

Research Fellowship Programme – Growth perspectives for the EU

Essay on Competition, innovation and knowledge policies

Background

The majority of economists share the view that apart from raising allocative efficiency by pushing prices closer to marginal costs, competition also fosters dynamic technical efficiency. Sustained economic growth requires investment in research and innovation, as well as competitive markets that allow consumers to reap the full benefits of that investment. The capability to innovate and to successfully commercialize innovation is broadly accepted to be a crucial determinant of an economy's competitiveness. Government policies can support innovation by lending momentum to such activities via several channels, such as public investment and creating a favourable regulatory and institutional framework in which innovation takes place.

How to best promote innovation is a key question of economic policy and the toolbox of policy makers has grown rich. Apart from conventional incentives such as direct and indirect subsidies, IPRs and measures to facilitate technology diffusion, fostering innovation receives special attention in many public policy domains. However, the question of how to best raise innovation is complex and depends strongly on circumstances. The essay should contribute to providing more clarity in this domain.

Aims of the essay and key questions to be tackled

The essay should take the form of a position paper and provide an overview on the types of economic policy instruments available at the national as well as at the EU level for fostering innovation. It should take stock of the broader forms of existing policy instruments on the EU and Member State level to foster innovation. It should identify the strengths and weaknesses of the main instruments to generate innovation incentives in a way that does not distort competition. The study should also provide data-based evidence and concrete examples for innovation policies that have successfully improved firm performance and also for policies that have failed.

In this context, the essay should provide a discussion on the effectiveness of various policy instruments to foster innovation with minimal distortions in competition, taking into account the most recent economic literature on this issue and focusing on the following aspects:

- Firm size and the ability of businesses to operate internationally have been recognized as important drivers of innovative activity. Countries and even sectors differ significantly with respect to how large and small, internationally active or domestic-oriented firms contribute to innovation. Large, multinational enterprises and SMEs face very different challenges for innovation that also require tailored policy response. The study should specifically take into account policies to promote innovation targeted to firms of various size and internationalization and address the challenges countries with a particularly high number of SMEs face.

- The innovation cycle starts with general research and ends at the sale of the innovative product. On which stages of this cycle is public support justified economically in order to strengthen innovation incentives? How do small and larger firms differ in this respect? The study should underpin the arguments with evidence from economic theory and empirical literature.