

Published in Polish as:

[Innowacyjności nie da się zadekretować, Teraz Polska, 2/2015, pp. 7-10](https://kwasnicki.prawo.uni.wroc.pl/todownload/WKInnowacyjnoscDekretowanie.pdf)  
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Translated by dr Google ☺:

*Witold Kwaśnicki*

### **Innovation cannot be decreed**

Innovation and innovativeness - two words so frequently used recent years. Politicians and bureaucrats are especially good at this, who constantly and everywhere emphasize the importance of innovation in social and economic development. It is worth saying that economists for long time pointed to the huge role of innovation, to mention, for example, Frédéric Bastiat (e.g. his *Economic Harmonies* from 1850), Joseph A. Schumpeter (e.g. *Theory of Economic Development*, 1911), John Hicks (*Theory of Wages*), 1932) and Robert Solow (*Contribution to the theory of economic growth*, 1956). I get the impression that the more people talk about the role of innovation and technological progress in economic development in the European Union and in Poland, the more all kinds of programs and strategies for innovative development are created, the worse it is with these innovations. I can venture to say that there is a negative correlation between the number of EU programs and the government of the Republic of Poland supporting the development of innovation and the number of real innovations resulting from their financing from public money.

For many decades, Europe has been slowly but steadily losing its position as a leader in economic change. An attempt to return to a lost position was the famous (infamous?) Lisbon Strategy signed in March 2000. Both the rate of productivity growth and the increase in innovation in EU countries was (and is) lower than in the US. The disease that affected Europe was called variously, sometimes it was called "Eurosclerosis", "senile incontinence", "total impotence". According to the "Lisbon Calendar", in 2010 the EU was to make up for the distance (especially in relation to the USA) and become "the most competitive economy in the world". This should be done through: the development of innovation; investing in employee education; facilitating the creation of new enterprises; liberalization of key sectors: energy, telecommunications, financial and postal.

As for the rhetoric of the Lisbon Strategy, it resembles rhetoric from the period of real socialism, when similar goals were set to catch up and overtake the capitalist economy. My commentary on the Lisbon Strategy in 2000 was a quote from Hamlet, William Shakespeare: "Words, words, words." As in the times of the Soviet planned economy (including the communist Poland), it soon turned out that the goal could not be achieved. In 2005, the Lisbon Strategy was officially evaluated and reference to it was already avoided. They began to think about changing their perspective to a more distant date of 2020. The Union not only

does not catch up with the United States, but is increasingly straying from them. The key indicator, which is the pace of labour productivity growth, has grown three times slower in the EU over the past several years than in the US. The employment rate in the EU has increased slightly (from 62% to 64%) since 2000, but is still far behind the Lisbon Strategy goal (70%) and US level - 72%.

The visible effect of the disease that is bothering Europe is the inefficient use (even enormous waste) of the funds at the Union's disposal to achieve its goals. There is no data on the waste of funds allocated to research and development, but it can be suspected that it is at a similar level as the use of funds under the Common Agricultural Policy, which funds account for about 40% of the entire EU budget. Information about the lack of this efficiency is only possible in recent years thanks to the struggle for transparency of spending EU money, which is conducted by independent institutions monitoring the functioning of the Union. Such an institution is the FarmSubsidy.org website, founded by the Danish Nils Mulvad, the British Jack Thurston, and the German-Dunka Brigitte Alfter. According to the information they had collected, once the largest beneficiaries of the Common Agriculture Policy (CAP) were: Prince Albert of Monaco, the German airline Lufthansa, the Danish prison service, the Nestlé group and the Prince of Westminster. After Poland's accession to the EU, one of the large beneficiaries of CAP was owner of 60,000 hectares of land, Catholic church.

It is requested that a similar information portal be created regarding the financing of scientific research and a review of the research topics. I dare say that we could read about similar absurdities we read about CAP.

A thorough analysis of statements and documents related to the necessary actions to improve the innovation and competition of the European Union would require a lot of space and time. In this short statement I will limit myself to giving what seems to be the most important. In a huge number of statements and publications, it is repeated like a mantra about the "need to overcome existing barriers to improving innovation such as inefficient intellectual property regimes, weak links between science and industry (especially in the initial stages of research), lack of high risk capital and effective bankruptcy law," for the need to "strengthen intellectual property regimes, increase the level of scientific knowledge, reduce the legislative burden on small, young and innovative companies, strengthen links between science and industry, and ensure greater results from EU-funded research."

One gets the impression that a lot of energy in Europe is devoted to generating nice-sounding passwords. There is talk of the need to build a "common research area", "European research area", "innovative Europe", "single innovative market", "poles of excellence". In Poland, a program for the development of advanced technologies was once popular under the highly suggestive title "Technology fishing rod" (of which nothing came of course). Again, there is an association with the period of 'real socialism', when more energy was devoted to propaganda rather than effective actions.

The EU is not giving up on the mania of using indicators, something that can be called '3% fetish' in this case. They recognize that the target set in the Lisbon Strategy to increase expenditure on research and development (R&D) to the level of 3% of GDP value should be

key in EU action (this postulate is included in the latest program 'Europe 2020' - [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm) - it's worth reading, I guarantee "armpits" fun). It is said that the increase in these expenditures should relate to outstanding scientific research, industrial R&D and strengthening of science-industry relations. However, it is unclear how to determine what outstanding research is. It will definitely be recognized that it will be the responsibility of the 'independent committee of outstanding scientists'. And that this can be demonstrated by the idea of the so-called 'Aho group' to set up an 'independent monitoring panel' which, with the help of the European Commission, will publish an annual progress report on the implementation of the Pact.

Thinking in terms of indicators (such as the '3% R&D indicator') is again similar to the wishful thinking that we witnessed in times of real socialism. There, also the central planners thought in terms of achieving indicators (e.g. achieving an accumulation level in the economy of 20-25%, steel production per capita at a level exceeding the level of production in capitalist countries (which was to indicate advanced industrialization)). In a real market economy, no one wonders what value the indicators of the development of the national economy should be achieved. The values of the indicators can be interesting from a scientific point of view, but for a businessman they play a secondary role and are not the goal, but the result of his daily decisions, conducive to increasing the competitiveness of the company offering its products on the market. Thinking in terms of achieving the appropriate value of indicators, it is forgotten that not so much the value of this indicator, but the effectiveness of actions (e.g. effectiveness of investment outlays or research outlays) is important. Centrally planned economies collapsed, not because the capital expenditure ratio was not reached, but because it was simply ineffective to invest. It's exactly the same with spending on research.

How confusing can be thinking in terms of indicators shows the NESTA (National Endowment for Science, Technology and the Arts) report published in the United Kingdom in October 2006. "Innovation gap". The authors point out that in assessing traditional indicators relating to innovation, Great Britain is perceived very badly (these indicators are well below those of other economically advanced countries). However, when we look at economic development, Great Britain is among the world leaders. The authors of the report call it "The UK Paradox". The British economy apparently invests little in innovative research, but at the same time maintains its position as one of the largest and most successful economies in the world.

The authors find solutions to this apparent paradox in the error of traditional indicators related to innovation. The authors point out that many important innovations are not included in traditional measures of innovation (they call these hidden innovations). These innovations are, in fact, the driving force behind Britain's economic development. These hidden innovations do not have a classic technological (engineering) character, but above all relate to (undervalued, non-traditional) innovations in the sphere of services, often difficult to identify, but with their very large, measurable economic effects. It is also worth noting that in many situations, individuals, private companies as well as well-functioning state-of-the-art state and local government institutions are involved.

As we read in official EU documents, the goal of the new Europe 2020 strategy is to achieve economic growth that will be: intelligent (thanks to more effective investment in education, research and innovation); sustainable (through the development of low-carbon economy and competitive industry); inclusive (creating new jobs and reducing poverty). When he reads this, the natural question is "What is the difference between the Europe 2020 Strategy and the Lisbon Strategy?" I admit that the standard answer of EU officials sounds quite funny: it promotes a new type of growth through the development of citizens' skills, lifelong learning, research and innovation development, development of smart networks and digital economy, modernization of industry, increase of energy and resource efficiency. Interestingly (and unfortunately very disturbing, because we have already done this in socialism), this is to be done through stronger supervision (regular, transparent monitoring of progress in the implementation of this Strategy, associated with the supervision of the European Council (heads of government)) and through continuous evaluation activity and prognostic (across the EU and in individual countries).

An element of the Europe 2020 strategy is the so-called Innovation Union (including the Horizon 2020 program, with a huge fund of 70 billion euros)). The Innovation Union should improve the conditions for access to funding for research and innovation and ensure that innovative ideas are transformed into specific products and services that will contribute to Europe's economic growth and create new jobs. The Innovation Union is intended to enable the creation of a European Research Area, aims to improve the conditions for innovative activities by enterprises (including through the creation of a single EU patent or to improve accessibility of intellectual property rights for small and medium-sized enterprises), and to create a European innovation partnership between entities operating at EU and Member State level. However, I doubt that probably the most important and most important goal of the Innovation Union, which is to stimulate the activity of the private sector, will be achieved.

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It seems that if the standards of scientific research and their financing imposed by the EU were adopted, there would be no chance for such research to be conducted by Mikołaj Kopernik, Maria Skłodowska-Curie, Jan Czochoński or Ludwik Fleck. However, I would like to emphasize that I am not a pessimist when it comes to perspectives, as well as the assessment, creativity and innovation of Poles. We are only 26 years after transformation. As historical experience shows, the effects of changes in the scale of the nation (country) are visible only after two or three generations (this was the case, for example, in Great Britain, when it was only several decades after the Great Revolution in 1688 that a change leading to the industrial revolution was possible; it was not without reason that Moses led the People of God in the desert for 40 years to lead them to the Promised Land, so that the generation remembering the times of captivity would die out and would no longer have a decisive influence on what is most important in society). There is a so-called Haeckel's law ('ontogenesis is a recapitulation of phylogenesis'), I think something similar also exists in economic development. We in Poland are repeating the capitalist development phases observed in the last 150-200 years at an accelerated pace. After these 26 years we are

somewhere halfway. In fact, these innovations in Poland are present, they are only of a different nature, not taken into account in various types of indicators. Entrepreneurship is closely related to innovation and creativity. It is thanks to this peculiar innovation and creativity that Polish entrepreneurs were able to transform the Polish economy in the first years of transformation. It was not thanks to the sale of state-owned enterprises that the private sector in Poland began to dominate, but thanks to the rapid growth of small and medium-sized enterprises. It is thanks to their creativity that Polish entrepreneurs were able to cope with the competitiveness of Western companies after Poland's accession to the European Union and increase exports (and with a very strong Polish zloty - thus negating the various types of mainstream economics that a high rate of the national currency causes a decrease in exports).

It seems that the chances of creating an "innovative Europe" are very small. The only chance is a radical change in thinking and a change in the style of action of European leaders. The European Union is sick and requires radical therapy in the style of Ludwig Erhard in Germany in 1948 (and similar therapy in Poland in 1990, unfortunately largely discontinued after a few years). What Europe lacks is a lack of creativity (but not only scientific), which is associated with creative freedom, and this is associated not so much with intellect, forcing actions, but with what Carl Jung calls "the instinct of fun." As Carl Jung (1875-1961) wrote: "The creation of something new is not due to the intellect, but to the instinct for fun, which comes from an inner need. The creative mind plays with objects it loves. "

The story is often quoted of how Alexander the Great visited Diogenes and asked what he could do for him, and the famous teacher replied: "Do not cover the light for me." Similarly, you could ask EU bureaucrats to try to stimulate innovation and promote creativity by simply "not covering the light".

An important element of market activities, and especially research activities, is the acceptance of the element of failure and loss. A single failure is not a tragedy for a businessman or entrepreneur. It is important to draw conclusions for the future from these errors and to ensure that all the activities of the businessman or entrepreneur are profitable in the long run. Exactly one can say about research activity (in this sphere of human activity it is probably the most important). Failure is something every day in scientific research, it is important to learn from these failures from time to time to achieve spectacular success. There is no such failure opportunity in the financing of public sector research. Unlike research programs financed by private companies, there is no place for risk and failure in programs financed by public institutions (e.g. EU Framework Programs or programs financed by the NCBR and NCN in Poland). Any program financed with public money must be successful (even if written on paper). It is not without reason that the objectives set out in programs financed by public institutions are of a very general, non-operational, non-quantifiable nature, so that it can always be written that the objective has been achieved. Can we imagine a report from public-funded research informing us that, unfortunately, last year's research has not yielded any results, but maybe in the future there is hope for success if this research is continued? As Scott Adams, author of the Dilbert comic, says, "Creativity is allowing yourself to make mistakes, and art is to know which mistakes are worth sticking to."

Creativity will not be obtained by 'pumping' money into the research sector, but by creating conditions for creative freedom. Private companies are aware of this, which do not so much reward researchers in the laboratories financed by them (although the salary is important) but create the right conditions for creative work. One of such elements is the often used '15% policy' - those employed in the research centre should devote 85% of their time to performing employee duties (often performing routine tests), but the remaining 15% of the time may devote unrestricted research, according to his individual preferences. If he needs money to implement these individual ideas, he can get it from a special fund created by the employer. When as a result of such individual actions an idea for innovative production is born, with the help of the employer a spin-off company is often created (spin-off, the employer usually has a high share in this venture). Most often, the head of such a small company is the inventor himself (or, if he does not show an entrepreneurial personality, he is at least a large shareholder in this venture and the head of the research department).

The remedy for Europe's innovative backwardness does not have to be found where it is usually sought, i.e. in the research and development process itself, but quite elsewhere. Such fundamental condition is the healing of public finances, the quick and effective introduction of market mechanisms and guaranteeing high competition in all spheres of economic activity, especially in the sphere of services (which already generate approx. 70% of EU GDP), tax and social system reforms (to reduce labour costs and stimulate investment and innovation activities of private companies, as well as every European citizen).

It is worth proposing that the obligatory reading of EU bureaucrats were the books of Frédéric Bastiat (especially the small brochure "What Can Be Seen and What Cannot Be Seen" in 1850) and the book by Henry Hazlitt, Economics in One Lesson, which is a continuation of the Bastiat idea. In this, as in many other publications, Bastiat drew attention to the fact that each human action produces not only one effect, but results in a series of effects. From this series of effects, we tend to notice only the direct, first, most visible. In contrast, indirect (usually negative) effects, the effects of which usually spread over some, are usually overlooked. Henry Hazlitt admits that, in essence, economics is a very simple science, the crux of which can be presented in one lesson, and the whole of this lesson can be contained in one sentence: "The art of economics consists in looking not only at direct but also at distant effects a given activity or program; to track not only the consequences that a given program has for one group, but which it brings to everyone. " May this lesson be done by politicians, administration and bureaucrats in all countries.