Over the longer term, economic growth arises from the interplay of *incentives* and *capabilities*. The capabilities define the best that can be achieved; while the incentives guide the use of the capabilities and, indeed stimulate their expansion, renewal or disappearance. Both incentives and capabilities operate within an *institutional framework*: institutions set rules of the game, as well as directly intervening in the play; they act to alter capabilities and change incentives; and they can modify behaviour by changing attitudes and expectations.

From the brief introduction to the technological capability approach provided above, some important considerations emerge. Firstly, this perspective highlights how development is mainly the result of a transformation, diversitication and upgrading of the production process. In order to activate these fundamental dynamics certain technological capabilities must be internally developed and/or externally absorbed and adapted.

Moreover it is stressed how this cumulative process takes time and involve many actors which in different ways contribute to the creation of industrial commons. Secondly, measuring and identifying the level and typologies of technological capabilities in LDCs, this perspective calls for a proactive and selective intervention of state's governments in the process of technological catching up. Finally, stressing the existence of an interplay between incentives and capabilities, this approach remembers economists that incentives and market signals are very often not enough. This is especially true when an economic system lacks those capabilitis which are necessary for exploiting incentives and, more generally, market opportunities.[35]

Following a parallel line of reasoning, many economists have stressed,[36] how the existence of a series of pervasive market failures and deficiencies, problems of coordination and information externalities at the macro level strongly reduce developing countries' possibility for their technological catching up and in the development of large domestic firms. The existence of these structural limits of the market calls for state's intervention, that is, for the implementation of selective industrial, technological and trade policies.

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[35] A. Andreoni, *The economics of capabilities*, paper presented at the Land Economy PhD workshop, University of Cambridge, February 2010.

[36] J. Stiglitz, *From miracle to crisis to recovery: Lessons from four decades of East Asian experience*, in *Rethinking the East Asia miracle*, Washington, D.C. and New York, 2001; D. Rodrik, *Normalizing industrial policy* cit.; H.J. Chang, *The political economy of industrial policy* cit.