The role of the state in constructing markets for new path development

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The need for a holistic, place-based approach to solving societal challenges has been brought into sharp relief by the Covid pandemic and the climate emergency. The pandemic has promoted fresh discussions about the need to build a more equitable, fair, and sustainable society. It has forced the revaluing of aspects such as public services and public health. It has made visible the underpaid and insufficiently appreciated work that is performed to carry out frontline services and care for the most vulnerable in society such as the elderly and children. It has also led to widespread calls for a more active role for the public sector in building greater resilience to future shocks.

The pandemic has been seen as an opportunity to change the priorities of public investment to support a recovery that is more equitable, responsible, and green. Some have argued for markets to incorporate values of reciprocity, fairness, and sustainability from civil society (Carney, 2021). There have been renewed calls to "revalue" activities now recognised as essential for social life, through the acknowledgment and measurement (and even pricing) of goods and services that had before largely fallen "outside the formal rubric of the economy" (Collins, 2017, p. 6). This includes so-called foundational economy sectors, which provide goods and services that are essential for the wellbeing of citizens, including care, food, and retail (Froud et al., 2018; Hansen, 2021).

Valuing or re-valuing is linked to *values*, which are strikingly absent in our economic models, solely focused on economic growth. Scholars writing on regional policy have long been preoccupied with the mechanisms involved in regional value creation and value capture, particularly in less developed regions. However, they have rarely addressed the questions of what regional value actually means, who does the 'valuing', and how. Discussions of values often seem to be out of bounds for public debate and policy: markets do not have values, and the state is meant to safeguard the proper workings of these markets and intervene when they fail. The concept of market failure is so ingrained in our thinking that even supposedly heterodox approaches have felt it necessary to adopt the idea of failure through concepts such as system failure. However, markets are not externally imposed structures that producers and consumers passively react to (MacKinnon et al., 2019). Instead, they are "shaped by society… outcomes of multi-agent processes in a specific context" (Mazzucato, 2018, pp. 274–5). However, the social processes that shape markets for innovation are far from being fully understood. Market outcomes are not 'natural' but the result of decisions that set the boundaries of what is important and what counts, and that influence incentives through often mundane government decisions around regulation, or public procurement (Miller and Lehoux, 2020).

The deliberate creation of markets is a less explored dimension of path creation, both conceptually and in the practical design of regional policies and smart specialisation strategies (MacKinnon et al., 2019; Martin et al., 2019; Morgan, 2017). Policy prescriptions have been based on a predominantly supply-side or 'productivist' view of the formation and transformation of regional industrial structures (Jeannerat, 2013; Martin et al., 2019). The focus has been on

supporting the 'supply architecture' (Storper, 1997) of regional economies, and the concept of technological relatedness has played a key role in the design of strategies to enable the development of entrepreneurial opportunities and technological specialisation. Focusing on technological relatedness alone not only puts less-favoured regions at a disadvantage vis a vis those endowed with a plethora of diverse knowledge assets and sectors but also may shut off pathbreaking opportunities from the recombination of unrelated sets of knowledge (Grillitsch et al., 2018).

Besides the knowledge base (often narrowly understood as scientific strengths), there are other advantages or assets that regions could capitalize on, including problems and challenges that present actual or latent demands with the potential to create or shape markets. Demand and the knowledge and preferences of users have long been seen as important in shaping innovation. However, this is treated as a somehow exogenous input for innovation that can be accessed and mobilized (Carvalho and Van Winden, 2018) shape new products and new market niches/segments. Less frequently, we focus on how new needs or challenges can be mobilised to shape innovations that solve both economic and social value. While problems and challenges have been touted as key drivers or rationale for government investment efforts in innovation, and missions are currently key pillars in industrial policies worldwide, the nature and the contextuality of societal challenges, and how they translate into concrete demand, is not clearly understood (Wanzenböck and Frenken, 2020). This overlooks the potential of place-based challenges, such as environmental or health-related pressures, to create opportunities for new innovation systems and market configurations.

In a recent paper, we illustrate the possibility of taking such a broader approach to regional innovation policy (Uyarra and Flanagan, 2021). We document how the Galician government in Spain acted as the lead user for technological solutions to public problems affecting not only Galicia but also other locations, such as fire prevention, control of fisheries, and coastal surveillance and monitoring. Specifically, the Galician Innovation Agency actively articulated latent demand across the public sector to build early market niches for UAV applications and worked to stimulate supply chain developments with the potential to diffuse knowledge both of markets and technology. Building on this, we argue that regional assets other than knowledge-based capabilities may be leveraged for (unrelated) diversification, especially in the case of peripheral regions. Natural

assets, existing infrastructures developed for other purposes, and even problem endowments and place-specific policy challenges, can all be assets for path creation. Such assets, rarely considered in regional innovation policy debates, can be used as the starting point for processes of external knowledge anchoring and path legitimation. This requires system-level agency on the part of place-based leaders and institutional entrepreneurs able to exploit these potentialities and with the capability and resources to act upon them. We concluded that a much broader and more proactive role for the state in industrial diversification is possible and that the dominant supply-side focus risks narrowing both the ambitions of policy makers and the available repertoire of tools and approaches. Regional policy can go far beyond the narrow portfolio of interventions and influences typically considered, including demand-oriented and market-shaping instruments and actions.

However, we still need to know more about how regional challenges can be turned into a defined problem that can be supported politically and provide a market for innovative solutions. While recent literature acknowledges the importance of local needs and demand in path creation (Martin et al., 2019), it doesn't explore the processes by which these needs are defined, demands articulated and markets formed – that is, how 'matters of concern' become 'matters of worth' (Doganova and Karnøe, 2015). Thus important questions emerge around how to frame, select and justify the societal issues to be prioritized (or neglected) as well as how local societal needs and problems can be turned into market opportunities (Huguenin and Jeannerat, 2017).

In another work in progress, we theorise about how this articulation may occur (Flanagan et al., 2022). We argue that innovation systems are problem-oriented and that problems, markets, and demand are not 'just there' but rather are constructed, organized socio-technical mechanisms. Problem framings help to reduce problem complexity, draw boundaries, and build expectations about what a legitimate solution could or should look like. They influence 'the questions we ask', and 'shape the answers we get' in public policy (Rein and Schön, 1977, p. 236). Understanding this provides potential points of influence for public policy action in these dynamics of demand articulation that can present new entry points to regional innovation and industrial policy thinking, opening up the possibility of a wider range of starting points for policy intervention and new combinations of supply and demand-oriented efforts. The dynamics of market formation have

space and scale implications and involve tensions and trade-offs that policy makers need to consider, for instance between novelty and experimentation and applicability and implementation.

In this collective work, we aim to make several contributions. First, we try to respond to calls for more normative approaches in regional innovation policy studies and for place-sensitive mission-oriented or transformative innovation policies (Tödtling and Trippl, 2018; Wanzenböck and Frenken, 2020). In so doing, we also aim to respond to the scholarly debate within EEG which acknowledges that firm-level approaches are too limited in capturing the drivers and assets through which structural change may occur (MacKinnon et al., 2019). Finally, by suggesting the need to broaden the repertoire of regional innovation policies, we also respond to recent concerns about the ability of smart specialisation strategies to support structural change in less-developed regions (Hassink and Gong, 2019).

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