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THE ROLE OF THE FIRM IN THE INNOVATION PROCESS

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I. INTRODUCTION

There is widespread agreement among economists as to the beneficial effects on productivity from technical change and innovation. Also, few would dispute that Western capitalist economies have been marked by an impressive degree of technological dynamism, which has been a constant source of economic development. Finally, there is ample evidence that government policies have helped catch up with more technologically advanced economies. However, until recently neo-classical economists have avoided the analysis of technical change and have eschewed the politics of economic catching-up. Douglas North in his recent Nobel lecture, offered a straightforward explanation of this paradoxical situation:

> "There is no mystery why the field of development has failed to develop during the five decades since the end of World War II. Neo-classical theory is simply an inappropriate tool to analyse and prescribe policies that will induce development. It is concerned with the operation of markets, not with how markets develop. How can one prescribe policies when one doesn't understand how economies develop?" (North, 1994, p.359)