# Sometimes, less is more – key factors for innovation and a competitive economy

Innovation is one of the most important factors to create prosperity and combat major challenges such as climate change or demographic development. Innovation policy cannot be separated from competition and location policy. For an economy to thrive, business needs breathing space and excellent framework conditions. State intervention and overregulation kills innovation and is poison for a competitive economy.

A new paper of economiesuisse outlines the seven most important pillars for a successful and sustainable innovation policy.

**Competitiveness** of a country and innovative strength go hand in hand. To strengthen a country as a location for innovation, it is of central importance to increase its competitiveness. Among the 20 countries that are the world's top innovators, 14 are also in the top 20 most competitive countries. In this field, Switzerland has obviously done some things right. The Competitiveness Index 2022 of the IMD World Competitiveness Center ranks Switzerland second behind Denmark but ahead of Singapore and Sweden.

## Competitiveness through excellent framework conditions

Competitiveness is best supported by excellent framework conditions (pillar one). This includes, for example, macroeconomic, political, and legal stability, a low level of regulation, a low tax burden, access to world markets and effective protection of intellectual property. BusinessEurope's recently presented action plan for more competitiveness and regulatory breathing space is a good way to boost innovation and make Europe again a place to invest and to do business.

**Good education** is one of the most decisive conditions for innovation today (pillar two). In addition to an excellent education system, Switzerland has the advantage to rely on strong dual vocational training.

However, in the age of digitalisation, technical skills and entrepreneurial ability are particularly important. **Promoting STEM subjects and entrepreneurship** at an early age in school (pillar three) is key to increase the capacity for innovation. Here, Switzerland must do better if it wants to stay ahead of the curve.

## Government investment in education and R&D boosts innovation, not increased state aid.

**Government investment in education, research, and development** (pillar four) is central to the capacity to innovate. In recent years, many countries have increased their commitment to research and development in terms of strategic orientation towards innovation. In this area, the European Union has done a good job with Horizon Europe, by far the largest framework programme for research and innovation in the world. While Switzerland is still in a good position overall, the growth of its R&D expenditure is below average in international comparison. Therefore, long term government spending on education, research and development must be prioritized.

Innovation cannot be realized without **qualified staff** (pillar five). Simple approval procedures and open access to global specialists is an important requirement for strengthening innovative power.

## Multinational companies as key drivers for R&D in Switzerland

**International networks and cooperation** are other key factors for innovation and progress (pillar six). Multinational companies with their international network and the international teams provide knowledge exchange across borders and thus play a particularly important role. A high level of internationality strengthens the innovative power of a country such as Switzerland.

Last, but not least, **living innovation ecosystems** can help SMEs and startups to strengthen their innovative capacity (pillar seven). But if the framework conditions are bad, the value of a government-supported innovation system will remain low.

Dossierpolitics: the seven pillars of innovation capacity