

**Economics Legislation Committee**  
**ANSWERS TO QUESTIONS ON NOTICE**  
Industry, Innovation and Science Portfolio  
2017 - 2018 Budget Estimates  
31 May – 1 June 2017

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**AGENCY/DEPARTMENT:** DEPARTMENT OF INDUSTRY, INNOVATION AND SCIENCE

**TOPIC:** Government expenditure effects on firm-level R&D

**REFERENCE:** Questions on Notice (Hansard, 1 June 2017, page 47)

**QUESTION No.:** BI-31

Senator KIM CARR: That is why I am interested in the research paper that was released by the Office of the Chief Economist from this department, The role of spillovers in research and development expenditure in Australian industries, released in April. Have you had a chance to look at that?

Dr Finkel: I have not.

Senator KIM CARR: Perhaps you could have a look at it.

Dr Finkel: I will take that on board.

Senator KIM CARR: The paper asserts that government expenditure at both state and federal levels has negative effects on firm-level R&D. It crowds out private R&D. Certainly that is the measure that has been given some publicity. I am wondering if you could take on notice—

Senator Sinodinos: Sorry, what was the beginning of that sentence?

Senator KIM CARR: The paper asserts that government expenditure at both state and federal levels has negative effects on firm-level R&D.

Senator Sinodinos: So this is not the operation of the R&D tax incentive. You are talking there about—

Senator KIM CARR: And other measures.

Senator Sinodinos: Outlays measures?

Senator KIM CARR: Yes, and others.

Senator Sinodinos: You must be talking there about outlays measures. Is that right?

Senator KIM CARR: Yes, and other measures. But it goes to the issue of the current programs that are operated in this country, because it is said to crowd out private R&D. What I would ask of you—after you have had a chance to read it; take it on notice—is: do you agree with that assertion? Given your experience as a reviewer of the scheme, does that accord with your direct experience through that review process?

Dr Finkel: As I said, I have not read it. I would be happy to take that on notice and get back to you to further discuss it in whichever is the most appropriate and timely fashion.

**ANSWER**

The government expenditures mentioned in the Office of the Chief Economist's staff research paper are strictly intramural expenditures by the state and federal government on R&D. They exclude assistance and grants offered by the government to private companies for the purpose of R&D and R&D commissioned to private firms. For this reason, no major implication can be drawn from the paper's findings regarding the performance of programmes assisting private firms. The data does not offer enough details to understand the exact cause of the negative impact from R&D expenditures by state and federal governments on firm-level R&D. The findings do not imply that the source of R&D (government vs. universities) is the reason behind the difference in spillover outcomes, but rather could relate to the type of research (applied vs. basic). It is also important to note that the paper only considers the concept of spillovers in the form of higher or lower R&D spending. It does not capture any other benefits that might accrue, such as increased productivity or profitability due to R&D expenditure performed by other parties.