' or 'ecological' approaches to innovation systems, demonstrating the interdependence of the Science, Technology, Engineering and Mathematics (STEM) and the Humanities, Arts and Social Sciences (HASS). Recently, the OECD's Frascati manual¹ has been updated to take account of what is now approaching mainstream thinking. Science itself now seeks out social scientists in a more holistic cross-disciplinary

public attitudes towards the development of a nuclear power industry have remained static over the last three decades, with a majority opposed

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for a range of safety-related reasons. This is despite advances in technology that make nuclear power plants far safer than was the case when accidents such as Chernobyl and Three Mile Island occurred, and in spite of the possibility of nuclear providing a cleaner alternative energy source than 'dirty' coal-powered electricity plants.

But, while the broad claims of services innovation are now well established, the arts and humanities and the significant and growing creative industries sector that is fed by them are yet to nail their

relationship to innovation thinking and without a convincing framework and robust evidence base.

Legacy policies based on normative, 'two cultures', assumptions, combined with the dominant commercial leadership of the creative industries sector which has shown little interest in engaging with policies on innovation and R&D, create and maintain this gap. R&D tax concession regimes in this country and many others programmatically exclude knowledge generation processes based in the humanities, arts

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and social sciences from qualifying as 'systematic, investigative and experimental'.

This is despite the updating that has gone on in Frascati which has attempted to understand afresh services R&D, of which the incessant production of new or improved materials, products, devices, processes or services in the creative industries is an increasingly critical component. .

On the other hand, the well established industries that make up the highest profile components of the creative industries (broadcasting, print, music) are populated by large, often multinational, commercial firms with little interest in qualifying for such tax concessions or like support. They don't need it, by and large, and therefore they have rarely positioned themselves to explicate the role of R&D in their incessant production of new or improved materials, products, devices, processes or services. Given this lack of interest, and their usually effective lobbying efforts that are directed to other aspects of their business interests, the whole area of

innovation and R&D policy has tended to bypass the creative industries.

This has consequences, particularly because this sector is predominantly composed of SMEs with a 'missing middle' – a lack of medium-to-large firms and a small number of very large, market dominant players. There is a great preponderance of micro and small businesses and sole traders to which much contemporary innovation and industry support is, and should be, directed. Yet, our study, with Dr Terry Cutler, of *Research and Innovation Systems for Digital Content and Applications*², showed that the panoply of innovation and industry schemes offered by government has almost completely passed the creative industries by.

Nevertheless, the signs are promising for the beginnings of a productive convergence. At the ARC Centre of Excellence for Creative Industries and Innovation³, we have made advances in understanding the way culture drives change and growth in advanced 'experience' economies; demonstrated how education can be shaped for a future-oriented creative workforce; and addressed legal and regulatory inhibitors to the emergence of the digital economy. As with the Australian Government, which has also established the Creative Industries Innovation Centre⁴ as part of Enterprise Connect, many countries and regions are looking to the creative industries as a new source of innovation.

¹The Frascati manual is the internationally recognised methodology for collecting and using R&D statistics;

²www.cultureandcreativity.gov.au/cics/Research_and_innovation_systems_in_production_of_digital_content.pdf;

³www.cci.edu.au/; ⁴www.creativeinnovation.net.au/

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It rejected the viewpoint of the 2007 Productivity Commission (PC) Report, *Public Support for Science and Innovation: Research Report*, which recommended a narrower definition of R&D based on additionality and spillover, a scrapping of the base Concession for all but the smallest companies and the retention of a modified incremental Concession (which Cutler said should be scrapped).

In broad terms, Cutler won the battle on Budget night with the announcement of higher base rates and a closing of the 175% Premium. Yet it seems the PC may have won the war.

The 'Easter package' gives voice to much of the PC's wish list – legislation of additionality and spillover; a narrower definition of business R&D; the disqualification of most R&D performed in a production environment. Inherent in the revised exposure draft legislation is a sense that some business R&D (biotech; medical) is more 'genuine' than others (mining; engineering).

The Government may be entitled to this view. But it should be

upfront with stakeholders if it intends to operate a broad entitlement program to reflect that philosophy, and not leave everyone guessing as to what this means to their R&D programs come July 1.

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Sadly, there is probably a simple explanation for what is taking place: The Treasury is seeking to save a lot of money and has taken the PC Report and run with it, sidestepping Cutler in the process.

Senate review and I urge you to have your voice heard. I believe that much work remains to be done to liberate the clear benefits of the move to the Credit whilst keeping a real planning incentive in place for all Australian companies, large and small, for all the **eligible R&D** that they undertake.

The Button legacy must not be tossed aside lightly.