

TOURNAMENTS COULD DRIVE R&D EFFORT

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The government should use tournaments to stimulate research and development in Australia. They have been largely overlooked since the Cutler Review of Innovation, but when structured properly, they encourage outstanding achievement and promote creative destruction.

Creative destruction is a phrase made famous by the 20th-century economist Joseph Schumpeter. It describes the process whereby companies, seeking profit, innovate so successfully that their new product destroys the demand for existing products.

It is not hard to find examples, just consider how CDs replaced cassettes, and faxes have been made almost extinct by email. Although harsh, creative destruction is necessary for economic progress, modern society would be unimaginable without it.

A lesson that economists are now learning is that environments in which innovative ideas happen can be deliberately created. Authors such as Cass Sunstein and Richard Thaler suggest governments are most likely to be successful when they point markets in a desired direction and let them find their way.

One way to do this, common overseas but underused in Australia, is the use of tournaments. All the government does is put up a prize for a specific achievement, and then wait to crown the winner. There is little scope for bias because the criteria must be both publicly available and clearly defined to allow firms to do the necessary research and development.

Tournaments are effective because companies tend to spend more on the required R&D than the prizemoney that is offered. They do this because the rewards of winning are not just the proffered prize money; companies

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also get prestige, attention, and press coverage, all of which means successful solutions flourish.

With US\$10 million in prizemoney, and the thrill of competition to entice firms, the Ansari X Prize proved that it was possible for a private company to fly into space. Though the cost to develop a vehicle capable of winning was many times the prizemoney, the tournament was a triumph and a catalyst for rapid innovation.

Australia already has one well-known tournament, the World Solar Challenge, a solar car race from Darwin to Adelaide. There should be more. The level of innovation is great that in recent years a new section has been set-up with more onerous design restrictions.

To enjoy strong and sustainable economic growth Australia must be at the forefront of innovation. Our companies must be responsible for creative destruction. Tournaments would not only appeal to our competitive natures, but also be good for the economy.