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Science

By **Clive Cookson**

Science's own financial crisis

Powerful evidence of the financial sector's failure to stimulate science-based growth has emerged from a €1.5m (£1.25m) research project funded by the European Commission's Framework programme.

The three-year Finnov project (its name stands for finance innovation) analysed the extent to which the financial system promotes or impedes growth in a range of high-tech and science-based sectors. The results reveal a "dysfunctional" system, which has become worse during the current crisis.

"The crisis has exposed deep flaws in conventional economic thinking on which financial policies and regulations have been based," says Mariana Mazzucato of the University of Sussex, the project leader.

"The changing links between risks and rewards have contributed to an increasing 'financialisation' of the economy, and this has allowed parts of the financial services sector to extract value at the expense of industrial growth," she adds. "This practice is undermining investment in productive activity."

Finnov debunks what the researchers call a series of myths about the financial system's role in supporting innovation-led growth. Most importantly, its report says policymakers should reject the myth that markets are the best way to co-ordinate economic activity and "recognise the important role played by the state in supporting and encouraging innovation".

Government can pick winners, contrary to free market belief, Finnov found. Around the world, state funding has played a key role in launching new sectors.

Another myth is that private venture capital funds drive innovation, according to the report. In fact private VC funds "have performed poorly and now have trouble raising enough money to reach the size needed to be commercially viable." "Hybrid funds", with private investment backed by public money, are a more successful VC model, Finnov shows.