

Inequality from the Perspectives of Public and Private Sector Innovation ³

Olivér Kovács

In this contribution we argue that, in the long run, social inequality is likely to increase over time if public and private sector innovations are not in conjunction with each other. We intend to challenge the old wisdom of economic literature that federal state can act more efficiently in dampening social inequality due to its greater potential for parallel innovative policy learning. We argue that even though the economic policy offers a relatively more fertile ground for private sector innovation like in the US, it does not necessarily mean that public sector can leave the issue of public sector innovation (including, fostering social innovations) at loose ends due to the intensifying potential for secularly increasing social inequality (income inequality in particular).

Problems in income distribution

What else could better hallmark the importance of chronically increasing social inequality (income inequality, in particular) than the fact that Thomas Piketty, the author of *Capital in the Twenty-First Century*, had to elaborate his line of thinking further by juxtaposing more evidence on the wealth effect of capitalism as response to skating critics appeared in the Financial Times.⁴ Presumably, Piketty's answer may not obviate further debate on inequality issues. To date, there is a fiendishly growing body of evidence that underscores the highly integrated and globalised world economy suffers from a secular income inequality, roughly since the advent of new techno-economic paradigm (ICT-based, more service sector oriented, knowledge-economy since the 1970s). The real disposable incomes of households went through an increase over the last 20-30 years in the OECD countries (OECD, 2011), but the main point is that: the disposable incomes of the richest 10% followed a much faster pace than those of the poorest 10%. Thus, income inequality has been showing an increasingly gaping gap.

Some pundits and economic practitioners have tried to address this issue by pinpointing one or maximum of two factors behind of it. We now go beyond by emphasising that the dynamic interaction among various factors is more likely to be blamed. The main three leitmotifs can be summarised shortly as follows.

³ This research was realized in the frames of TÁMOP 4.2.4. A/2-11-1-2012-0001 „National Excellence Program – Elaborating and operating an inland student and researcher personal support system”. The project was subsidized by the European Union and co-financed by the European Social Fund.

⁴ For the critics, see: <http://www.ft.com/cms/s/0/c9ce1a54-e281-11e3-89fd-00144feabdc0.html> and for Piketty's response, see: <http://ineteconomics.org/sites/inet.civactions.net/files/Piketty2014TechnicalAppendixResponsetoFT.pdf> Accessed on: 29.05.2014

First, advanced economies form a complex system interspersed with growing interconnectedness and interdependency and the current dominance of uncertainties over what shall economic policy engineering do and how in mitigating wicked challenges (climate change, social inequality etc.). In such a complex world, an economy's international competitiveness rests to a large degree upon its ability to keep its wages and salaries relatively low at a stagnating level. This fact can be by no means seen as an instructive circumstance for dampening social inequality (income inequality, in particular).

Second, technological and non-technological development requires new skills and higher and higher educated workers in the era of learning economy (knowledge economy),⁵ however, education and training lag behind these changes, hence the employability of people become more limited and the social inequality has been being a structural feature of our time.

Third, real competition is mainly in the real economy, not in the financial sector. Let us add immediately, although financial sector and the real economy are generally viewed as two coexisting and different worlds, they are heavily intertwined and interconnected (Blanchard, 2013) and are exerting influence on each other (Davis, 2010). There is no linear causal relationship between financial markets' friction and decline in the real economy. *They affect each other recursively*. While our socio-economic development is governed by risks and unquantifiable risks (uncertainties) that are pressing us towards innovations, the real economy needs much less uncertainty to better function than that of the financial sector. Some argue that financial markets are pervaded by the driving force-feature of uncertainty in a more vigorous way compared to the real economy. It is mainly because of a more intensified feedback opportunity to any news, initiative, policy, change in fundamental economic indicators etc. The feedback mechanism is largely influenced by hard and soft factors leading to non-linear processes that affect the financial markets per se as well as the real economy. Beyond fundamental macroeconomic indicators, financial markets are deeply governed by uncertainty given by the weaving relations among various factors such as emotions, overreaction bias, imperfect information, information asymmetry, herd mentality etc.⁶

The dynamically evolving interaction among these are to a large extent responsible for maintaining and even worsening the situation in terms of social inequality, and income inequality in particular, over time. As in all kinds of human affairs, let it be societal, economic or environmental issues,

⁵ By now, living in a "learning economy" (Lundvall, 2002) means on the one hand that the knowledge and the societies' capability to pursue the building of relevant knowledge have been heavily appreciated and, on the other hand, the importance of knowledge has become even more emphatic in the case of service sector

⁶ People's decisions are governed by expectations and their reactions rely strongly on what kind of event they face. Unexpected, what is more, relevant events (e.g. surprisingly bullish or a rapidly dispiriting change in the stock market) are more common in the financial markets because this market is heavily pervaded by real-time mass psychosis. Since unexpected events like winning and losing trigger reactions with relatively more intense emotions (Ortony et al. 1988; Mellers et al. 1999), overreactions happen by pumping additional sources to the prevailing uncertainty. This is why speculation – a certain manifestation of soft-factors – is traditionally viewed as a conscious way of fermenting uncertainties to realise gains (Maggio, 2013).

innovation and innovativeness can bring the necessary *élan* into the development, including the diminishing process of social inequality.

At this point, the effectiveness as well as the capacity of public sectors arise that would be of key importance in moderating social inequality. It is instructive to review briefly and succinctly what type of public sector seems to be more able to cope with that challenge in theory and practice.

Institutional architecture matters?

Importantly, an organic harmony between the macroeconomic institutional framework and the company and industry levels is essential, because the microsphere is competing on the global scale. But, institutions influence the quality of governance, i.e. the performance of the public sector which can be regarded as a substantial determinant of international competitiveness and innovativeness as well.

In spite of the fact that today's globalised, highly integrated and interconnected world economy offers many opportunity for governance to consider best practices available almost in the entire world (Shipan – Volden, 2012), their transferability and the various levels of governance to adopt them, or to try out new policies/initiatives rely heavily on the institutional framework.

Theoretical and empirical works suggest that federal institutional structure may influence innovation activities in the public sector and public policy making in a more dedicated way relative to the unitary states (Rose-Ackerman, 1980)⁷. Furthermore, innovation prospers in an environment with several actors and sufficient level of information (i.e. appropriate flow of knowledge, etc). Studies point out that the lack of information on local preferences due to information asymmetry can be significantly moderated by decentralisation. Additionally, the following five building blocks of our argument can be deciphered from the extensive literature related to relationship between public sector and innovation:

- Public sector organisations are embedded into the institutional framework that can be seen as one of the most decisive factors influencing innovation activity (Glor, 2001).
- Taking into account the federal versus non-federal character of the public sector analysis seems to be conducive to our research. The distinction between federal and non-federal states is quite inevitable, because in federal systems each layer of the government has an autonomous constitutional existence, while in unitary systems any regional governments are legal creation of the central institutions. However it is important to note that in practice some unitary countries are more decentralised than some federations (Anderson, 2008:5).
- There is a hypothesis that a country with a substantial political decentralisation or even with a federal system is more likely to benefit from better policies than a centralised one because

⁷ As Rose-Ackerman (1980:614) states: „[...] federalism may produce a search for new ideas simply by generating a more competitive low-level political system”.

its greater efficiency in identifying the best policies (Oates, 1999; Weingast, 2006; Saam – Kerber, 2008). As theory suggests, bottom-up innovation mainly emerges under decentralised provision of public services while top-down innovation is a typical innovation type in centralised systems.⁸ Therefore exploring the level of decentralisation seems to be an expedient way for analysing whether the given public sector offers a fertile ground for social inequality or it has the capacity and innovative milieu to spark its decrease.

- Literature emphasises that decentralisation and *federal political and fiscal structure are more likely to lead to higher economic growth and decreasing regional inequalities* owing to the optimal provision of public services (Martinez-Vazquez, 2001). It is also worth noting that federal structure is more likely to trigger direct democracy which in turn is tended to be associated with stronger fiscal prudence as the case of Switzerland suggests (Funk – Gathmann, 2012).
- Potential for policy learning from parallel exercises: in theory, *highly decentralised governance* can stimulate the governance innovativeness through *permanent and more efficient policy learning process* (Weingast, 2006). Recent literature suggests that decentralisation leads to a more reasonable availability of *multiple experimental policies* that can be useful for the central government in providing the public good of disseminating the lessons.^{9 10}

Under the auspices of the above considerations, *one might intuitively expect that the United States – which has a highly decentralised institutional architecture, a federal system – performs better even in fields of dampening social inequality* (i.e. impoverishment, the increasing divide between rich and poor over time) through parallel policy learning along a more efficient and Hayekian trial and error process of policy innovations. Still, this type of theoretically well-based and modelled consideration – which was recently reconfirmed by Saam and Kerber (2013) – seems to be inadequate in case of the United States. This puzzling issue should therefore be addressed in a more dedicated way.

Income inequality – A daunting challenge in the US

On the one hand, it goes to platitude that the process of impoverishment cannot be attributed exclusively to the poorest countries since increasing income inequality has become a permanent feature of the developed world as well. On the other hand, from a broader perspective, a secular weakening can be observed in productivity and thus in innovation activity that limits the inclusive

⁸ By considering the origins of the concept and implementation of New Public Management (i.e. Originally, the implemented public administration reform, modernization and new public administration policy were called NPM in the United-Kingdom, New-Zealand, and Australia – See: Fábíán, 2010), one may claim that that bottom-up innovation is witnessed more in countries that have modernised public management systems, whereas the top-down approach relates more to a centralised state.

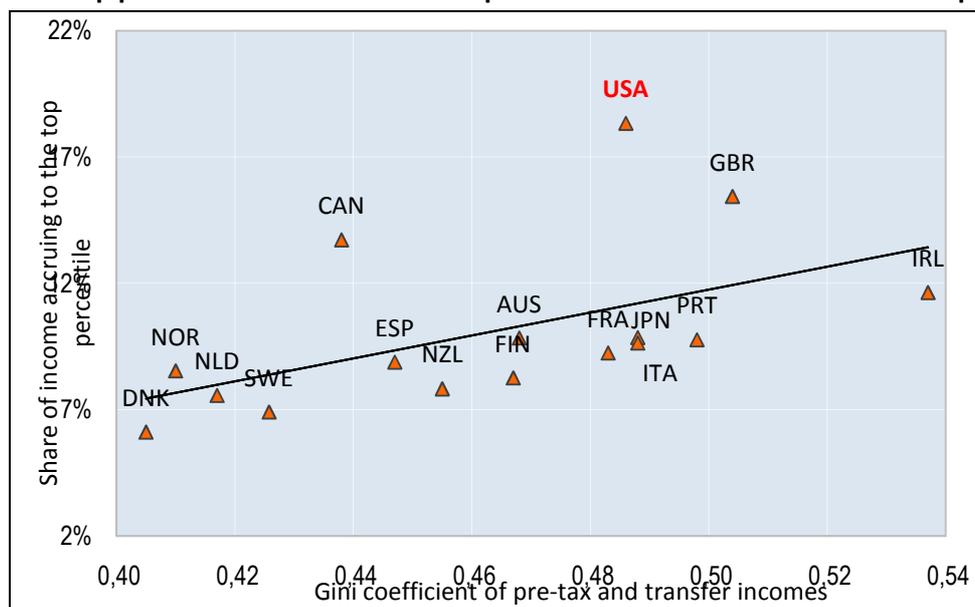
⁹ See NEWGOV – New modes of Governance Workshop Report on: Policy learning and experimentation in EU economic governance: Laboratory federalism in practice? Available: http://www.eu-newgov.org/database/DELIV/D19aD03_Workshop_Laboratory_Federalism_in_Practice.pdf. Accessed on: 05.05.2014

¹⁰ However, empirical evidence on the effect of decentralisation on policy innovation is often debated (Strumpf, 2002; Taylor, 2007). Without being exhaustive we can recall to the messages of (new) political economy emphasising that policymaker is to maximise the votes, consequently, policymakers are not so benevolents as it was expected in early works, for example in Keynes' papers. See more on the issue: Downs (1957), Nordhaus (1975) or in the context of federalism: Schnyder (2011).

growth potential of advanced countries (Cowen, 2011; Atkinson – Ezell, 2012; Gordon, 2012; Kasparov et al. 2013; Phelps, 2013).

There is an intensifying debate in the literature on the causes and consequences of secularly increasing income inequality in the United States.¹¹ As *Chart 1* depicts, income inequality (Gini-coefficient) is relatively high in the US by being coupled with the surpassing share of income at the hands of the top percentile. This is crystal-clearly the opposite of what theory and empiric suggest in federal states having the potential for parallel policy learning on how to diminish social inequality.

Chart 1. Top percentile income shares and pre-tax Gini coefficients of income inequality

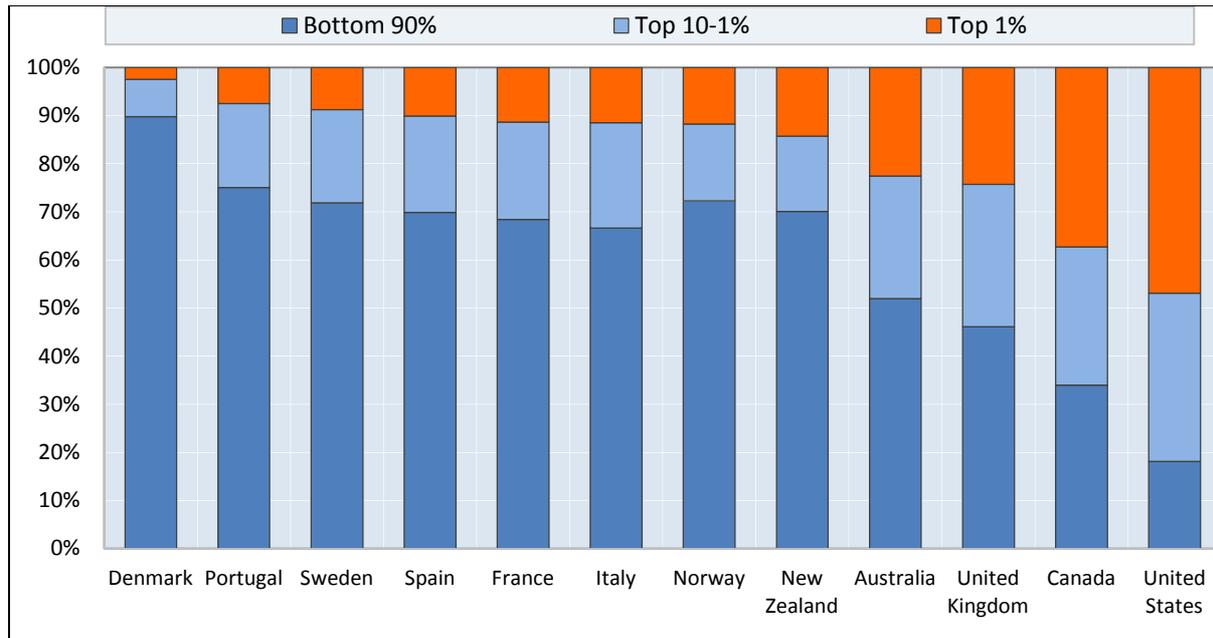


Source: World Top Income Database for top 1% pre-tax income share, OECD Income Distribution Database for Gini coefficient. Data refer to 2007 (Portugal 2005).

It is perceptible that the share of income of the top percentile is relatively high in countries being sizeable contribution to the global financial system (United States) or being based on financial services (e.g. United Kingdom).¹² It is interesting to note that according to a university survey, “in 2006, just before the financial crisis, 25% of graduating seniors at Harvard University, 24% at Yale, and a whopping 46% at Princeton were starting their careers in financial services” (Shiller, 2013). It is not surprising that most of the income growth is concentrated in the top 1% and the top 10% in the United States, which is much more than in any other advanced country (*Chart 2*).

¹¹ See: Atkinson, A. B. – Morelli, S. (2014): The Chartbook of Economic Inequality. Available: www.ChartbookOfEconomicInequality.com Accessed on: 25.05.2014

¹² As Burgess (2011) rightly pointed out, during the decade before the financial crisis of 2008, the financial services sector of the United Kingdom grew more than twice as fast as the UK economy as a whole. The financial sector contributes to the UK’s GDP by 9.5%, which is outpaced by Ireland (10.5%) and Australia (11%). The same indicator for the US was 8.2%.

Chart 2. Share of income growth going to income groups from 1975 to 2007

Note: Incomes refer to pre-tax incomes, excluding capital gains

Source: OECD calculations based on the World Top Income Database.

This trajectory has negative impetus on the sustainability of national states as well. This *per se* calls for necessary fiscal latitude to armour the states with effective and efficient developmental functions. Impaired fiscal governance engenders macroeconomic instability and is likely to maintain it over time, while *impoverishment is likely to undermine political stability* inevitable to conduct economic policy. In addition, impoverishment is not confined primarily to the limiting opportunities to satisfy the basic needs, but it embraces a complex set of issues hampering the healthy economic milieu to be tackled if sustained and inclusive growth is to be nurtured (e.g. diminishing self-reliance, growing risk-aversion etc.). It is hardly by chance that the question of stabilising in fiscal terms while giving impetus at the same time has become a central issue of nowadays. Let us add immediately, by keeping in mind our earlier considerations: public sector, a sector that accounts for 24% of US GDP and one-sixth of employment, should pursue more innovation not only to obtain efficient savings, but also to increase the well-being of people, for instance through decreasing income inequality which causes uncertainty, which in turn affects innovation and thus economic growth rather negatively.

In other words, this tendencies hint upon the conspicuously registrable *disharmony between the performances of public sector innovation and that of private sector innovation*. As we already accentuated, people are demanding not only growth, but also well-being. As the private sector gets better at innovating and improving quality of its service provision, this necessarily ramps up expectations of public services. The quality gap between private and public sectors' services hampers the satisfaction of citizens with the services they receive from the state and leads to the

deterioration of democratic deficit. Rehabilitated and strengthened trust level from citizens may provide the necessary ammunition for the implementation of painful measures (e.g. fiscal adjustments and structural reforms (OECD, 2012) geared towards the long-term sustainability of public finances as well as services).¹³ The improved fiscal performance increases the flexibility of various levels of governance to carry out innovative ideas by encouraging local policy experiment (Harrington, 2010:7). High quality public services with better accessibility may also improve the general framework of the innovation eco-system from the side of public sector. Cultivating the innovation eco-system is essential in terms of grand challenges requiring collective impact. It may create a „virtuous cycle” – i.e. an improving innovation eco-system feeds into and improves institutional architecture, as well.

In the long term, public sector innovation, which addresses more the well-being of people, and the private sector innovation are largely interdependent in the sense that the synergy effects can be achieved if they are in accordance with each other. In case of ailing public services (e.g. with less generous and efficient welfare services), being unable to address the issue of social inequality in a proper way, the perceived uncertainty will rise leading to risk and uncertainty avoidance, hence lower investment activity in the real economy. It is important because, recent research found that increases in uncertainty are mainly associated with protracted negative impetus on economic activity. Increasing social inequality, all the more, can be regarded as an uncertainty maintainer and heightener channel in the society. Again, it is the microsphere which is competing on the global sphere, not the public sectors.¹⁴ The blatant insight arising here is that: *if public sector falls short in promoting people's well-being, the real economy will undoubtedly suffer* and may turn into stagnating or even deteriorating path. According to recent studies, secularly increasing inequality is coupled with lowering innovativeness, which is reflected in the trend of the productivity growth. It goes without saying that United States face similar problem.

As we demonstrated in our earlier paper (Kovács, 2013:132), the US economy is currently operating far below its potential: the US total factor productivity, which captures innovation dynamics, has been all the more deteriorating since the midst of the 1970s. This trend is often regarded by economic professionals as ‘secular stagnation’ (Cowen, 2011), which is now an ubiquitous phenomena in the entire advanced world (i.e. real GDP growth rates and investment rates have been decreasing since the 1970s in advanced economies).

¹³ It is not surprising that Akerlof and Shiller (2009) emphasised in their riveting book the central role of trust in trying to explain how the real economy works.

¹⁴ Of course, public sectors are also competing each other, but not as much as the private sectors do. Public sectors are important variables when it comes to judging a country's international competitiveness, or to address the human development system.

Concluding remarks

There is no single and clear answer to the puzzling issue of why the United States has been undergoing an ever-more intensifying income inequality despite the fact that it is suggested to perform better over time in policy learning (via innovations) that would have addressed effectively and efficiently the gaping gap. Even if the neoliberal economic approach can be named as the primary source of increasing inequality – as Stiglitz (2012) stated, one of his arguments joins the line of thinking of ours: ‘common welfare’ should be incorporated in a more vigorous way.

First and foremost, *political interest always should be reckoned with*. One of the first reasons that can be taken into account behind the discussed secularly increasing income inequality is mostly given by the discipline of new political economy. Even though the historically evolved institutional architecture promises greater opportunities for socially more egalitarian system like in the US, politicians’ vested interest in the *status quo* can result in significant detours and aberrations from ‘optimal’ policies being tailored to tackle income inequality. This also holds in case of the US, where the recent financial and economic turmoil has deprived numerous states from their financial (fiscal) capacity to boost risky (costly) innovations in favouring dampening social inequality.

Second, a related issue to the former one deals with the intention of keeping wages relatively low in obtaining and maintaining international competitiveness. *Lastingly moderated wages (rather stagnating, infinitesimally increasing) have the potential to deter workers from being creative, and innovative* that would otherwise lead to increasing total factor productivity over time. It *per se* calls for more research on the relationship between wage stagnation and labour productivity, because in theory general wage push without any differentiation¹⁵ has also the potential to lower labour productivity in the long run.¹⁶ The latter one also sheds light on potential shortcomings of the so-called concept of secular declining innovativeness of the US advocated by Gordon (2012).

Third, an additional aspect might be behind the curtain of the described phenomena is an inertia in our complex socio-economic system. (i) Inertia of increasing income inequality can be captured by the term of geographically *unequal innovation dynamism*. In the US, there have been growing differences among cities. While some modern knowledge and innovation centres (e.g. brain hubs like San Francisco, Durham, Austin) attract creative and innovative workers, some other cities – dying manufacturing hubs (Moretti, 2012) – are emptying (e.g. Chicago) because other professions and

¹⁵ For instance, making wage increase to be dependent on innovativeness, in other words displaying “innovation” as part of a worker’s job description. It would be of key importance in the public sector as well, see: European Commission (2012:31).

¹⁶ The Dutch case confirms this assumption. See: Huizinga and Broer (2004) paper, in which the authors argue that wage-push might have a positive impetus on labour productivity in the short run, merely.

suppliers of various services are also willing to go over there (e.g. to the Silicon Valley).¹⁷ This forms a social inequality-increasing inertia. Let us add immediately, this can only happen if the labour market is highly liberalised and thus firms can relatively easily hire (or fire) promising (dispiriting) employees. But, it seems that after a certain threshold, higher labour mobility as a result of labor market liberalisation might give negative impetus on income inequality.¹⁸ (ii) Another inertia-triggering pattern is that ICT-based new techno-economic paradigm was the key driving force of globalisation and led to global financial market having ever-increasing liquidity (credit supply) that sought opportunity to be absorbed with better returns, i.e. because of the regulatory shortcomings in the financial markets, more people passed to financial markets and devoted attention to financial investments in fields like real estate.¹⁹ Financial markets deregulation distorted the harmony between financial market and real economy uncertainties. In addition to that, another leitmotif can be identified which spurred banks and investors to prefer financial investments in a more emphatic way over investments in the real economy focusing on technological or non-technological innovations, R&D activities. Namely, this paradigm has some specific features that have been directing towards lower productivity through labour-saving technologies (i.e. automation, standardisation by means of ICT etc.) which entailed downward trends in labour shares as, for instance, Karabarbounis and Neiman (2013) pointed out. This *per se* affected negatively the gap between rich and poor.

Fourth, another equally important source of *quandary is the uncertainty over the effectiveness of initiated policies* (how to do and what does the evaluation show) and the implementation related uncertainty (what to do). When it comes to transfer mechanism, innovations across the US, parallel interventions are initiated evolving along *non-linear patterns* by having a potential to cause bifurcations, unexpected outcomes, thus to lead increasing uncertainties and dissatisfaction of citizens. Since in a federal structure, public sector workers are more close to the citizens relatively, they are more visible as well, hence they do not like to be seen to fail. Therefore there is a solid amount of risk-aversion encoded even in the federal states. If an innovative initiative/policy fails, it causes negative consequences. This may have a potential to undermine the trust base for refinement of the initiated policies and to select them out as an admitted sign of failure. Not to mention that:

¹⁷ See more on this issue: Lee and Rodríguez-Pose (2013) in case of the US and Europe.

¹⁸ This issue was raised by Teulings (2014)

¹⁹ This mechanism is able to summon the emerging markets' crisis, such as the Latin American debt crisis of 1982-1983, simply because affluent liquidity had been offered and demanded by borrower countries with an intensified vehemence since 1973, however the short term interest rates raised rapidly from 1980 by leading to soaring indebtedness (See Lámfalussy, 2000). Speaking of today's crisis, in the US, households' debt started to accumulate rapidly, especially in case of low-income households being in low-inequality regions where the financial market, banking sector could spread the risk seemingly in a more efficient way. See more on this issue: Coibion et al. (2014)

financial autonomy does not mean that all the necessary financial backing is available at state level to be allocated towards risky (costly) innovations.

In the long term, it seems that public sector innovation, which addresses the well-being of people in a more dedicated way, and private sector innovation are largely interdependent in the sense that synergy can be achieved if they are in accordance with each other.

Against this background, *sparking innovation in the public sector in general is of paramount importance (i.e. reach radical efficiency, cost savings, improved service quality and accessibility)²⁰*, including the commitment to foster *social innovations* if for no other reason than increasing income inequality can be easily interpreted as the process when public sector does not necessarily respond to the social needs of the country (e.g. US). Social innovation, which goes through public, private and third sectors as well, addresses social challenges like inequality. Public sector can encourage social innovations that come from public organisations. By now, there are initiatives worldwide to foster social innovations such as KATARSIS²¹, WILCO²² etc. The US also started to devoting attention to social innovation as the belatedly coming, but still instructive organisation of *Office of Social Innovation and Civic Participation* has been established in 2009.

²⁰ For more on radical efficiency, see: Gillinson et al. (2010), for concrete examples, see: Shani et al. (2013)

²¹ KATARSIS established a platform on which research teams specialised in the study of the consequences of growing inequality and social exclusion will exchange their knowledge and work towards a better integration of their research programmes and methodologies. For more: <http://katarsis.ncl.ac.uk>

²² The WILCO project was to find the missing link between innovations at the local level and their successful transfer and implementation to other settings. Innovation in cities was explored, not as a disconnected phenomenon, but as an element in a tradition of welfare that is part of particular socio-economic models and the result of specific national and local cultures. By contextualising innovations in local welfare, we gained understanding about how they could work in other cities, for the benefit of other citizens. For more: <http://www.wilcoproject.eu>

References

- Akerlof, G. A. – Schiller, R. J. (2009): *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. Princeton University Press, Princeton
- Anderson, G. (2008): *Federalism: An Introduction*. Oxford University Press, New York
- Atkinson, A. B. – Morelli, S. (2014): *The Chartbook of Economic Inequality*. Available: www.ChartbookOfEconomicInequality.com Accessed on: 25.05.2014
- Atkinson, R. D. – Ezell, S. J. (2012): *Innovation Economics: The Race for Global Advantage*. Yale University Press
- Blanchard, O. (2013): *Five Lessons from The Financial Crisis. Speech at What should economists and policymakers learn from the financial crisis? Conference, London School of Economics, 25 March 2013 in Old Theatre, Old Building.*
- Burgess, S. (2011): *Measuring Financial Sector Output and its Contribution to UK GDP. Bank of England Quarterly Bulletin, 2011*
- Cowen, T. (2011): *The Great Stagnation: How America Ate All The Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better*. Dutton Adult (January 25, 2011)
- Davis, S. (2010): *The Adverse Feedback Loop and the Effects of Risk in Both the Real and Financial Sectors*. Federal Reserve Bank of Dallas, Globalization and Monetary Policy Institute Working Paper No. 66.
- Downs, A. (1957): *An Economic Theory of Political Action in a Democracy. Journal of Political Economy, Vol. 65, No. 2 pp. 135-150.*
- European Commission (2012): *Policies Supporting Innovation in Public Service Provision. An INNO-Grips policy brief by ICEG European Center. Author: Olivér Kovács. Budapest*
- Fábián, A. (2010): *New Public Management and What Comes After. Issues of Business and Law, Vol. 2 pp. 36-45*
- Funk, P. - Gathmann, C. (2012): *Direct democracy as a safeguard to limit public spending. VoxEU.org, Available: <http://voxeu.org/index.php?q=node/7608> Accessed on: 10.05.2014*
- Gillinson, S. – Horne, M. – Baeck, P. (2010): *Radical Efficiency – Different, Better, Lower Cost Public Services. NESTA Research Paper. Available: <http://www.networkforeurope.eu/files/files/radical-efficiency-nesta-180610.pdf> Accessed on: 18.05.2014*

- Glor, E. D. (2001): Key Factors Influencing Innovation in Government. *The Innovation Journal: The Public Sector Innovation Journal*, Vol 6, No. 2
- Gordon, R. J. (2012): Is US Economic Growth Over? Faltering Innovation Confronts the Six Headwinds. *CEPR Policy Insight* No. 63.
- Harrington, W. (2010): Promoting Innovative Climate - Adaptation through Federalism. RESOURCES For the Future, Issue Brief No. 17 Available: www.rff.org/RFF/Documents/RFF-IB-10-17.pdf Accessed on: 27.05.2014
- Huizinga, F. – Broer, P. (2004): Wage Moderation and Labour Productivity. CPB Netherlands Bureau for Economic Policy Analysis, *CPB Discussion Paper* No. 28
- Karabarbounis, L. – Neiman, B. (2013): The Global Decline of the Labor Share. NBER Working Paper No. 19136
- Kasparov, G. – Levchin, M. – Thiel, P. (2013): The Blueprint: Reviving Innovation, Rediscovering Risk, and Rescuing the Free Market. W. W. Norton & Company (March 12, 2013)
- Kovács, O. (2013b): Black Swans or Creeping Normalcy. An Attempt to a Holistic Crisis Analysis. *Eastern Journal of European Studies*, Vol. 4., No. 1. pp. 127-143.
- Lee, N. - Rodríguez-Pose, A. (2013): Innovation and Spatial Inequality in Europe and USA. *Journal of Economic Geography*, Vol. 13., No. 1 pp. 1-22.
- Lundvall, B.-A. (2002): The University in the Learning Economy. *DRUID Working Paper* No. 6
- Maggio, M. D. (2013): Market Turmoil and Destabilizing Speculation. MIT, Job Market Paper, Available: <http://economics.mit.edu/files/8469> Accessed on: 20.01.2014
- Martinez-Vazquez, J. – McNab, R. M. (2001): Fiscal Decentralization and Economic Growth. Georgia State Andrew Young School of Policy (ISP) *Working Paper* No. 01
- Mellers, B. – Schwartz, A. – Ritov, I. (1999): Emotion-based choice. *Journal of Experimental Psychology: General*, Vol. 128., pp. 332-345.
- Moretti, E. (2012): The New Geography of Jobs. Mariner Books; Reprint edition
- Nordhaus, W. D. (1975): The Political Business Cycle. *Review of Economic Studies*, Vol. 42, No. 2. pp. 169-190.
- Oates, W. E. (1999): An Essay on Fiscal Federalism. *Journal of Economic Literature*, Vol. 37, pp. 1120-1149.

- OECD (2011): An Overview of Growing Income Inequalities in OECD Countries: Main Findings. Available: <http://www.oecd.org/els/soc/49499779.pdf> Accessed on: 20.05.2014
- OECD (2012): Economic Policy Reforms 2012. Going for Growth. OECD (2012), Economic Policy Reforms 2012: Going for Growth, OECD Publishing. Available: <http://dx.doi.org/10.1787/growth-2012-en> Accessed on: 02.05.2014
- Ortony, A. – Clore, G. L. – Collins, A. (1988): *The Cognitive Structure of Emotions*. New York: Cambridge University Press.
- Phelps, E. (2013): Less Innovation, More Inequality. *The New York Times*. The Opinion Pages, Opinionator. Available: <http://opinionator.blogs.nytimes.com/2013/02/24/less-innovation-more-inequality/> Accessed on: 25.04.2014
- Rose-Ackerman, S. (1980): Risk Taking and Reelection: Does Federalism Promote Innovation? *The Journal of Legal Studies*, Vol. 9, No. 3, pp. 593-616.
- Saam, N. J. – Kerber, W. (2008): Policy Innovation, Decentralised Experimentation, and Laboratory Federalism. Available SSRN: <http://ssrn.com/abstract=1301502> Accessed on: 20.05.2014
- Saam, N. J. – Kerber, W. (2013): Policy Innovation, Decentralised Experimentation, and Laboratory Federalism. *Journal of Artificial Societies and Social Simulation*, Vol. 16., No. 1.
- Schnyder, S. (2011): Laboratory federalism: Policy diffusion and yardstick competition. Working Paper presented at the Workshop organised by the Faculty of Economic and Administration, Masaryk University. Available: <http://is.muni.cz/do/econ/soubory/katedry/kve/6403220/25140474/lab01.pdf> Accessed on: 02.02.2012
- Shani, N. R. – Wessel, M. – Christensen, C. M. (2013): Unleashing Breakthrough Innovation in Government. *Stanford Social Innovation Review*, Available: http://www.ssireview.org/articles/entry/unleashing_breakthrough_innovation_in_government Accessed on: 18.05.2014
- Shiller, R. J. (2013): The Best, Brightest, and Least Productive? Project-Syndicate, Available: <http://www.project-syndicate.org/commentary/the-rent-seeking-problem-in-contemporary-finance-by-robert-j--shiller> Accessed on: 21.05.2014
- Shipan, C. R. – Volden, C. (2012): Policy Diffusion: Seven Lessons for Scholars and Practitioners. *Public Administration Review*, Vol. 72., No. 6. pp. 788-796
- Stiglitz, J. (2012): *The Price of Inequality: How Today's Divided Society Endangers Our Future*. W. W. Norton & Company; 1 edition

Strumpf, K. S. (2002): Does Government Decentralization Increase Policy Innovation? *Journal of Public Economic Theory*, Vol. 4, No. 2 pp. 207-241

Taylor, M. Z. (2007): Political decentralization and technological innovation: testing the innovative advantages of decentralized states. *MPRA Paper* No. 10996

Teulings, C. (2014): Why Does Inequality Grow? Can We Do Something About It? VoxEU.org, Available: <http://www.voxeu.org/article/why-does-inequality-grow> Accessed on: 16.06.2014

Weingast, B. (2006): Second Generation Fiscal Federalism: Implications for Decentralized Democratic Governance and Economic Development. Available: www.ificr.org/workshop/IFIR-CESifo/papers/weingast.pdf Accessed on: 21.05.2014