Markets for Innovation: Market Failures and Public Policies

There is a broad consensus that innovation is key to long-run productivity growth, yet we lack a solid basis of empirical evidence on many innovation policy questions. In this short course, we aim to provide an introduction to the economics of innovation that summarizes the state of the literature in this area, and highlights key open policy-relevant questions. We first discuss theory and evidence on the key market failures used to justify government intervention in markets for innovation. Second, we describe two parallel sets of incentives which shape innovation – market-provided incentives (e.g. expected profits), and scientific norms/institutions. Third, building on this description of the relevant incentives, we summarize theory and evidence on the efficiency of public policy interventions designed to address the key market failures in this space: taxes, public funding of research, intellectual property rights, competition policy, and immigration. Fourth, we summarize theory and evidence on the key linkages among innovation, diffusion, and economic growth. Finally, we highlight some recent work exploring links between innovation and inequality.

Recommended readings:
- Jones, Benjamin and Lawrence Summers (forthcoming) “A calculation of the social returns to innovation,” in Innovation and Public Policy (Austan Goolsbee and Benjamin Jones, editors), University of Chicago Press.

Books not formally recommended as background for this course but potentially of interest:
- R&D, Patents, and Productivity, https://www.nber.org/books/gril84-1 (Zvi Griliches, editor)
- The Rate and Direction of Inventive Activity, https://www.nber.org/books/univ62-1
- The Rate and Direction of Inventive Activity, Revisited, https://www.nber.org/books/lern11-1 (Joshua Lerner and Scott Stern, editors)