

Reviews/Comptes rendus

Innovation Policy and Canada's Competitiveness. K. Palda. Vancouver: The Fraser Institute, 1993, 265 pages.

The issue of whether Canada needs an industrial strategy and, if so, how it should be pursued is one that has occupied the Canadian academic, business and policy communities since the first industrial policy at the time of Confederation. Palda does not so much make an original contribution to this debate as offer a synthesis of much of what has been written on the issue, both in Canada and elsewhere, in the last twenty or so years. In the process, he provides a useful summary of the main arguments and offers a healthy dose of common sense in assessing past/current policy initiatives of the Canadian government.

Palda begins by providing an overview of innovativeness and some of the principal issues surrounding the process of innovation. He then moves on (Chapter 2) to a discussion of industrial strategy and the role of the state, including the link between industrial strategy and innovation. The next two chapters follow up on the innovativeness concept, examining it from an economic perspective (Chapter 3) and a managerial perspective (Chapter 4).

In Chapter 5, Palda turns to a more specific examination of Canada's innovativeness and competitiveness followed by a discussion in Chapter 6 of Canadian policy initiatives with respect to industrial strategy and support for innovativeness. Chapter 7 examines, in a comparative framework, the experience of other countries, specifically Australia, France, Germany, Japan, the U.K. and the U.S., and Chapter 8 offers a summary and conclusions.

While both interesting and well-done, Palda's discussion is not without its flaws. Without any question, he begins with the view that government should not be directly involved, or at least should be involved as little as possible, in grant, tax incentive or other programs aimed at trying to promote innovation through R&D. Accordingly, his arguments/evidence tend to be disproportionately critical ones; the presentation, in terms of the order of presentation, the length of the description and the number of arguments, is far from balanced. Second, despite the general "let the market decide" thrust of the argument, he also, in at least a partially contradictory way, criticizes the government at times for not doing enough in certain areas. For example, he makes the (valid) point that innovation is not limited to R&D but carries

forward to commercial production, marketing, adoption, etc. Government policy is criticized on these grounds because it is concentrated almost exclusively on R&D; and there is a clear indication that government should broaden the scope of its support in this regard, despite the general recommendation to do less. Third, many of the arguments advanced in analyzing specific government policies do not necessarily take proper account of the intent/objectives of such policies.

A case in point for this latter argument is the discussion of the IRDP, which Palda is content to note "was only partly designed to support innovation" while otherwise treating it in the same way as other innovation programs. Questions of the efficacy of IRDP aside, the regional development objective of this program is clearly relevant to any assessment made of it but is one Palda ignores.

Finally, Palda's attempt to discount the theoretical case for government support for R&D is weak, at best. His argument, for example, that the non-appropriability characteristic of knowledge (a traditional argument in favour of government support for R&D) is largely neutralized by the fact that firms all gain from each other, first, is supported only by an oblique reference to the pharmaceutical industry and second, ignores entirely the issue of free riders. Similarly the non-exhaustiveness feature of knowledge is discussed on the grounds that obsolescence is a more likely concern in today's fast-moving world of new technology. However, not all innovations fall into this rapid-obsolescence world and furthermore, rapid-obsolescence, in itself, will accentuate the non-appropriability argument. Most importantly, however, Palda at no time discusses the non-optimal results that may come from private market behaviour as opposed to public sector behaviour. Markets may be better but they are not perfect.

These criticisms notwithstanding, Palda does draw some important conclusions: the improbability of government successfully picking "winners"; the excessive focus by government on the R&D stage of innovation; the poor conception and implementation of many government programs; the importance of education to innovation policy, a role which government behaviour seems not to recognize much of the time; and so on. It is a useful book, even though it says little that is new, both as a synthesis of the arguments (and the literature) for those not already familiar with them and as a reminder to policy makers that they need to do better. This latter reminder, unfortunately, is all too necessary.

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