

Contents

1 On the Cloud of Technology that Surrounds	
Advanced Production: A Summary of Results.....	1
1.1 The Spillover Multiplier.....	1
1.2 Twelve Conclusions on How to Overcome the Underinvestment in Private R&D Among Advanced Industrial Economies	2
1.3 Joint Production and Joint Customership	5
1.4 The Questions Raised	6
1.5 The Nature of Spillovers.....	8
1.6 Social Value Creation: The Magnitudes Involved.....	9
1.7 Competition Between Alternatives	12
1.8 Competitive Bidding and Competition Policy	14
1.9 The Contents of the Spillover Cloud.....	16
1.10 The Advanced Industrial Environment	17
1.11 Policy Implications	18
1.12 Complete Competence Blocs are Spillover Generators and Advanced Learning Environments	20
1.13 Macroeconomic Growth	21
1.14 Notes	22
2 The Art of Defining, Pricing, and Marketing Advanced Multidimensional Products that Spill Technology	25
2.1 The Pricing of Complex and Multidimensional Systems Products	28
2.2 The Joint Manufacturing of Products and Intangible Spillovers	32
2.3 The Economic Nature of Intangible Spillovers.....	34
2.3.1 The Existence, Magnitude, and Economic Value of Spillovers.....	35
2.3.2 Receiver Competence	37
2.3.3 Diffusion Channels	39
2.3.4 Accessing the Global Pool of Technology.....	41

2.4	Competence Bloc Theory and the Critical Role of the Advanced Customer.....	42
2.4.1	Customer Competence Contributions	43
2.4.2	Technology Supply	44
2.4.3	Commercialization	44
2.4.4	The Allocation of Tacit Knowledge and the Limits of a Firm.....	46
2.4.5	Critical Mass	48
2.4.6	Going from Micro to Macro (Aggregation).....	49
2.5	Aircraft Industry as a Spillover Source: A Preview of the Industry Case	50
2.6	Boosting Receiver Competence Through Policy	53
2.6.1	Capturing the Rents from Spillovers: Joint Customership and Industrial Participation Programs as a Joint Policy and Business Opportunity	54
2.6.2	Summarizing on Joint Production and Joint Customership as a Policy Opportunity.....	55
2.7	Notes	56
3	Spillovers and Innovative Technology Supply: A Literature Survey	61
3.1	The Existence and Magnitudes of Spillovers: A Brief Background on Economic Theory	62
3.1.1	Austrian/Schumpeterian Micro- to Macrodynamics and the Long-Term Sustainability of Spillovers and Growth.....	62
3.1.2	Long-Term Sustainable Productivity Growth is a Matter of Resource Reallocation, Not of Raising Employment	64
3.2	Intangible Spillovers and Economic Growth	65
3.2.1	Technology Creation and Productivity Growth	66
3.2.2	The Mysterious Technology Residual.....	66
3.3	The Macroeconomic Effects of Spillovers.....	68
3.3.1	Salter Curve Analysis.....	69
3.3.2	Dynamic Simulation	72
3.3.3	Commercialization	75
3.4	Notes	77
4	Capturing the Direct and the Serendipitous Spillovers: The Case of Sweden's Military Aircraft Industry	79
4.1	A Brief History of Saab	79
4.2	The Saab Group Strategically Reorganizing for a Different Future	83
4.2.1	A Business Organization in Constant Transition	84

4.2.2	Military Aircraft Technology is the Platform for Future Industrial Development of Saab.....	85
4.3	The Cloud of Spillovers	86
4.3.1	Core Technologies (Aircraft and Engines).....	86
4.3.2	Related Technologies (Case 3).....	92
4.3.3	Engineering General (Cases 5 and 6).....	95
4.3.4	Industry General and Serendipitous Discovery	97
4.3.5	Creating a Critical Mass Aircraft Industry Competence Bloc Rich in Spillovers (Case 7).....	98
4.4	Digital Mobile Telephony: A Swedish World Success with a Military Origin ¹⁸ (Case 8)	99
4.4.1	The Origin of Nordic Mobile Telephony: How the Advanced Public Customer Initiates a New Swedish Industry	101
4.4.2	The Emergence of Digital Mobile Telephony as a Swedish World Success	102
4.4.3	The Critical Technology Elements of the Early Digital Mobile Telephone System.....	104
4.4.4	Advanced Consumer Electronics	107
4.4.5	One Technology Wave After Another: Nobody Is Safe.....	108
4.4.6	A Number of Civilian Opportunities and Challenges.....	112
4.4.7	Summing Up	112
4.5	Secondary Spillovers: Ericsson HP Telecom and Telecom Monitoring and Control Systems (Industry General, Case 9)	114
4.6	The Emergence and Disappearance of a Swedish Computer Industry ³³ (Industry General, Case 10)	116
4.7	The Business Information Systems Venture of Ericsson (EIS, Case 11)	117
4.8	Medical Technology Spillovers (Sectra): A Creative Entrepreneurial Environment (Case 12)	120
4.9	Notes	121
5	Looking into the Future on JAS Gripen Spillovers	125
5.1	Spillover Areas: A Brief Survey	127
5.2	The Erieye Surveillance System, Electrically Directed Antennae and the Minilink: The Development of an Early Networked Defense System Moving Ericsson Mobile Telephony On (Case 13)	131
5.2.1	Erieye Surveillance Technology	132
5.2.2	Antennae	133
5.2.3	The MiniLink	133
5.2.4	A Networked Defense Enhances Spillover Intensity	135
5.3	Distributed and Integrated Production as a Generic Engineering Organizational Technology: The Art of Systems Integration (Case 14)	135

5.3.1	The Nature of Complex Products	136
5.3.2	Integrated Production.....	138
5.3.3	Systems Effects in Integrated Production	139
5.3.4	Systems Integration: An Illustration	140
5.4	Safety-Critical Software Engineering (Case 15).....	141
5.5	Manufacturing Lightweight Technology (Case 16).....	143
5.5.1	Lightweight Aircraft Structures: Saab and Gripen	143
5.5.2	Lightweight Engine Designs: Volvo Aero Corporation.....	146
5.5.3	Welding Simulation.....	148
5.6	Automobile Safety Systems as a Swedish Export Product.....	150
5.6.1	Case 17: The Swedish Automotive Safety Industry and Autoliv	151
5.7	Maximizing Functional Flexibility and Minimum Life Cycle Maintenance and Service Costs (Case 18).....	153
5.7.1	Product Design and Functional Flexibility	154
5.7.2	Maintenance-Free Products	154
5.7.3	Real Options Pricing of Flexibility	156
5.7.4	Lifetime Product Support.....	156
5.7.5	Product Life Management.....	157
5.8	Additional Product and Technology Areas the Origin of Which Can Be Traced to JAS 39 Gripen	157
5.8.1	Space Research and Exploration (Case 19)	158
5.8.2	Virtual and Secure Online Design: Encryption/Security (Case 20).....	158
5.8.3	Civil Security (Case 21).....	159
5.8.4	Unmanned Aircraft and Future Air Transport (Case 22)	160
5.9	The Development of a Specialist Consulting and Subcontracting Industry: Competence Bloc Formation.....	161
5.9.1	Advanced Subcontractors as a National Competitive Advantage.....	161
5.9.2	Engineering Consulting Bridges the Gap Between Technology Creation and Technology Adoption (Case 23)	163
5.9.3	Industrial Competence Bloc Formation in Linköping(Case 24)	164
5.9.4	The Subcontracting Contract	166
5.9.5	Risk Sharing Among Contractors	167
5.10	What Did Not Happen	168
5.10.1	Spillover Opportunities Missed (Case 25).....	168
5.10.2	The Large Part of Gripen Spillovers Has Been Captured by the Large Partners in the IG JAS Industry Group	171
5.11	Notes	172

- 6 Saab in South Africa: Technology Transfer to an Industrializing Economy..... 175**
 - 6.1 The South African Opportunity 177
 - 6.2 The Downsizing of the South African Arms Industry 180
 - 6.2.1 Armscor 180
 - 6.2.2 Denel..... 181
 - 6.2.3 Saab Denel Aerostructures 181
 - 6.3 The Nature of the Product and of Spillovers 182
 - 6.4 Gripen in South Africa: Facts 184
 - 6.4.1 The Gripen Purchase: Technical Background 185
 - 6.4.2 Volvo Aero Corporation in South Africa 186
 - 6.4.3 The Organization of Technology Transfers 187
 - 6.4.4 Subcontracting in South Africa 189
 - 6.5 South African Receiver Industry 190
 - 6.5.1 A Dual Economy Isolated from Industrial Neighbors..... 191
 - 6.5.2 Participating in Global Production and Marketing Networks 192
 - 6.5.3 Management Competence 193
 - 6.5.4 Attractive Technologies 195
 - 6.6 New Firm Formation..... 196
 - 6.7 Competence Blocs, Lack of Commercial Attitudes, and Venture Capital Insufficiency..... 197
 - 6.7.1 Case 26: TMI Dynamics 198
 - 6.8 Labor Quality Supply 199
 - 6.8.1 Case 27: The Saab Industrial School project in South Africa..... 201
 - 6.9 Political Uncertainty High 202
 - 6.10 Conclusions..... 203
 - 6.11 Notes 204

- 7 The European Policy Perspective 207**
 - 7.1 The Future Dependence of Western Industrial Economies on their Engineering Industries 208
 - 7.2 The European Concerns..... 210
 - 7.3 Facilitation Rather Than Directed Procurement Becomes Important..... 211
 - 7.4 Dassault Aviation, France (Case 28)..... 212
 - 7.5 What Should Europe Do? 212
 - 7.6 Notes 214

- 8 Private and Social Spillover Benefits from Advanced Procurement: Defining and Estimating the Spillover Multiplier..... 215**
 - 8.1 How to Capture Spillover Rents Privately and for Society..... 215
 - 8.1.1 Innovative Pricing 215

- 8.1.2 On the Principles and Practices of Offset
 - Trade Requirements 217
- 8.2 Estimating the Spillover Multiplier..... 218
 - 8.2.1 Beware of Calculation Biases Based on Oversimplification 218
 - 8.2.2 Defining the Spillover Multiplier of the JAS 39 Gripen Development Investment..... 220
 - 8.2.3 Estimating (Approximating) the Spillover Multiplier from the Microlevel and Up..... 221
- 8.3 How to Turn Potential Rates of Return into Actual Rates of Return 226
 - 8.3.1 The Policy Issue 226
 - 8.3.2 The Art of Rent Seeking 226
 - 8.3.3 The Art of Innovation Policy 227
- 8.4 Incentive Contracts 228
- 8.5 Notes 230
- 9 Advanced Purchasing as Industrial Policy: On the Advanced Firm as a Technical University..... 233**
 - 9.1 Public Goods as Infrastructure..... 233
 - 9.1.1 Market or Public Failure to Satisfy a Private Demand? 234
 - 9.1.2 R&D Investment as Infrastructure: The Underinvestment Proposition..... 235
 - 9.1.3 Technology Policy..... 235
 - 9.1.4 Public Procurement as Industrial Policy: The Role of the Competent Customer 236
 - 9.1.5 Are There Any Other Advanced Public Procurement Objects? 238
 - 9.2 The Public Purchasing Contract: A New Demand Policy 239
 - 9.3 Aircraft Industry Already Today Uses the Technologies of Future Engineering Industry..... 240
 - 9.3.1 The Large Firms Dominate as Spillover Receivers 240
 - 9.3.2 The Opportunity Cost May Be Negative 242
 - 9.3.3 Marketing the Cloud: Saab as an Agent of Democracy..... 243
 - 9.4 The Advanced Firm as a Technical University 244
 - 9.5 Notes 245
- Technical Supplements 247**
 - S1 The IG JAS Investment 247
 - S1.1 The Procurement of the JAS 39 Gripen Aircraft with Swing-Role Capabilities..... 247
 - S1.2 Swedish Military Aircraft Procurement History 249
 - S1.3 The JAS 39 Gripen Concept 250

S1.4	The Industry Group JAS	251
S1.5	Weapons and Communications System	251
S1.6	The New IG JAS Procurement Method	252
S1.7	Subsystems Categories Outsourced to Non-Saab Subcontractors.....	254
S1.8	The JAS 39 Gripen Procurement Sequence	255
S1.9	The JAS 39 Gripen Investment Budget.....	256
S2	Estimating the JAS 39 Gripen Macroeconomic Spillover Multiplier: Going from Micro to Macro.....	257
S2.1	The Different Estimation Methods	257
S2.2	Method 1: Identifying and Aggregating Over the 45 Spillover-Receiving Firms	262
S2.3	Method 2 (Indirect): Econometrically Determined Social and Private Rates of Return.....	269
S2.4	Method 3: Micro-to-Macro Simulation	271
S2.5	The Value of JAS 39 Gripen Spillovers: Analysis, Evaluation, and Discussion	272
S2.6	Summing Up	278
S3	A Future Research Agenda: The Advanced Firm as a Technical University	279
S3.1	The Double Customer Role of Government	280
S3.2	The European Dimension	281
S3.3	Suggested Continuation of the Project.....	282
S3.4	The Spillover Multiplier.....	282
S3.5	The Future Role of the Old Engineering Industry in the New Economy	283
S3.6	Overcoming the Underinvestment	284
S3.7	Advanced Firms and Technical Universities Competing for Public Resources	284
S3.8	The Optimal Public Procurement Area.....	285
Notes	286
Glossary	289
Bibliography	295
Index	307



<http://www.springer.com/978-1-4419-5848-8>

Advanced Public Procurement as Industrial Policy

The Aircraft Industry as a Technical University

Eliasson, G.

2010, XXVIII, 312 p. 10 illus., Hardcover

ISBN: 978-1-4419-5848-8