# Public Policy for Entrepreneurship and Innovation: Trade-offs and Impacts in Managed and Entrepreneurial Economies

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**Abstract**

This thesis studies public policies for entrepreneurship and innovation in some European Union countries. It is based on the notion of a divergence of some of the more advanced economies into two polar economic structures with some continuing in the old ways and others creating new structures. Technological changes at the heart of these developments have facilitated new economic activities and significant institutional changes have given rise to these changing economic structures. The lack of uniformity in the changes across countries has created two polar worlds.

One of the fundamental differences between these polar economic structure is in public polices. Four trade-offs in public policy signal these changes that help to differentiate the old and the new economic structures. Public polices in the old economies favor regulations, public policies that are created at the national level, policies that target output and which facilitate traditional methods of financing. The transformed economies on the other hand favor stimulation, regionally/locally developed public policy, targeting of inputs, and policies that support risk financing. These trade-offs in public policies specifically those for innovation and entrepreneurship have contributed to the varying levels of entrepreneurship and innovation that each setting has experienced. Subsequently, the new economy stimulates activities in innovation and entrepreneurship and is therefore labeled the entrepreneurial economy. The old economy is more restrictive to such activities and is referred to as the managed economy. The analysis is founded on Institutional Theory, which sees institutions as constraints that are imposed to reduce the uncertainties involved in human interactions. They include formal institutions such as laws, government procedures and policies and define the set of economic opportunities that are available in an economy. An important function of institutions is to determine the attractiveness or incentives for pursuing each of those opportunities and therefore have direct consequences for both entrepreneurship and innovation activities. The general trend across many countries is that government can stimulate both innovation and entrepreneurial activities by instituting public policy initiatives.

The group of countries is separated into managed and entrepreneurial economies based on evidence of technological transformation and the adaption of innovation in the economy. Their public policies for entrepreneurship and innovation are then examined to identify the four trade-offs. A subsequently analysis is done to identify the impact that these specific areas of public policy may have on the actual levels of entrepreneurship and innovation activities in each grouping. The empirical results shows that the public policy trade-offs between the two groupings of economies are most readily identified at the extreme end of a continuum and are less obvious for the countries that fall between the extremes. It is also most obvious in three trade-offs. The effects of public policy on entrepreneurship and innovation activity are not as

clear cut as expected. The effect of regional public policy is mostly positive and no strong impact could be identified for finance.