Apparently government does all the innovation around here [1]

Written by **Tim Worstall** [2] | Wednesday 7 August 2013

We have a new contender for silly economic theory of the year here. Marianna Mazzucato's book on how it's really the State, government, that invents everything and that therefore we must, umm, well, I'm not sure actually. Either allow the state to carry on inventing everything or tax everyone more [3].

> Second, government has also increasingly accepted that it funds the risks, while the private sector reaps the rewards. What is emerging, then, is not a truly symbiotic ecosystem of innovation, but a parasitic one, in which the most lossmaking elements are socialised, while the profitmaking ones are largely privatised.

I've already spluttered and sworn about that one elsewhere. When the state takes 50% of all of the entire economic output of the entire country, evertyhing produced in aggregate by every man woman and child in the nation, quite how we can describe any profit at all as being privatised I'm not sure. But there's a larger error at the heart of the argument:

> Conventional economics offers abstract models; conventional wisdom insists the answer lies with private entrepreneurship. In this brilliant book, Mariana Mazzucato, a Sussex university professor of economics who specialises in science and technology, argues that the former is useless and the latter incomplete. Yes, innovation depends on bold entrepreneurship. But the entity that takes the boldest risks and achieves the biggest breakthroughs is not the private sector; it is the much-maligned state.

You can prove pretty much whatever you want in any field if you decide to start by ignoring everything everyone else has found out about that field. And the economist who has done the work in this field, about government and private contributions to invention and innovation, is William Baumol.

His finding being that the state, government, and private industry are equally capable of inventing things. Whizzy new machines, whizzy new ways of doing things. He notes that the Soviets managed to make a satellite and a rocket to get it into space and there's pretty much no economic system more state directed than that Soviet one. However, he then goes on to note that innovation is not the same as invention. Innovation is the process by which these whizzy new things disperse through the society (the take up of new technologies if you like) and also the rate at which people find interesting things to do with this whizzy new invention.

The importance of this being that the innovation side is done vastly better by a private sector, a market based one. Technological adoption is faster, more things are found to be done with the invention and so on.

> A perhaps even more potent example is the information and communications revolution. The US National Science Foundation funded the algorithm that drove Google?s search engine. Early funding for Apple came from the US government?s Small Business Investment Company. Moreover, ?All the technologies which make the iPhone ?smart? are also state-funded ... the internet, wireless networks, the global positioning system, microelectronics, touchscreen displays and the latest voice-activated SIRI personal assistant.? Apple put this together, brilliantly. But it was

> gathering the fruit of seven decades of state-supported innovation.

Baumol's point is that the private sector could have come up with these technologies, even though it was the State that did. But only the private, or market, sector could have come up with the iPhone. And it is worth noting that absolutely no government anywhere has managed to come up with anything remotely approaching a smartphone. Which is, as I'm sure you'll be fascinated to learn, the technology with the fastest adoption rate globally of any technology ever.

Or, as Baumol didn't quite say, the Soviets did manage to put a satellite up there but 50 years after that they'd still not managed to make a domestic washing machine that worked. And as Ha-Joon Chang rightly observes, the washing machine has done more to reduce the burden of labour, to free women from its shackles, than any other invention. And it did indeed need the private, market based system to do that.

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