

COMMENT

'Rights and Relations in Modern Economic Theory' by Carl Christian von Weizsäcker

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Much of the post-war research on industrial organization has been focused on the trade-off between technical and allocative efficiency. Von Weizsäcker's earlier contributions to this literature are well-known. Although this trade-off exists also in a stationary economy, it becomes much more strategic, when analysed — in the spirit of Schumpeter — as a choice between static and dynamic efficiency.

The interest is then centered around the fact that if the knowledge and know-how resulting from innovations, R&D-investments and learning-by-doing remain the exclusive property of the innovator, it will raise not only the incentives for these kinds of 'progress-generating' activities, but also the barriers to entry and the costs of competing.

There are several kinds of possible externalities or spill-over effects involved. Apart from the obvious effects on imitating competitors there may also be, as illustrated by Von Weizsäcker in his paper, important spill-over effects on the next generation of innovative or learning activities. If there are no exclusive rights or other ways to privately appropriate a sufficient part of the value of new knowledge, the costs of progress for the industry as a whole will be lowered by the spill-over effects, but progress may nevertheless be stopped because of inadequate incentives for innovation and improvement. There is moreover no way to determine with certainty what level of private profit incentives is 'adequate' for a desired rate of progress.

This is one of the dilemmas for industrial policy discussed by Von Weizsäcker in his paper. His own policy conclusion is stated in clear and concise terms. A costly progress is better than no progress at all. When 'in doubt, plump for innovation competition and against imitation competition'.

My question to Von Weizsäcker is whether it may not be possible to have both, if we are willing to channel back part of the consumer rents generated by the spill-over effects in the form of subsidies to R&D-investments. To some extent and in various forms all governments are already doing this. Von Weizsäcker himself mentions public investments in infrastructure and initial price subsidies as a necessary prerequisite for starting progress in

telecommunications. The assumed non-appropriability of results from basic research has motivated, through the ages, public financing of academic research and research in particularly risky areas. In most countries R&D-investments are accorded a favorable tax treatment etc.

My question does not mean that I want to advocate the use of research subsidies to replace patent laws, or to belittle the difficulties and dangers involved in defining potentially beneficial R&D-activities and in determining reasonable subsidy levels. I do not know the right answer and there may not, in fact, be a generally right answer applicable to all the different 'progress industries' concerned.

However, there are at least three reasons why the question ought to be raised and discussed. Firstly, as pointed out above, R&D-subsidies are already part of the standard arsenal of industrial policy. Secondly, there are well-known limits to the effectiveness of patent laws and similar kinds of legislation and the experience over the latest decades would seem to indicate that the effectiveness is moreover declining. The growing complementarity between investments in innovation and in reputation or marketing, emphasized by Von Weizsäcker, may, at the same time, mean that the need for legal protection is also diminishing. Thirdly, an analysis of competitive dynamics framed in terms of externalities — differences between social and private returns — cannot avoid dealing with the possibility of pricing as a substitute for regulation. Von Weizsäcker discusses the use of pricing in the case of negative externalities. Why not do so also for the case of positive spill-over effects?¹

¹For an explicit discussion of the potential role of subsidies for R&D-investments and related activities in the framework of competitive dynamics, cf. A.M. Spence, *Industrial organization and the dynamics of the competitive process*, MIT Press, forthcoming.