The Myth of Market Failure in New Technology, Science and Innovation

Lecture by Professor Jason Potts, RMIT University.

Professor Potts is a Principal Research Fellow at RMIT University; his studies focus on the fields of evolutionary, innovation, institutional and cultural economics. At the inaugural Australian Libertarian Conference held over April 6-7 in Sydney, he presented a detailed lecture entitled *The Myth of Market Failure in New Technology, Science and Innovation*. This was one of the many speeches that challenged contemporary ideas relating to government intervention in the market, and whether its presence is really all that necessary in order to achieve economic and social prosperity. It is common in the twenty-first century for large first-world governments to spend big on research and development (R&D). Professor Potts developed his argument through looking at fundamental economic data rather what we hear far too much of in the mass media, political stigma. What automatically became problematic was the fact that is no apparent correlation between the success of R&D and scientist wages in the sector. Associate Professor Potts separated his findings into three distinct points of view (a) The government uses “verification argument[s]” i.e. spending money and hoping something happens, (b) R&D funding is purely a rent transferral activity (c) political gain from spending on R&D is significant. My interpretation of Professor Potts discussion is that it has not been economically justifiable to continue increasing the R&D sector funding if the result has primarily been greater wages for scientists. We often talk about there being ‘no free lunches’ in the market, and therefore it seems economically unviable for higher wages if responsibility and accountability of scientists doesn’t increase. Professor Potts went onto describing the issue as a “collective action problem” and that unfortunately government R&D funding “ignores entrepreneurial desire” which in turn leads to crowding out in the sector. Therefore, this suggests that there is an imbalance between promoting individual innovation and governmental innovation. Professor Potts outlined the fact that the government need not change the dollar figure they are pumping into the sector, but completely overhaul of the way in which the funding is structured. He pointed out a statistic that caught my eye; a 10% decrease in the costs associated with innovation had promoted a 1% increase in the amount of successful R&D accomplished. This suggests that the government should look toward the creation of greater taxation benefits for the R&D sector rather than giving the sector extra funds. Funding is always easy, but the government needs to change its attitude toward innovation and realise that the verification argument leads primarily to rent transferrals and rent seeking behaviour. The harder but more effective solution is to alter funding structures and promote R&D through other means that are more efficient in promoting productivity and growth.

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