

ON THE WINNER-TAKE-ALL PRINCIPLE IN INNOVATION RACES

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Abstract

What is the optimal allocation of prizes in an innovation race? Should the winner take all, or is it preferable that the original inventor shares the market with subsequent independent duplicators? Some recent papers in law and economics have argued that the latter, more permissive solution is socially preferable under mild conditions. We re-examine that issue, arguing that a permissive regime may turn the innovation race into a waiting game, reducing the power of incentives, and may invite socially wasteful duplicative R&D expenditures. In a model that accounts for these effects, the winner-take-all system turns out to be preferable in a broad set of circumstances, especially in highly innovative industries. (JEL: K11, L1, O34)