ABSTRACT WORKING PAPER 4.6

Business-funded R&D intensity:
impact and complementarity of public financial support

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Abstract

There are relatively few studies that measure the macroeconomic effect of financial support policies on private investment in R&D. By distinguishing direct and indirect measures, the objective of this paper is to analyse the individual effect and the complementarity of these policies. The complementarity is studied in two ways: the complementarity between instruments and the complementarity between jurisdictions. Using a database covering 25 countries of OECD over the period 1990-2007, our dynamic panel data results show that only indirect support (tax incentives) affect directly and significantly the business-funded R&D intensity. Even though direct support (subsidies, loans) do not have any significant individual effect on business R&D, it seems that their strengthening would be detrimental to the effectiveness of indirect support. Indeed, our results show that direct and indirect support are substitutes for stimulating private investment in R&D. Finally, the fact that foreign policies for R&D do not influence the level of private investment in R&D in a country supports the idea of a jurisdiction’s complementarity at the national level.