

Pre-Class Assignment I (Nbr of Comments: 30)

How entrepreneurial should the state be (# 19)

Overall, both views (the Economist versus Mariana Mazzucato) are seen as too extreme; the state has to find a way in-between both extremes in order to optimally stimulate the creation of innovation and knowledge. The issue is thus not whether the state should be active, but rather in which way (type and depth of involvement).

Key issues:

The state should take on an active role, but proceed with caution as too little is known about the impact of public R&D investment on private R&D investment (crowding out versus stimulation of private R&D investment). Further, there are other, less risky ways to encourage innovation (e.g. set the right incentives so that firms compete for innovation; macroeconomic framework). There is also the risk that the state may not act in the best interest of the tax payers when making the investment decisions (private interests and relationships may dominate the decision process).

Especially in times of an economic crisis some countries may not be strong enough to overcome an unsuccessful investment by the state. This particularly applies to smaller countries. Therefore, the question concerning the optimal involvement of the state is also a country specific one. For instance, following Hofstede (1980), countries characterised by a high degree of individualism and risk tolerance may not depend on the involvement of the state in order to promote innovation. Germany and the UK are respectively given as examples of countries with a more interventionist and a free market policy approach to innovation.

In addition, the optimal balance of public and private investment most likely depends on the industry sector considered. For instance, with respect to military technology, education, basic research or fields with a predominantly public interest the state should take on a more active role, while highly advanced or specialised research should be left to private firms.

In general innovation should not be entirely attributed to the state. The reason for this is that successful innovation does not only depend on invention per se, but equally relies on the ability of firms to manage innovation and to promote their diffusion. As a consequence, the state should primarily focus on the creation of demand and not on the management of supply.