

Innovate UK

Technology Strategy Board

A mission-oriented approach to building the entrepreneurial state

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Innovate UK is the UK's innovation agency. We fund, support and connect innovative businesses to accelerate sustainable economic growth. We are committed to constantly improving our capabilities and better understanding how we can best support business-led innovation.

About this document

This is a summary of an independent report by Professor Mazzucato, commissioned to explore how Innovate UK might better engage with businesses and other stakeholders to strengthen the UK's innovation system and commercialisation.

It is intended as a discussion-starter, rather than a policy statement. The views expressed in the piece are the author's alone, and do not necessarily reflect the views of Innovate UK.

The full report can be found on Professor Mazzucato's website at www.marianamazzucato.com/innovate-uk.pdf

Professor Mariana Mazzucato – a biography

Professor Mariana Mazzucato (PhD) holds the RM Phillips chair in the Economics of Innovation at the Science Policy Research Unit (SPRU) in the University of Sussex. She is winner of the 2014 New Statesman SPERI Prize in Political Economy and in 2013 the New Republic called her one of the '*3 most important thinkers about innovation*'.

Her recent book *The Entrepreneurial State: debunking private vs. public sector myths* (Anthem, 2013) was on the 2013 Books of the Year list of the Financial Times. It focuses on the need to develop new frameworks to understand the role of the state in economic growth—and how to enable rewards from innovation to be just as 'social' as the risks taken.

She advises policy makers around the world on how to achieve growth that is both "smart" and inclusive and is a member of the Scottish Government's Council of Economic Advisors; a Commissioner for the World Economic Forum on the Economics of Innovation; and a permanent member of the European Commission's expert group on Innovation for Growth (RISE). Further information is available on her website – www.marianamazzucato.com

Summary

Countries around the world are seeking smart, sustainable growth. This paper argues that if they are to succeed they must put innovation at the heart of growth policy.

However, the current debate is hampered by a limited economic framework - Market Failure Theory - traditionally used by policy makers worldwide.

According to this theory, government should take a back seat and simply create the 'conditions' for innovation - establishing a playing field but allowing the playing itself to be done by the dynamic business community. The state may be permitted to invest in limited areas that are characterised by 'market failures', but should not get too involved in the direction of change itself. This is summed up by the overused phrase - "Governments can't pick winners".

The missing piece of the jigsaw

This is particularly relevant now, when the worldwide response to the financial crisis of 2008 has been to cut deficits. As the global debate continues about what should or should not be cut to keep down levels of public debt, a fundamental piece of the jigsaw is missing.

And it is this wrangling over the size of deficits - that in the UK is intensifying in the run up to the election - which has deterred focus from, what I would argue, are more fundamental questions about the composition of public spending and the type of institutions that guide it.

We need to place much greater emphasis on how the choices made about public spending and investment today will affect future growth with the potential to increase the supply of funds available to future private and public investment. In other words, we cannot consider the deficit, without also considering what it is being spent on, with the aim that GDP (the denominator of debt/GDP) can grow in the long-run.

An alternative narrative

This alternative narrative is backed up by the historical reality (as opposed to the myth): regions around the world that have been successful in achieving smart growth—from Silicon Valley in the USA, to the Baden-Württemberg in Germany, and Changzhou in China—have relied on public policy involving lots of picking.

Indeed, in the USA, which is so often described as being driven by 'markets', it was public policy and government agencies that made the original investments in what later became the internet, GPS and shale gas. Direct investments made through 'mission oriented', not 'market fixing', agencies. And in the UK, Innovate UK is now a fundamental part of the innovation ecosystem with a mission to help achieve dynamic links between firms, the science base and financial institutions.

The real question is not whether or not to choose directions, but how to do it, and what should the future 'missions' be?

The role of government in the economy - a new understanding

The question of how to direct state investment requires first of all a new understanding of the role of government in the economy. Positioning innovation policy in a market creation framework rather than a market fixing one provides a new perspective, and begs new questions.

Achieving any mission (from putting a man on the moon to developing the internet) requires public and private sectors to work together, and a state both willing and visionary enough to set the direction and create the institutional framework. Today's societal challenges, which combine social, political, economic and technological ambitions, should guide our new 'missions', which necessitate a similar if not greater level of visionary investment and state capacity.

By limiting our understanding of the role of the public sector to one that simply 'administers', 'fixes', 'regulates', 'spends', 'meddles', and at best 'facilitates' and 'de-risks' the private sector, we are unable to think creatively about how to allow public sector vision, risk-taking and investment to lead and structure the needed transformational changes.

Questions to be addressed

This paper sets out four questions that we must address to enable public and private actors to work together in more symbiotic and dynamic ways:

Directions

How can public policy be understood in terms of setting the direction and route of change; that is, shaping and creating markets rather than just fixing them? What can be learned from the ways in which directions were set in the past, and how can we stimulate more democratic debate about such directionality?

Evaluation

How would a mission-oriented framework, as opposed to a market failure framework, translate into new indicators and assessment tools for evaluating public policies, beyond the micro-economic cost/benefit analysis? How does this alter the crowding in/out narrative?

Organisational change

How should public organizations be structured to accommodate the risk-taking and explorative capacity, and the capabilities needed to envision and manage contemporary challenges?

Risks and rewards

How can this alternative conceptualization be put into practice so investment tools are framed to socialize both risks and rewards and growth is not only 'smart' but also 'inclusive'?