

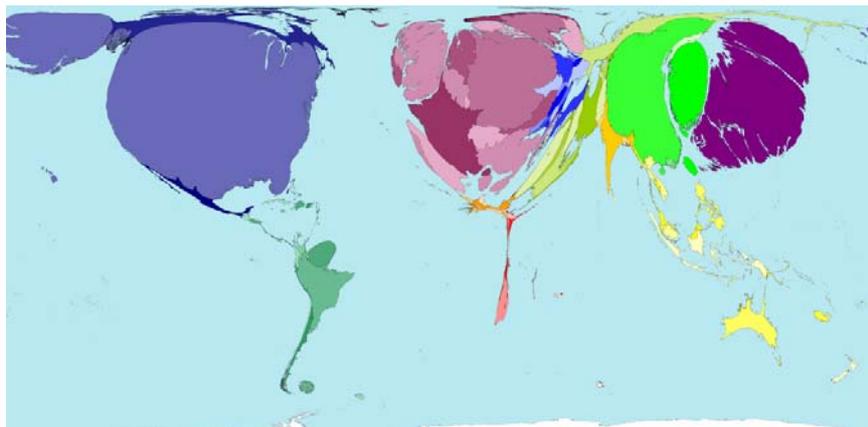
Prioritization and engagement:
the political economy of organizing
« public goods » policy responses

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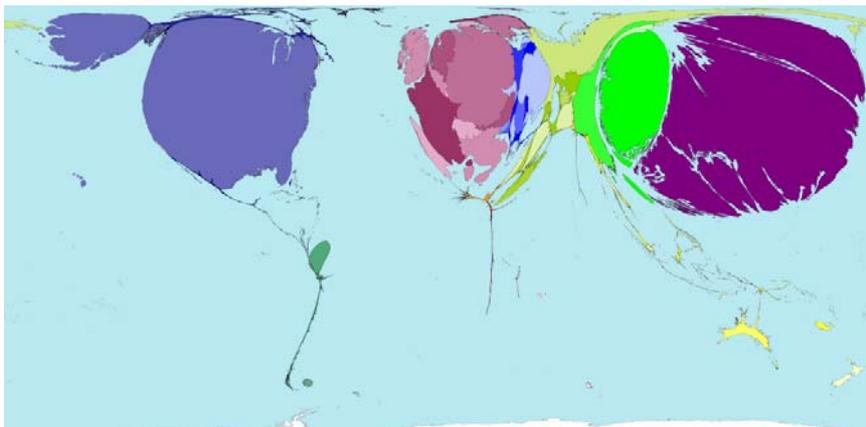
R&D expenditure –
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R&D deficit: does it really make a difference?

- **No**: no relationship between R&D spending and the primary measures of economic and corporate success (growth, profitability, shareholder return) (Booz/Allen/Hamilton report)
- **Hum** : input not output; innovations without R&D are booming; structure effect
- **Yes**: hundreds econometric studies have shown robust correlation between R&D spending and economic performances



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What is a knowledge economy?

- Sector of production and services involving knowledge intensive activities and oriented toward the continuous supply of « new to the world » goods and services
- Centrality of innovation, of science and technology and of (new applications of) ICTs

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Four policy axes for the development of the knowledge economy

- Dramatic change in the resources allocated to the critical domains
- General orientation of the economy toward the “right” fields of specialization
- Transformation of economic institutions and modes of governance
- Adaptation of other policies to the objectives of the knowledge economy

Choosing (and moving toward) the right specializations

- Not all innovations have the same value
- The fact that the knowledge base exhibits valuable specializations is a key driver for growth
- Europe is penalized by a structure effect

Creating a vision

- Creating a clear vision of the next areas for focus is not a trivial problem
- Technology foresight tend to produce the same « priority » ranking regardless of the « clients »
- Public policy has overemphasized new science-based leading edge industry in *an unimaginative way*, resulting in *greater uniformity* of national knowledge bases
- How many centers of excellence in biotech Europe can afford?
- Don't forget what makes your knowledge base *original and unique*
- Importance of "*particularization*" processes to identify next areas for focus while maintaining originality and distinctiveness of the knowledge base

Reconciling competitiveness and regional cohesion through the particularization process

- Vigorous growth process involves positive feedbacks, polarisation and « winner-take-all » type of equilibrium
- Not all regions will be a world center of excellence in high tech.
 - R&D involves indivisibilities
 - Agglomeration economies: a scarce resource
- How to reconcile regional cohesion and European competitiveness?
- Each region should invest carefully in the *particularization* process to find key areas for focus as resulting from what makes the regional knowledge base distinctive, original and subject to modernization through new ICTs

Gouvernance and policy process

- Case for government intervention when:
- Private agents are unable to coordinate their investment plans (coordination failure)
- Great spillovers and uncertainty
- Capital access issue to fund radical changes
- Creating incentives to move, reducing uncertainty about future markets, funding the knowledge infrastructure, initiating early adoption process
- But practical difficulties of policy implementation are not a minor issue

The political economy of organizing « public goods » policy responses

<p>Delegation to a unified actor</p> <p>EC, ECB</p>	<p>Hard coordination with sanctions</p> <p>Stability and Growth Pact</p>
<p>Voluntary coordination</p> <p>OMC, Lisbon strategy</p>	<p>Soft coordination by guiding rules</p> <p>Luxemburg and Cardiff Process</p>

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- OMC is only effective when there are strategic complementarities between national actions: adequate individual national effort is a condition to reap part of the benefits from the collective achievement
- But with regards to R&D and knowledge, individual States may hope to benefit from collective efforts without engaging too many resources in such effort (spillovers and free riding)
- Mismatch between the method of governance and the economic nature of the goods which are involved (quasi public goods and no network externalities)

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- In such case, strong and vigorous initiatives from the Commission are needed to generate more incentives and leverage effects (to overcome the spillover problem)
- But low budget at the Union level and high national budgets
- The dissipated efforts of national States echoes with the weakness of the centralized capacity of the EU
- Are the National Reform Programs a solution?

The political economy of organizing « public goods » policy responses

- To invent new policy responses involving more credible commitments from the member states given the economic nature of R&D and knowledge
- Potential roles of new areas of integrated knowledge and technology-based services, which have been *particularized* by European regions as being likely to offer opportunities to create competitive advantages in European regions
- Also areas where the centrality of R&D is emerging as cross-section solution of structural problems

The political economy of organizing « public goods » policy responses

- These areas should help to gather coalitions in favor credible commitments to R&D programs
- This need not to be a threat to the EU
- Set of common « ground rules » for the formation of such coalitions

- **Prioritization** to avoid uniformity, sub-critical mass and the dissipation of the agglomeration economies: *what is unique in my knowledge base?*
- **Engagement** through the formation of coalitions to overcome the public good/spillovers problem: *how to build strategic complementarities between national/regional actions?*
- Mentorchem, Bluebionet as good example