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Powerful Finance and Innovation Trends in a High Risk Economy, Edited by Blandine Leperche and Dimitris Uzunidis, Palgrave Macmillan Publication, 2008, Pages 277, Price £ 60.

Economic history has for long projected entrepreneurs as the primum mobile of economic growth so much so that economic peaks and troughs have been identified partly with peaks and declines of entrepreneurship. However, as Baumol has rightly pointed out, the role of an entrepreneur at a point of time is a function of the relative pay-off structure in the economy. Whether an entrepreneur engages in productive activities like innovation or unproductive pursuits like rent-seeking and organized crime depends on the rules of the game operational at that point in time. Any change in the rules of the game dictates changes in composition and size of entrepreneurs which, in turn, would impact the productivity and growth of the economy *via* the allocation of entrepreneurial resources. In this background of traditional theories on entrepreneurship, innovation and growth developed by eminent economists like Schumpeter, Baumol and Galbraith, the book 'Powerful Finance and Innovation Trends in a High Risk Economy' discusses the emerging relationships between the three variables in a new epoch defined by globalization of markets and financial deregulation.

The book is a collection of 14 chapters divided into two parts of seven each. Part I, consisting of chapters 1 to 7 deals with the historical evolution of the entrepreneur and the incentive structure motivating channelization of entrepreneurial resources into productive and rent-seeking activities including the political economy of R&D in a global financial context.

According to Sophie Boutillier, the wave of economic liberalization, development of financial markets, advent of new technologies coupled with the crisis of the welfare state led to the emergence of the ‘socialised entrepreneur’ of the 1990s.The author, thus, examines the evolution of the ‘Schumpeterian entrepreneur’ of the 1960s into the ‘socialised entrepreneur’ of today in Chapter 4. The author is credited with the view that with financial innovations like venture capital and public welfare programmes, even a person with a humble background can rise as entrepreneur of today. A socialised entrepreneur may be a founder, manager, owner and innovator of the enterprise and is ranked according to his/her resource potential where the latter is determined by finance, knowledge and social network of relations.

But does the entrepreneur of the 1990’s engage in productive innovation? James Galbraith in his paper, 'Innovation and Predation', answers that the CEO-led corporations, of late like, Enron and World Com focus on obtaining high rate of return through predatory methods better described as 'control fraud' or systematic looting of corporation'. James Sawyer substantiates Galbraiths' argument in Chapter 4 by citing how CEOs of Enron tweaked financial statements to show up consistent earnings performance from quarter to quarter. The author counters that individuals working in their self interest may not lead to common good. Rather, unbridled self interest leads frequently to rent-seeking pseudo capitalist behaviours in which individuals deviate from conventional capitalist relationship of holding capital patiently over the longer term and indulge in 'short termism'.

Such short-term behavior is induced by the political economy of R&D under a global financial order characterised by unregulated financial markets, mobile capital and full capital account convertibility, argues Jerry Courvisanos in Chapter 6. The high risk and fundamental uncertainty arising from such a global system discourage long term R&D projects by large firms, curtail R&D during economic downturns and handicap R&D spending by young firms which depend on external funding. The R&D strategies are driven solely by the motive of marginal incremental marketing-based improvements which, in turn, limits economic growth. The author, thus, surveys the extant academic literature from the particular focus of R&D's twin roles and implications for financing R&D.

Dimitri Uzunidis in Chapter 2 examines the relations between the variables from a different perspective. The author opines that technologies *per se* cannot explain global economic cycles. Technologies have to be socially appropriated in order to become vectors of growth. The author is of the view that no large scale economic movement would be possible as long as global solvent demand remains low and as long as finance acquires a growing surplus of value and transforms it into rent.

Part II consisting of Chapters 8 to 14, dwells on firm level strategies on innovation and profitability including corporate governance over the firm's industrial life cycle, rapidly changing objective functions of firms in a financially unstable world and innovative behaviour in small and large firms.

Schumpeter had argued that big firms have a competitive advantage over small firms in innovation. In Chapter 12, Francis Munier analyses the relation between the size of the firm and innovation based on the concept of competence to innovate in the French industry using a logit model. The author argues that large firms possess superior competence in sub-contracting or acquiring R&D, recruitment of highly competitive staff and R&D management with third parties. Furthermore they possess 'sale of innovation competencies' whereby they can promote and valorize their innovation on the market.

Similarly, Kraft and Ravix more a question that should the mode of governance also vary with the size of the firm in order to incentivise innovation. The authors are credited with the view that firms cannot be governed with a universal set of rules disregarding their diversity and heterogeneity. Further, age and size are not the key determinants of innovative behaviour of firms. Hence in Chapter 8, they reconcile the literature on the industry life cycle with the literature on the governance of large and small enterprises and insist that new principles of governance should be proposed for innovative corporations by defining the notion of 'corporate entrepreneurship' within which managers and investors are collectively involved in the coherence and development of small and large innovative firms.

But ultimately why should a firm innovate? Does innovation add to higher profits? Christian Genthon explores the nature of the relationship between innovation and profitability by analyzing the computer industry over an extended period of time in Chapter 10. The author deviates markedly from traditional arguments and demonstrates that there is no relationship between R&D spending and profitability. Instead, the determinants of profits depend on growth and industrial organization.

In Chapter 14, Blandine Leperche takes forward the argument put forth by Jerry Courvisanos in Chapter 6 and pinpoints how the objective function of the firm has turnaround in recent years from profit maximization to 'profitability imperative' where the manager of big globalised corporations try to boost shareholder value in order to retain investment from new institutional investors and concomitantly reduce risk, cost and length of the technological progress. The author explains how a contradiction has developed between socialization of knowledge capital - which is at the base of innovative capacity of firms - and oligopolistic appropriation facilitated by evolving patent laws and practices.

There is no gainsaying that financial innovations like securitisation have exacerbated the instability and the risk of secondary uncertainty in the world which, in turn, has come down heavily on R&D expenditure of firms. But does lack of financial innovations hinder the development of R&D too? Elisa Ughetto in Chapter 13, illustrates how in a bank dominated system like

Italy where non-bank institutions are conspicuous by their absence, innovations are nipped in the bud due to lack of credit. Banks are averse to lend to innovative firms because of low returns to innovation and information asymmetries. Although Basel II allows incorporation of qualitative information in banks' internal rating models, the author has found empirical evidence that innovation-related parameters are not taken into account by Italian banks in a systematic way.

In a nutshell, the book is a repository of contemporary developments in innovation and growth theories and corporate strategies in this direction. The book, thus, educates about the need for innovation, reasons for rapidly disappearing innovative zeal and the new avenues to encourage R&D. The author illuminates that finance is a *sine-qua-non* for a knowledge-based economy of today. However, although financial development in the form of venture capital and private equity coupled with risk management practices like securitisation encourages and enlarges the reach of innovation, instability emerging from financial innovations restricts long-term innovative activities and knowledge accumulation. The book provides cues at how these two contradictory forces could be balanced. The book is a collection of most comprehensively written papers by eminent economists and is a must read for researchers and PhD students working in the area of economic theory, advanced microeconomics and game theory.

Indrani Manna*

* Kum. Indrani Manna is a Research Officer in the Department of Economic Analysis and Policy of the Reserve Bank of India.