

National Strategy. Innovation Policy, Institutions and Country Adaptation

- **Morris Teubal**
-
- June 2018
- Professor of Economics (Emeritus)
- The Hebrew University of Jerusalem
- ISRAEL



THE HEBREW
UNIVERSITY
OF JERUSALEM

ACRONYMS-1

- CA-Country Adaptation (or Sustainable Country Adaptation); ONG-Overarching National Goals; **T/C/O**-Threats/Challenges/Opportunities; **ONGs-Overarching National Goals-**
- Sr Pr-Strategic Priority; Sr Pr (s)--Strategic Priorities; **NS**-the set of **National** Strategic Priorities; **GS**-the **sub-set of Government** Strategic Priorities **N&GS-** (the set of) **National Strategic Priorities & (the subset of) Government Strategic Priorities** (i.e National and Government Strategy); **NSC-** National Strategic Council; **MOF-**Ministry of Finance; **CB-Central Bank**; **(N&GS)*-** **Adjusted N&GS** [after NSC interaction with MOF & CB]; **(MACRO)*-****Adjusted Macroeconomic Policy** [after MOF & CB interaction with NSC]; **BoK-Body of knowledge**; **SF-**System Failure; **GF-**Government Failure; **MF-**Market Failure;

ACRONYMS-2

- ▶ **SIP**-Strategic Innovation Policy (**SIP I**-'directed' to market forces e.g. support of R&D/Innovation/innovative SMEs, etc; **SIP II**-'directed' to Empowerment of Individuals and Civil Society; **SIP III**-directed to Restructuring/Re-invention/Re-orientation of operations of Government and/or State;
- ▶ **AI**-Artificial Intelligence; **BS**-Business Sector; **SMEs**-Small and Medium Sized Enterprises; **NIS**-National Innovation System; **VoD**-Valley of Death

STRUCTURE-1

- A. Background: Why *A National & Government Strategy (N&GS)* should underpin *Policy Making* on the ground?
- B. Linear Summary of How Strategic Policy works
- C. 'Structural/Strategic' investments (\leftarrow GS) could impact effective Country Adaptation (CA) to T/C/O
- D. Formulation of N&GS: Differences between *Regular* and 'Complex' Sr Pr(s) (e.g BREXIT)

STRUCTURE-2

- E. 'Complex' Strategic Priorities: 'Vision' and 'non-linearity' (& possible GF/SF) in the two way, mutual link between Sr Pr 'Formulation' (a largely Knowledge Creation activity) and its 'Implementation' on the ground
- F. Linking N&GS with Macro-Economic & Sectoral (Ministry/Secretary-based) Policy: Roles of NSC, MOF and CB (→ 'Strategizing Implementation of Sr Pr (s) on the Ground')
- G. Outcome: A well functioning Strategy, Macroeconomic and Sectoral (Ministry/Secretary-based) Policy System
- H. Towards A Country Adaptation Perspective
- CONCLUSIONS

A. Background: Why A National & Government Strategy (N&GS) → 'Strategic' Policy Making? - 1

- Countries *increasingly* face rapid and violent changes in the T/C/O confronting them e.g. Technological Change (e.g. AI leading to Unemployment and indirect to urban decay and even alienation), Globalization (the 2008 Global Financial Crisis, massive immigration, competition from low cost-producers), Climate Change (draughts and floods) and other factors (e.g. increasing violence; political fragmentation), etc .
- ▶ -Some Middle and Advanced countries experienced difficulties in adapting to such changes a situation further reinforced by *bureaucracy, short-termism* and other factors (e.g. depending on country) such as '*politics*', *cronyism* and even outright '*corruption*';
- ▶ -A key reason for such *seemingly* Government Failure (GF) is that policy making is increasingly *knowledge intensive & interconnected* (across the various policy areas); and dependent on specialized knowledge e.g. on *sophisticated forecasting* and even *scenario building*, '*strategic*' formulation of policy objectives; and *inter-priority links* in the short, medium and long term.

A. Background: Why A National & Government Strategy (N&GS) → 'Strategic' Policy Making?-2

- -Another difficulty concerns the dynamic (social, economic & political) impacts of policies today which policy makers and Governments must consider. Thus the continued unemployment & alienation resulting from 'accepted' policies [possibly adapted to the conditions of a previous era] might-through the political process (Political Fragmentation and beyond]-have mid/long term *country- adaptation (CA)* consequences.
- The upshot is that frequently Governments [and no less, Economists, see The Economist XXX, 2018] failed to acknowledge the importance nowadays of shifting to *Strategic Policy Making*. While 'lack of awareness' played a role, a no less important reason is increasingly becoming clear-the potential clash between 'Strategic Policy' and the political objectives of Governments or of those heading them.

A-2 Background (SUMMARY): Why A N&GS → 'Strategic' Policy Making?-3

Violent T/C/O + Weak Policy Systems [Short Termism & strongly Bureaucratic +- in some cases-'politics', cronyism & even corruption] →

-> Inadequate Policy Responses -> Continued Crisis →...

→Political Consequences e.g. Political Fragmentation (& sometimes) Populist Government
->

→ Continuation of Failed Policies -> Deepening of Economic & Social Crisis →

→ ----[extreme cases]..... Valley of Death (VoD)

A. Background: Why A National & Government Strategy (N&GS) → 'Strategic' Policy Making?-4

There are several patterns of 'recovery' (or of 'avoiding' deepening of a Social and Economic Crisis) depending on the specifics of the circumstances involved.

An example follows—

...>New Political Leadership→

→Institutionalizing the process of formulating a N&GS→

→Emergence of a Strategic Policy System→ .. →Recover

B. Emergence of *Strategic Policy Making* & How it Works-A Linear Simplification-1

Frequent/Violent T/C/O →

→ Creation of a National Strategic Council (NSC) with *Autonomy & Authority to orchestrate* both (i) formulation of a N&GS and (ii) 'its implementation in terms of policies on the ground →

Three 'layers of implementation

→ 'upstream': *formulating an evolving N&GS* →

B. How *Strategic Policy Making Works*- A Linear Simplification-2*

- *'midstream'*: NSC interaction & coordination with MOF & CB → adjusted N&GS [N&GS]* & adjusted Macroeconomic Policy [Macro]*; → *Prioritizing GS* implementation*
- [[GS* is the adjusted set of Government Strategic Priorities i.e. the subset of (N&GS)* where 'strategic objectives' 'implementation' on the ground requires explicit policy making]]
- *'downstream'*: Coordination (& eventual coherence) between GS* and *sectoral policy objectives of the relevant Ministries/Secretariats/Policy Agencies*
- [*including 'qualitative' priority-policy coordination i.e. what are the 'qualities' to be supported*] I ignored other inter-ministerial links e.g. to identify patterns of policy inter-connectedness

Implication: The above 'Strategic Policy' *outcome* would be a *necessary condition* of *ex ante* CA. Additional CA conditions will be mentioned in Section E

C. 'Strategic Priorities' - General Aspects & Formulation-1

- ▶ National Strategic Priorities NS or N&GS (*I avoid using the **) define the set of 'Structural-Strategic' Investments required for Country Adaptation (CA) to the set of actual & expected/forecasted T/C/O facing the country. The subset of GS will be implemented through 'Strategic Policy' [see last three slides]; implementation of the remaining NS-GS will be 'endogenous'.
- ▶ Structural/Strategic investments relate to strategic priority areas [generally more than one Sr Pr for each strategic priority area] such as or related to Economic Growth, Health, Education, Updated Training, SMEs and Start Ups, Science and Technology, Defense, Employment, Equality/Poverty Amelioration, Immigration, Clearing Contamination, Draughts and Floods, International Relations, contribution to Global Adaptation (GA) e.g. Climate Change, etc [some of these are identical to what has been termed a country's Overarching National Goals, ONGs, see work in progress]

Note that Structural/Strategic investments differ from the Keynesian, Aggregate Investment of Macroeconomic Theory. Rather than being oriented to sustain employment, their role is to contribute to 'Strategic Policy' and indirectly to Country Adaptation (CA) (see below Section E).

C. 'Strategic Priorities' - General Aspects & Formulation-2

- ▶ A Sr Pr is not a priority 'name' nor is it a 'nominal' (rather than a 'real'/substantive priority) as when an individual states, as part of a sentence, 'this is my priority'.
- ▶ Rather, it is a Body of Knowledge (BoK) generated by A multiphase Priority Formulation Process (undertaken by a NSC-sponsored team).
- ▶ For simplicity in what follows I ignore the possible existence of *alternative versions* of a particular phase (see below Complex Sr Pr(s))
- ▶ Key phases are:
 - ▶ -Background and Narratives;
 - ▶ -Forecasting & Future Scenario Identification and Assessment;
 - ▶ -Identification of (and Dynamics of) T/C/O present/future;
 - ▶ -(Specific) Priority Objectives;

C. Strategic Priorities'-General Aspects & Formulation -3

**Inter-priority links; and*

** Priority-Implementation Profile*

The *Priority Implementation Profile* might also include a Knowledge Component e.g. what additional knowledge is required for effective implementation, e.g. complementary engineering knowledge for full scale production of prioritized 'advanced production equipment'; specific knowledge about user/beneficiary e.g. under what conditions would farmers of coca leaves in Colombia be willing to shift to other crops as part of the 'Colombian Government-FARC Agreement'[example of Complex Strategic Priority]; or e.g. legal knowledge about existing Intellectual Property, etc.

The priority implementation profile could include knowledge-both explicit and implicit, about *existing and required changes/additions to the Institutional Framework* required for Sr Pr implementation on the ground [A related issue concerns both the *political-bureaucratic willingness & capabilities to cooperate with the NSC (midstream and/or downstream)* & implications concerning specific priority objectives.

While non-linearity may appear in the formulation of 'regular' Strategic Priorities, it would be particularly important if Priorities are 'Complex' –see Section D

D. Complex Strategic Priorities- Formulation-1

- 1) In contrast to a 'linear' formulation of Simple Sr. Pr (s) where formulation would-by and large- be independent of political support, formulation [or completion of formulation] of Complex Strategic Priorities necessarily requires significant political support (and participation)
- 2) Frequently, it should also involve setting alternative priority formulation options followed by 'political choice' of one of them e.g. via a Referendum;
- 3) Frequently the above would be preceded by a Vision [which-in some cases- might identify key strategic priority areas & processes to be implemented; or a pattern of restructuring of the State or Government; or a Peace and Reconciliation objective etc].
- 4) Whenever the key priorities (or the Vision itself) involve (s) alternative variants a choice among them would have to be made (by Governments, and/or the Legislative and/or the Electorate);
- Examples are the above mentioned 'Government of Colombia-FARC' agreement; BREXIT; South Africa's Le Klerk-Mandela agreement which also involved creation of a Peace and Reconciliation Commission; and the post WWI Ataturk-Venizelous exchange of population agreement.

D. Complex Strategic Priorities- Formulation-2

- Summary and some Additional Special Features
- 1) The high 'complexity' of complex strategic priority formulation inevitably implies that there could be 'very general' formulations accompanied by a number of specific' formulations;
- 2) Governments must, directly and indirectly, be involved in formulating and specifying several alternative options which are both clear and understandable to those who will eventually be involved in the choice;
- 2) Political Choice to be effective must be among 'sufficiently specific formulations' -otherwise those choosing (Electorate, Legislative, etc) would not know what they are choosing in terms of subsequent actions/policies on the ground [i.e. a wide range of –and even conflicting- 'downstream' policies are possible]. This seems to be the case with the BREXIT Referendum [Financial Times XX, The Economist, numerous issues]

D. Complex Strategic Priorities- Formulation-3

- 4) In some cases a *Complex Sr Pr formulation* includes changing the nature and operations of Government (and even, of the State)
- 5) Governments *may or may not* be interested in playing the above role, particularly if the *status quo* is preferable to the political party in power.

Needless to say, beyond a certain point, the above absence of political will could have strong CA implications

E. Notes on *Country Adaptation*(CA)-1

- Background
- Increasingly Academics have pointed out that an extremely dominant focus on country GDP as an index of 'country performance/welfare' (or in a *strongly dominant Macroeconomic Policy Perspective*) is not adequate in the current global circumstances.
- The problem is not only absence of a serious intertemporal perspective but also absence of explicit efforts at dealing, specifically and structurally, with existing and forecasted/future Threats, Challenges and Opportunities.

E. Notes on Country Adaptation(CA)-2

- Our assumption (to some extent supported by the experience of countries like Greece, Italy etc, despite that full fledged case study work has not yet been undertaken) is ***that-the enhanced violence and dynamism of the T/C/Os facing countries requires a new conceptual framework underlying policy.***
- Such a framework will be the Country Adaptation framework of analysis. It comprises two parts

A) ***A Strategic Perspective to Policy making i.e a Strategic Policy System [this ppp];*** and

B) An Extended Dynamic perspective which-while building upon 1)- also enables visualization both of possible alternative paths of evolution at the country level (including the timing of T/C/O) as well as additional interactions e.g. between Economic, Political and Social factors possible

This ppp has indicated three key components of A): i) a Strategic-Structural component (a N&GS) ii) Strategic/Structural—Macroeconomic coordination; and iii) Strategic/Structural-Sectoral Policy coordination {Ministry-Secretary Level.

- Additional work (of an extended CA perspective which also includes CA \leftarrow , \rightarrow GA links is currently underway

E. Key Pillars of Country Adaptation(CA)-3

- Over and beyond Intertemporal analysis and explicit links between Economic, Political and Social factors (in part expressed by the changing set of T/C/O), there are 4 key pillars of the CA approach to policy making
- 1) *A Strategic-Structural Component* [starting with a N&GS influenced by existing and forecasted changes in T/C/O including the above links];
- 2) *Strategic/Structural—Macroeconomic* [focused on GDP, Debt, Deficit, Inflation, etc] coordination leading to mutual coherence among both
- 3) *'Strategic Sectoral Policy'* at the *Ministry/Secretary level*, where, both policy objectives and policy-interconnectedness reflect upstream 'strategy' & midstream strategy-macroeconomic coherence
- 4) CA links to Global Adaptation (GA)

START FRIDAY MAY 25 2018