

## Rationales of IP for innovation

### Why is it relevant to consider the rationales of IP for innovation?

For economists IP serves several purposes—incentivizing inventions, facilitating access to knowledge, allowing the use of knowledge assets in market transactions, and so on. If these benefits outweigh the costs, it justifies the use of IP protection (Arrow, 1962; Landes and Posner, 1989). A key consequence of this "functionalist" view of IP is that IP systems might require modifications to better fulfill their role. This document will elaborate on the ways IP support innovation performance, hence explaining the rationales of IP protection.

### What are the rationales of IP for innovation?

IP deals with the challenges posed by the specificities of knowledge, as opposed to tangible assets such as physical capital and labour. Knowledge stands apart from other factors of production in that it is non-rival and non-excludable, as well as cumulative over time (see [Economics of knowledge](#) [1]).

IP can support innovation by the following means:

- **Creating incentives for inventions** (see [Incentives for invention](#) [2]).
- **Facilitating access to knowledge and inventions** (see [Access to knowledge and inventions](#) [3]).
- **Facilitating participation in international competition and trade** (see [IP and international competitiveness and trade](#) [4]).
- **Helping address societal challenges** (see [IP to address social challenges](#) [5]).
- **Addressing information asymmetries** (see [IP to address information asymmetries](#) [6]) also to help improve opportunities for innovators to access finance (see [IP and markets for finance](#) [7]).

### What are the implications for IP and innovation policies?

The various ways in which IP systems can contribute to innovation underlie their relevance for innovation policy. However, this linkage has to be evaluated in connection with other innovation policies so as to use IP instruments in a way that best exploits their relative strengths (see [Characteristics of IP policies relative to other innovation policies](#) [8]).

For IP to effectively contribute to innovation, requires the following conditions. The organisation of IP systems must ensure legal quality (see [Organisation of IP systems](#) [9]). The existence of markets for IP and opportunities to obtain finance based on IP can further increase potential returns from innovation. The level of market competition is critical (see [IP, markets and diffusion](#) [10]). Moreover, contributions will depend on integrating a wider set of users of the productive sector and their fields of activity (see [Fields of IP use](#) [11]).

## References

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- Akerlof, George A. (1970), "The market for 'lemons': Quality uncertainty and the market mechanism", The Quarterly Journal of Economics Vol. 84/3, pp. 488-500.
  - Arrow, K.J. (1962). "Economic welfare and the allocation of resources for invention". In The Rate and Direction of Inventive Activity: Economic and Social Factors, pp. 609-625. Princeton University Press, Princeton, NJ.

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