

**BOOK REVIEW**

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*Public Procurement, Innovation and Policy: International Perspectives.* By Veiko Lember, Rainer Kattel, and Tarmo Kalvet (Eds.), Heidelberg: Springer, 2014, hardbound, 309 pages, ISBN: 978-3-642-40257-9, US\$ 129.00.

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This anthology, edited by three Estonian academics from the Tallinn University of Technology, explores the use of public procurement as a demand-side policy instrument to facilitate the transfer of innovative products or processes into national economies. Veiko Lember, Rainer Kattel, and Tarmo Kalvet have brought together academic experts from every continent to produce eleven national case studies on this understudied yet increasingly important subject. The countries chosen represent a diverse range of socio-economic development and geo-demographic size and distribution.

The editors provide an introduction and a chapter on the theory and practice of public procurement for innovation as a whole. They note that while public procurement of goods and services makes up anywhere from around a tenth to a fifth of the gross domestic product of the states under consideration, “the currently dominant (neoclassical) economic thinking does not provide us a set of tools to understand innovation” (17) as a part of this function. Even though a “bulk of preliminary empirical evidence exists supporting the idea of innovation-oriented public procurement” (19) as a means to generate value, it is still widely held that “economic, social and other side-goals should not be explicit part of the government purchasing decisions or policy as it distorts competition and free trade” (16-17).

Several countries have failed to pursue innovation-oriented public procurement due to neoliberal attitudes. Estonia very obviously falls into this category. As a former Soviet satellite, its rejection of its

heavily dirigiste past means that there are now “no traces of systemic use of public procurement for supporting innovation or industrial development” (137). All the same, in the field of defense, some evidence suggests “several positive spill-overs” from procurement activities targeting new technologies (139). A similar phenomenon may be discerned in Hong Kong. While this entrepôt upholds rather than negates its British imperial past by general adherence to *laissez-faire*, it too has known some inadvertent innovative benefits from government purchasing. Most notably, the Octopus Card, which began as a public-private partnership to implement a transit payment system in the 1990s, has since morphed into a “payment intermediary for a wide range of transactions,” becoming “an extremely popular version of an e-cash system – in a market in which other major e-payment operators such as Mondex and Visa Cash have struggled to reach a significant customer base” (185).

Some countries have operated under neoliberal constraints that are more externally imposed. Australia, which used procurement to encourage domestic industrial development after WWII, now must operate under the “transparency and non-discrimination obligations” of the 2006 Australia-United States Free Trade Agreement (AUSTFA), which lopsidedly apply to all Australian, but not all American, government agencies (42). This agreement undermines efforts to “buy local,” not least by granting American companies right of appeal in Australian procurement decisions. Some efforts to circumvent such restrictions have included funding of domestic R&D, and more comprehensive signals to local companies “as to where future procurement dollars are likely to be spent” so that they may prepare for tender competition (53). Surprisingly, the social democracy of Sweden has also seen an early mid-twentieth century emphasis on innovation procurement, in which it was ahead of its time by decades, vitiated by accession to the European Union in 1995, whose public procurement directives stress “the principles of non-discrimination, openness and transparency, equal treatment, proportionality and mutual recognition” (217).

Of course, these principles are promulgated in most codes, because public procurement is perennially beset by problems of corruption. In emerging markets in particular, there is understandable reticence to use the methods that are best suited to procuring innovation, such as qualitative assessment of tenders and

negotiations between buyers and sellers, for these are more likely to make way for nepotism and collusion. Thus, Brazil, which operates under few constraints as a result of international agreements (it has not signed the Government Procurement Agreement of the World Trade Organization), is so “corruptocentric” that its procurement system “strives primarily for the extinguishment of corruption, neglecting results and focusing solely on compliance with strict procedures” (76). Likewise, Greece’s national administration is “unwilling to take risks” (151) to push for innovative solutions, especially when “austerity budgets do not allow for longer-term considerations on competitiveness” (155). Finally, China is still working on the “legislation and universalization of public procurement” (98), keenly aware that it is “an ideal breeding ground for corruption and low efficiency of work” (101). It strongly favors process-driven bids, rather than more innovation-friendly proposals, in its tenders.

Ironically, it is those countries that came to be associated with neoliberal orthodoxy in the 1980s that have taken the lead in the public procurement of innovation. The UK has been a “first mover” in this field, and “has become widely used as an international exemplar” (234). “Enlightened” public purchasing policies were a concern since the early 1960s, were studied extensively in the 1970s and 1980s, and entered government accounting guidelines by 1989. The UK has “extensively applied delivery mechanisms” such as private-public partnerships and private finance initiatives (243), and has introduced “specific policy schemes to deliver on the innovation agenda” since 2000 (238). Above all, the US has invented a distinctive security-driven “innovation model that uses more resources, takes higher risks and produces more extensive...innovations than any of its competitors” (260). This model grew out of WWII and the Cold War, and calls into question its neoliberal reputation. The US has well-development pro-commercial procurement, R&D funding, and small business incubation. Its system is so “*sui generis*” that “it is unlikely to be of wider relevance, must less readily adaptable” (283), although South Korea has tried to emulate features like the “Small Business Innovation and Research program” (206).

Despite the incipient stage in which public procurement for innovation finds itself in most of the world, with the US as the most striking exception, the editors conclude that there is a clear

renaissance of interest in this function. For policymakers and the academic community, this anthology is a “good source of benchmarking” and “provides many useful ideas for further policy experimentation” (307). The great strength of this book is precisely the variety of national experiences that it brings together, often on countries about whose procurement systems little is published in English. The very same variety is also a weakness at times in that the quality of essays diverges considerably from one author to the next, and the Finnish-speaking editors have not done a particularly good job of standardizing the text. The chapter on China in particular comes across as transliterated and only half-intelligible, riddled with typos and grammatical errors. Despite these drawbacks, however, this a good step forward along an as-yet barely trodden path.

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