

# INNOVATION BEYOND THE IMAGINATION OF THE MARKET:

*HOW THE STATE DROVE AN ECONOMICALLY BENEFICIAL AND SOCIALLY  
RESPONSIBLE INNOVATION: THE ADOPTION OF ELECTRONIC HEALTH  
RECORDS IN THE US AND EU*

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**Abstract:** Tech entrepreneur rhetoric paints regulation as a specter of the past fettering the future. Yet the state had to drive the market to adopt electronic health records (EHR), a technology that lowers cost, improves care, and improves health policy research. EHR shows how regulators can not only cut their dead-weight loss, not only beneficially constrain the market, but also drive adoption of innovations the market cannot.

This paper isolates the mechanism of regulation-driven innovation adoption using Bayesian process traced US & EU evidence. The 2009 US HITECH Act pushed medical practices to adopt EHR with first a subsidy carrot and then a reimbursement withholding stick. Directive 2011/24EU added healthcare to the Common Market requiring EU member-states to adopt interoperable EHR.

Most medical practices espoused EHR preferences counter to their supposed interests. Early EHR adopters recognized their interest in lower costs and improved care. Yet most practices strongly opposed EHR despite this interest due to perceptions that practices would bear transition costs and outsiders (admins, insurers, analysts) would get the benefits.

Perceptions create preferences long before outcomes breed interests. Innovators distrust regulation not because they've had bad experiences but because they think they will. EHR overcame poor perception to create good outcomes beyond the imagination of the market in the US & EU showing how innovators can work with regulators rather than against them.

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