

July 28, 2010

# Innovation and Economic Prosperity

Presentation at the

Science, Technology and Innovation:  
Imperatives for National and Economic  
Security Conference

*Dr. Robert Atkinson*

*President*

*Information Technology and Innovation Foundation*



ITIF is public policy think tank committed to articulating and advancing a pro-productivity and pro-innovation policy agenda internationally, in Washington and in the states. ITIF focuses on:

- Innovation processes, policy and metrics
- Science policy related to economic growth
- Digital transformation (E-commerce, e-government, e-health, etc.)
- ICT and economic productivity
- Innovation and trade policy

# ■ Today's Presentation

1

**Why Does Innovation Matter?**

2

**The Changing Nature of Innovation**

3

**Benchmarking International Innovation**

4

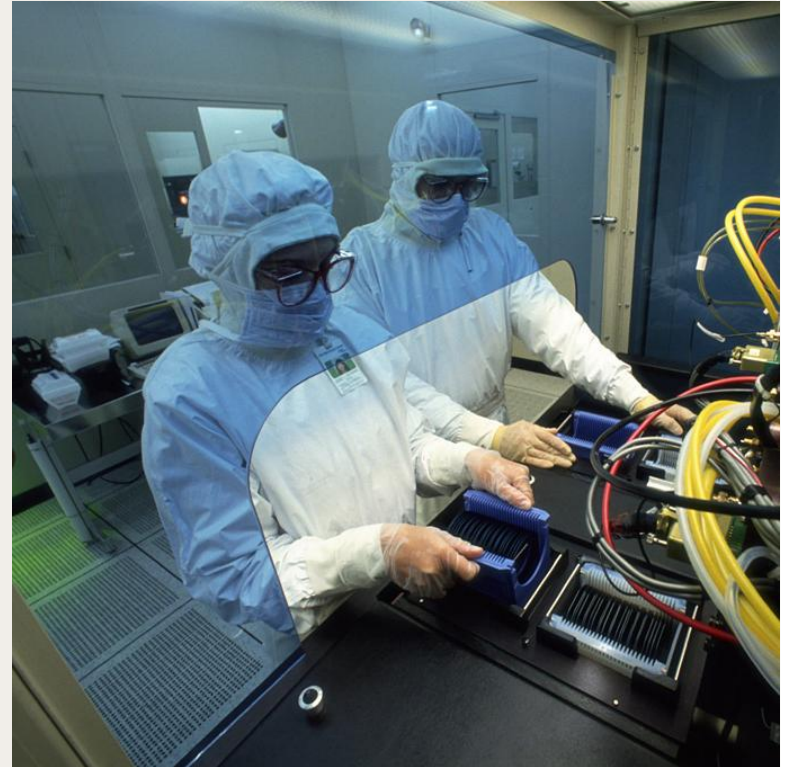
**Explanations (Excuses) for our Decline**

5

**Innovation Policies**

## ■ This is Innovation

Innovation in “tradable” new products and services is critical for regional economic growth.



## ■ So Is This

- John Deere CEO Bob Lane says he doesn't make tractors but rather "sophisticated mobile information factories."



- GPS shows where it is
- Microwave sensors measure cotton flow
- RFID tags let processors know origin of each bundle
- Wireless communications
- Computing power of 8 PC's

## ■ Why Does Innovation Matter?

Because it drives economic growth:

- The private return to U.S. R&D is 7% while the societal RoR is 30%, suggesting that the optimal level of R&D investment is between two to four times larger than the total current level of private investment. (Jones and Williams, 2000)
- Every 1% increase in the stock of research increased productivity by 0.23 percent. (Coe and Helpman, 1995)
- At least 2/3 of increase in per-capita GDP is attributable to innovation.

## ■ Why Does Innovation Matter?

- Because economic transformation is constant and innovation is required to continually renew a region's economy.

*The essential point to grasp is that in dealing with capitalism we are dealing with an evolutionary process... the fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates."*

(Joseph Schumpeter, Capitalism, Socialism and Democracy, 1942)

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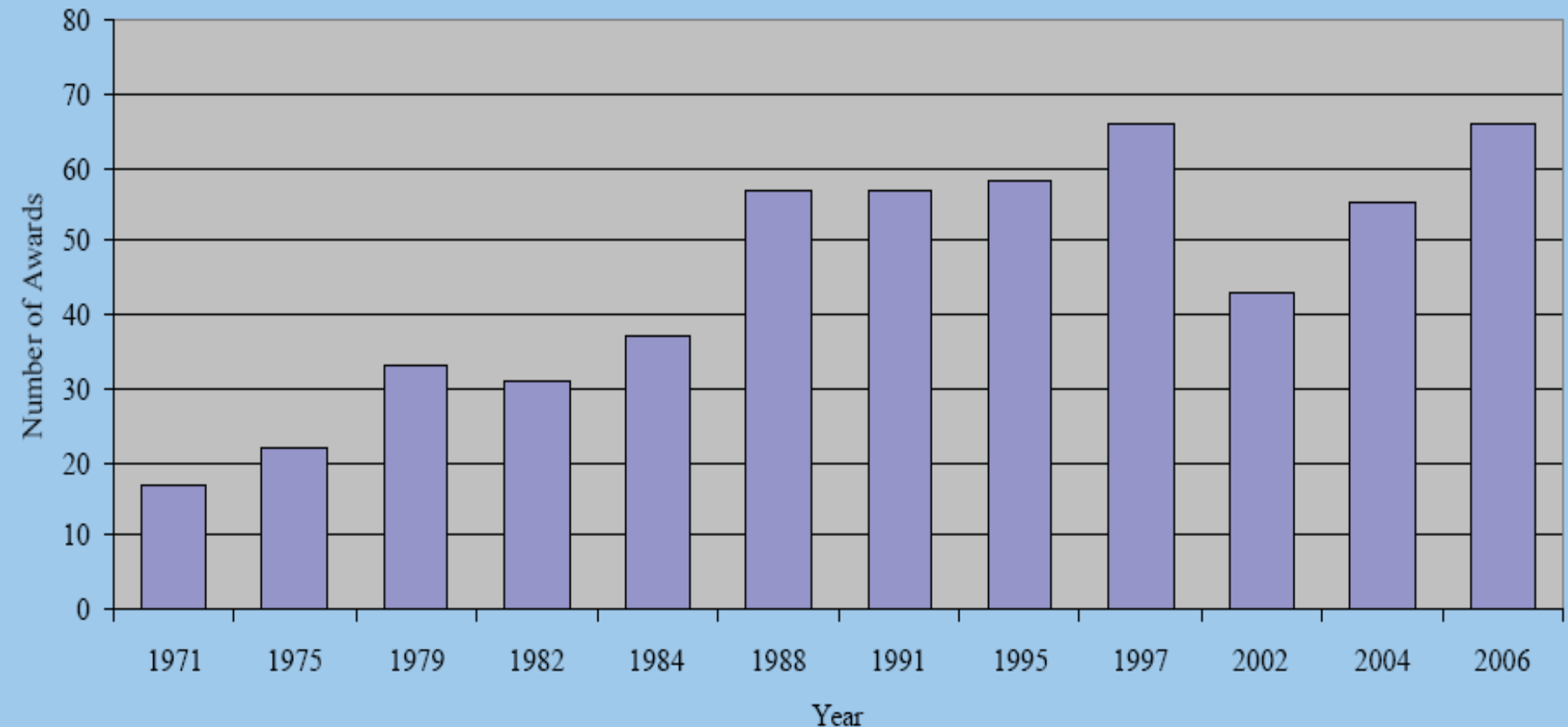
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**Innovation Policies**



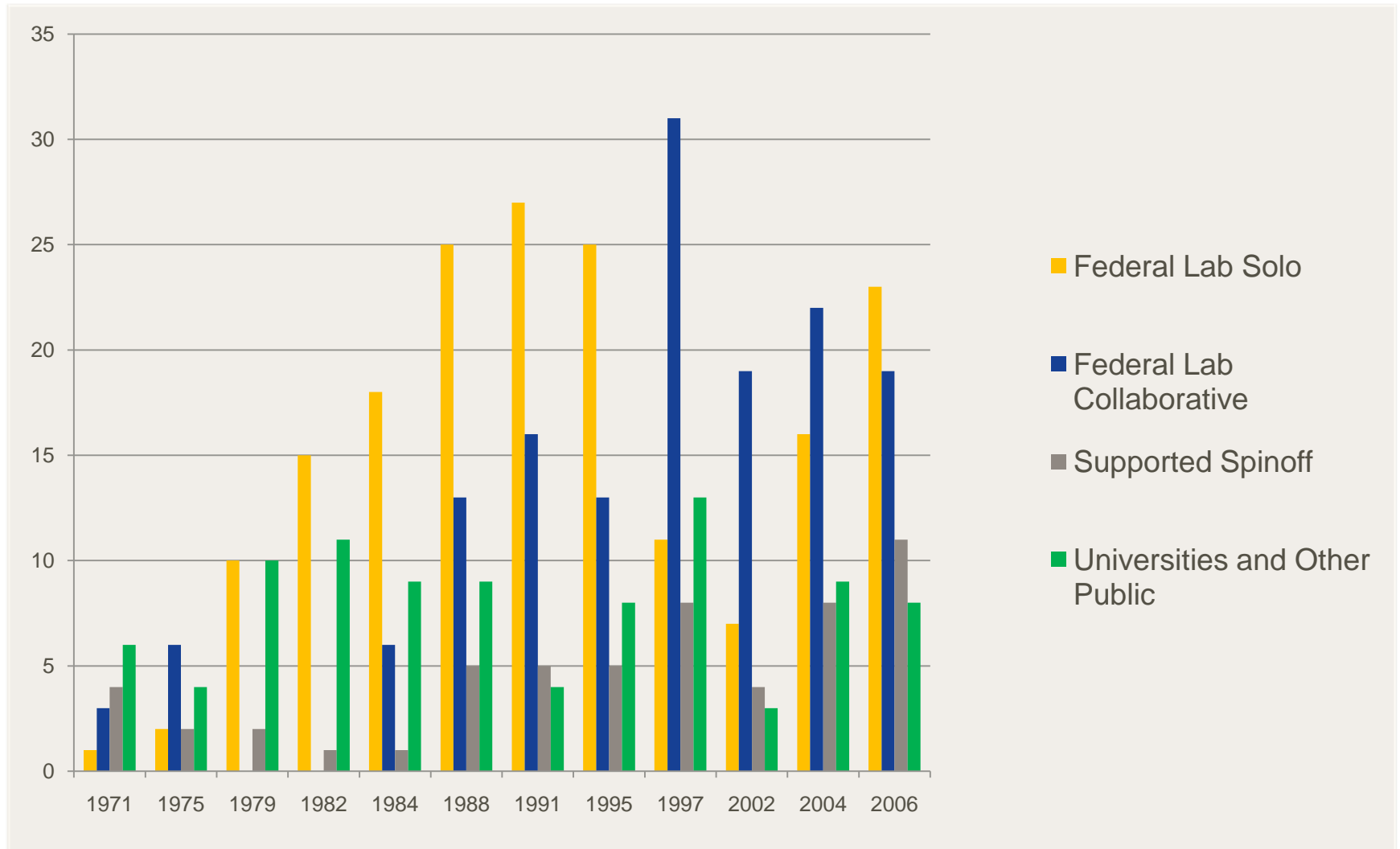
## ■ The U.S. Innovation System Has Become More Collaborative

Figure 5: Innovation Awards to Interorganizational Collaborations



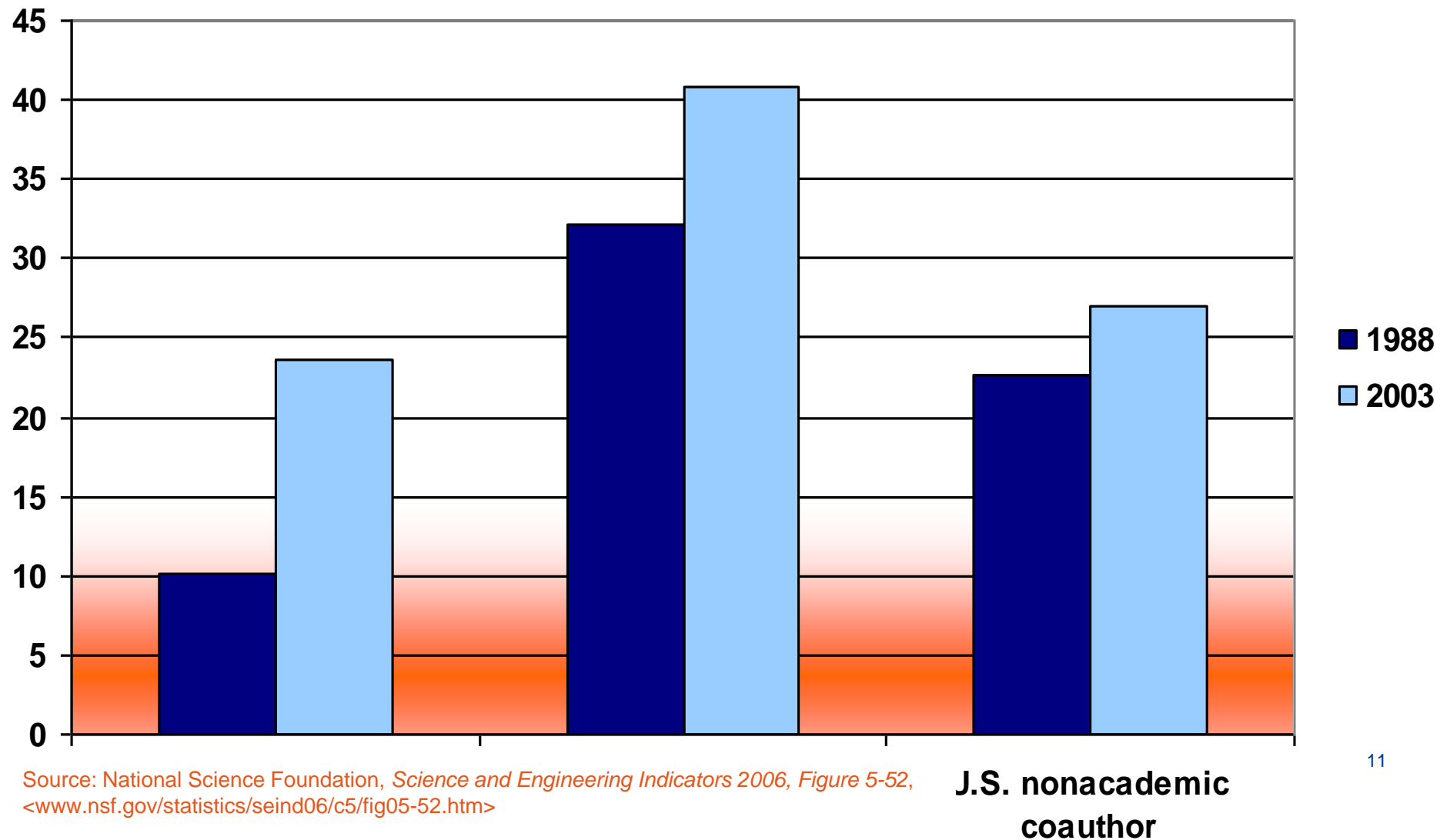
Source: Fred Block and Michael Keller, "Where Do Innovations Come From? Transformations in the U.S. National Innovation System, 1970-2006, (ITIF, 2008).

# Federal Labs vs. Spinoffs vs. Other Public, Number of Awards



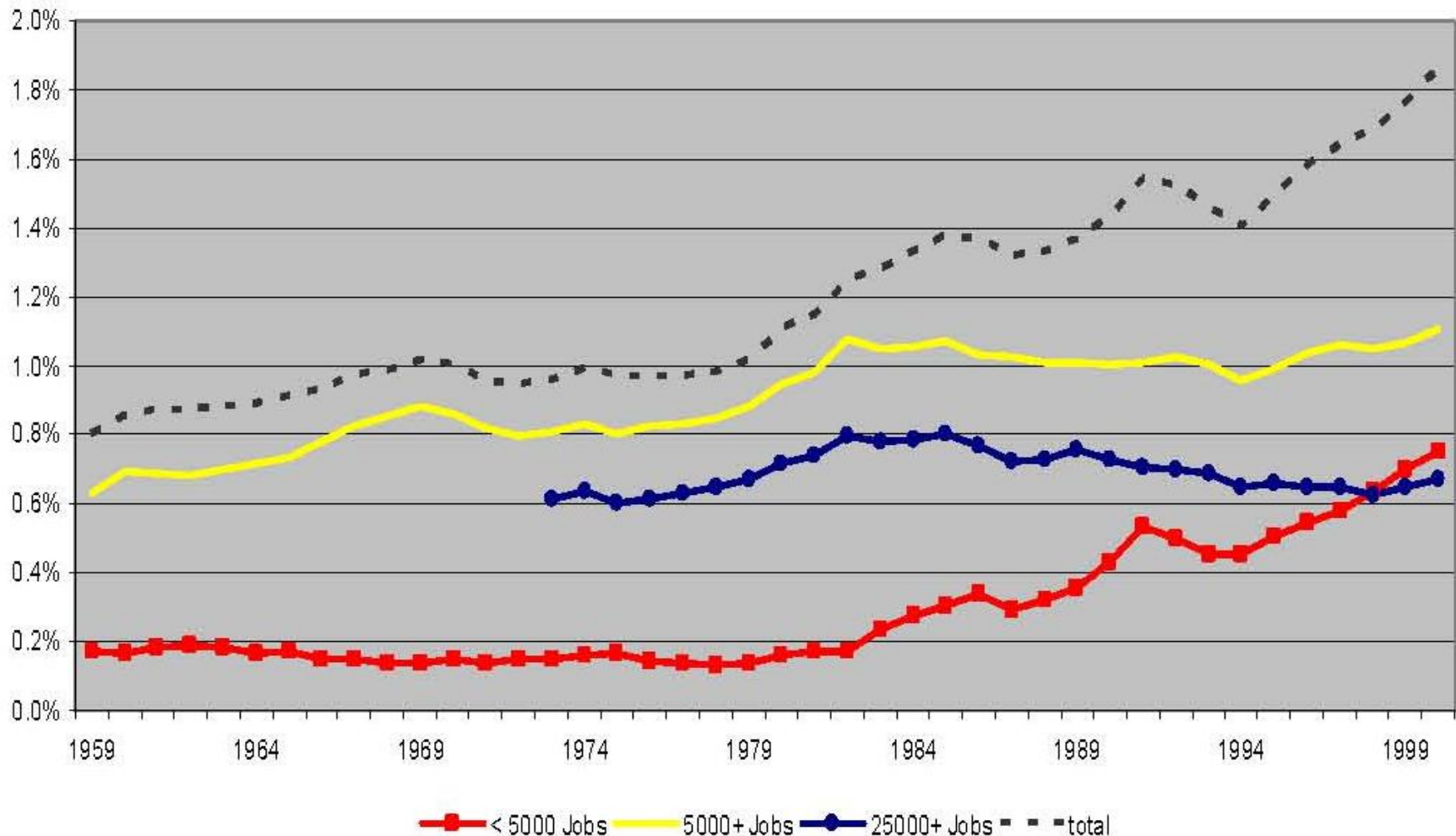
Source: Fred Block and Michael Keller, "Where Do Innovations Come From? Transformations in the U.S. National Innovation System, 1970-2006, (ITIF, 2008).

## ■ International Collaboration is Growing

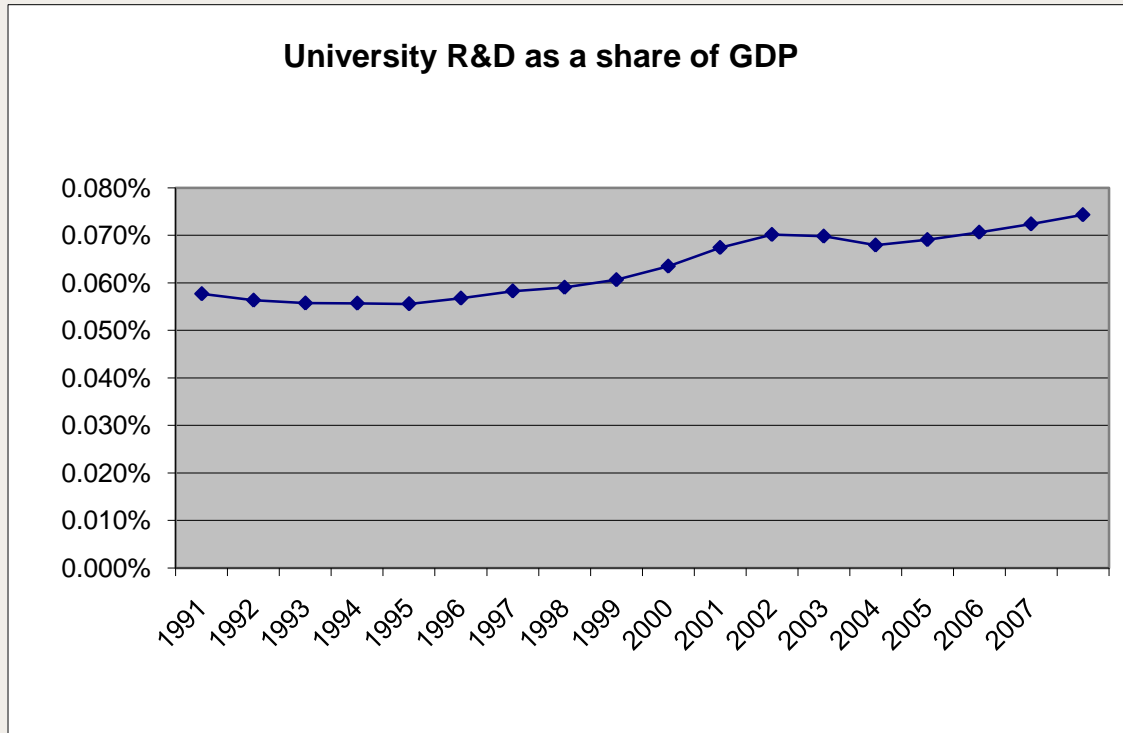


# ■ Small and Mid-Sized Firms are Becoming a More Important Source of Innovation

(R&D by firm Size as % of GDP)



## ■ Universities are Becoming More Important Player in the Innovation Process



- Annual patent applications filed from universities increased from 7,200 in 2003 to 11,000 in 2007.
- Between 2003 and 2007 the number of revenue generating licenses in universities increased by 39 percent and were worth \$1.9 billion.
- New start-ups formed increased from 212 in 1994, to 348 in 2003 and 510 in 2007.

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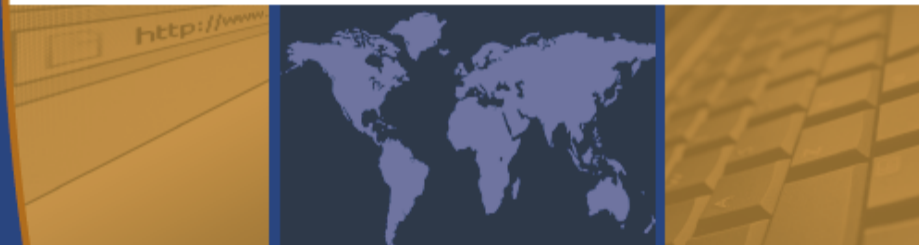
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**Innovation Policies**

# THE ATLANTIC CENTURY

Benchmarking EU & U.S.  
Innovation and Competitiveness



Robert D. Atkinson and Scott Andes  
The Information Technology and Innovation Foundation  
Washington, D.C.

February 2009



European-American  
Business Council



## ■ The Atlantic Century Study

- **The Study:** comparing innovation-based competitiveness of 40 nations and regions.
- **Countries:** EU and NAFTA countries, Australia, Brazil, China, India, Japan, South Korea, Russia, and Singapore
- **Regions:** EU-10, EU-15, EU-25, and NAFTA



# ■ 6 Groups of 16 Indicators to Assess Global Innovation-based Competitiveness:

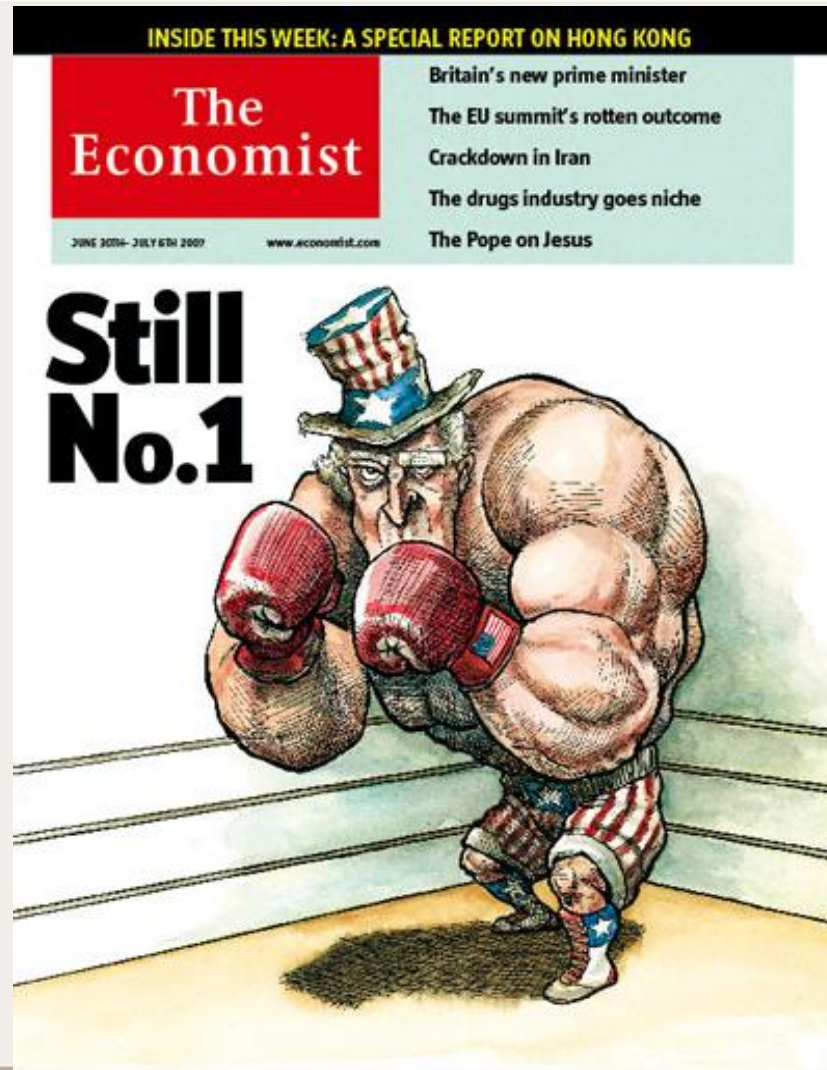
## ■ Economic Structure

- Human capital (college education; researchers)
- Innovation capacity (corporate R&D; government R&D; scientific publications)
- Entrepreneurship (new firms; venture capital)
- IT infrastructure (e-government; corporate IT investment; broadband)

## ■ Economic Policy (corp. tax; ease of doing business)

## ■ Economic Performance (trade balance, FDI, GDP per worker, productivity)

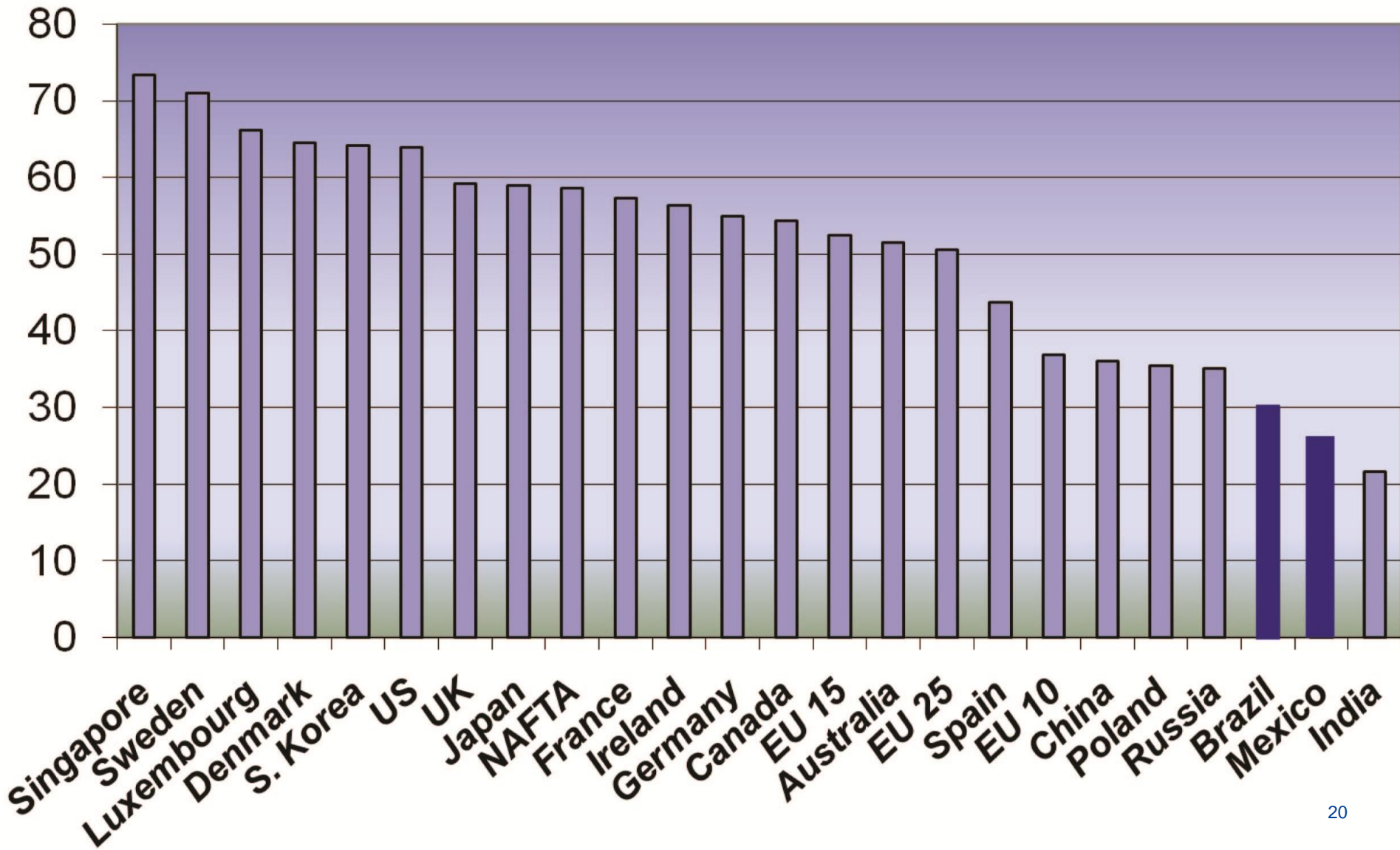
# ■ We're Number 1?



# ■ Actually, We're Number 6



# Overall Score

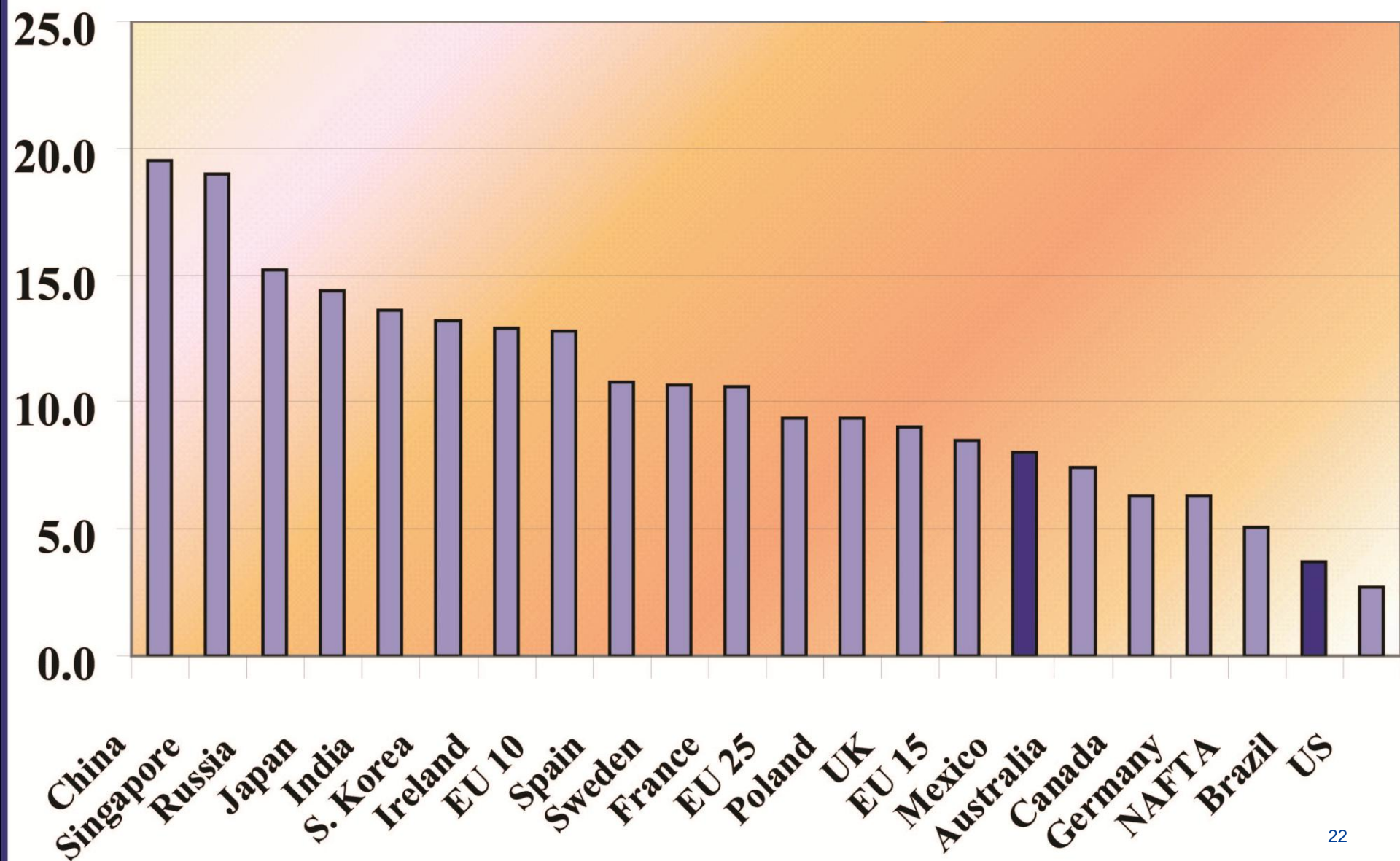


# The U.S. is Behind....

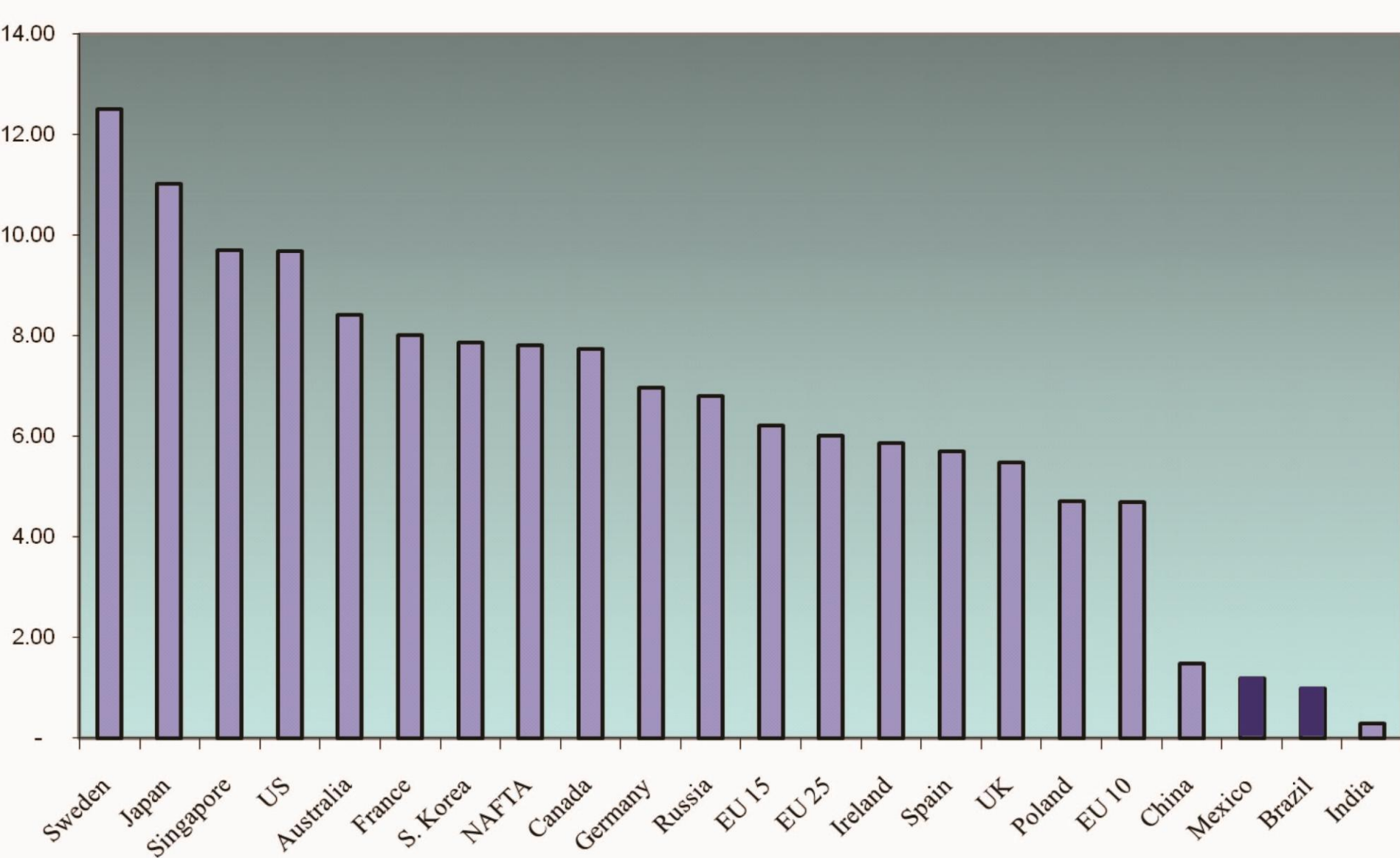
- |                    |              |                   |
|--------------------|--------------|-------------------|
| 1. China           | 15. Latvia   | 28. UK            |
| 2. Singapore       | 16. Austria  | 29. EU-15         |
| 3. Estonia         | 17. S. Korea | 30. Mexico        |
| 4. Denmark         | 18. Ireland  | 31. Netherlands   |
| 5. Luxembourg      | 19. EU-10    | 32. Australia     |
| 6. Slovenia        | 20. Spain    | 33. Finland       |
| 7. Russia          | 21. Sweden   | 34. Canada        |
| 8. Lithuania       | 22. France   | 35. Germany       |
| 9. Cyprus          | 23. Portugal | 36. Italy         |
| 10. Japan          | 24. Malta    | 37. NAFTA         |
| 11. Hungary        | 25. Belgium  | 38. Greece        |
| 12. Slovakia       | 26. EU-25    | 39. Brazil        |
| 13. Czech Republic | 27. Poland   | 40. United States |
| 14. India          |              |                   |



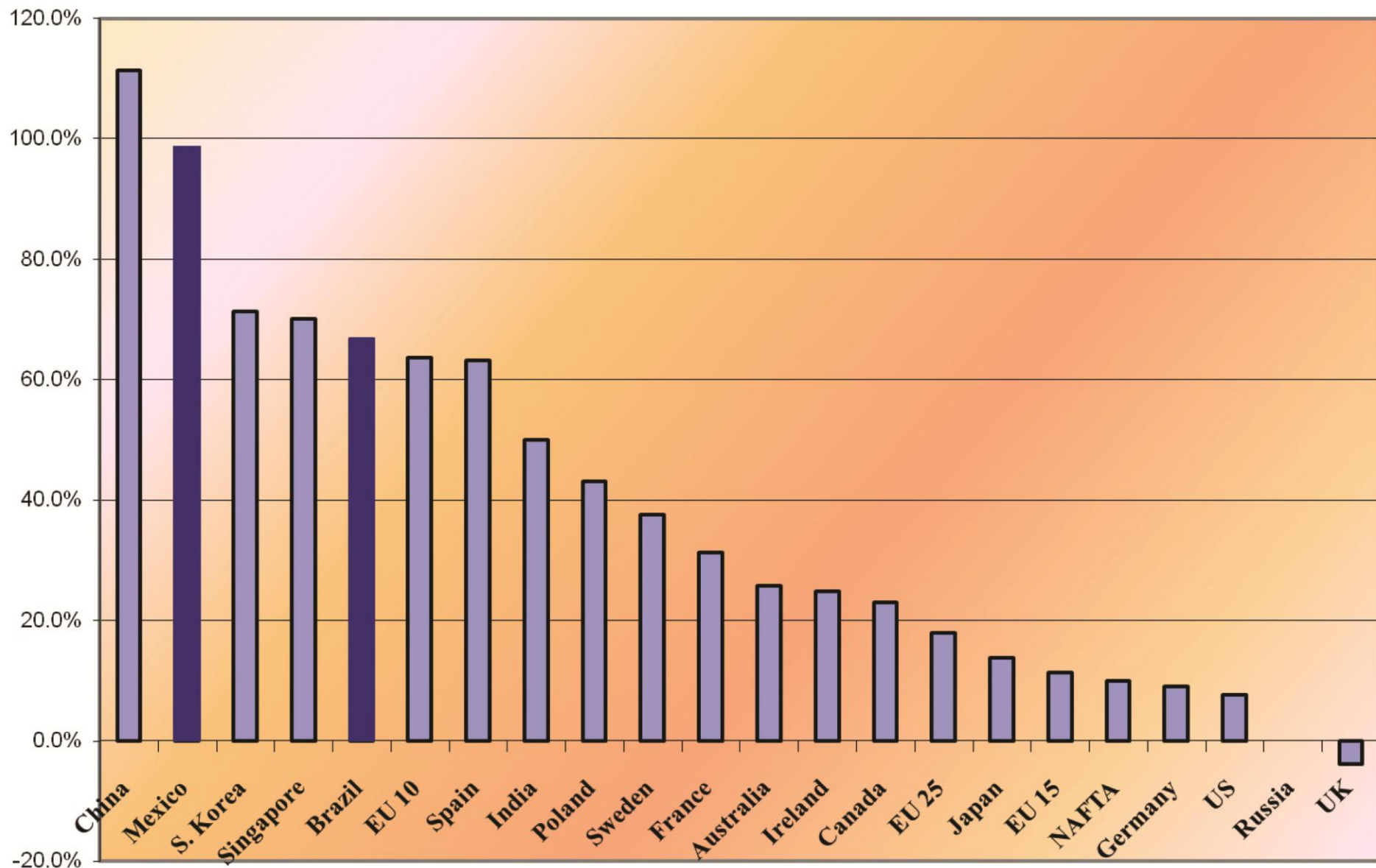
# Overall Change



# Researchers

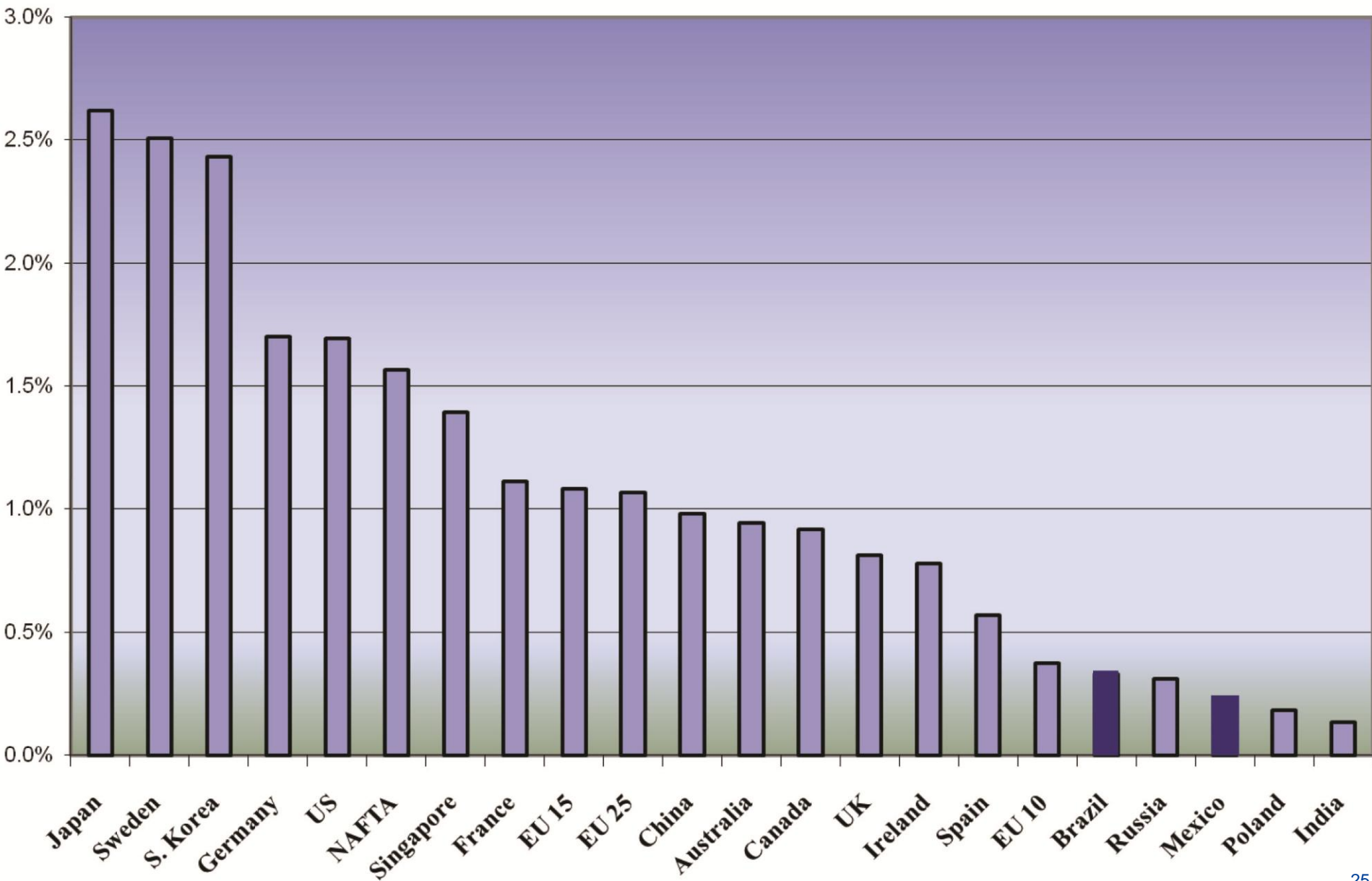


# Researchers Change: 1999-2005

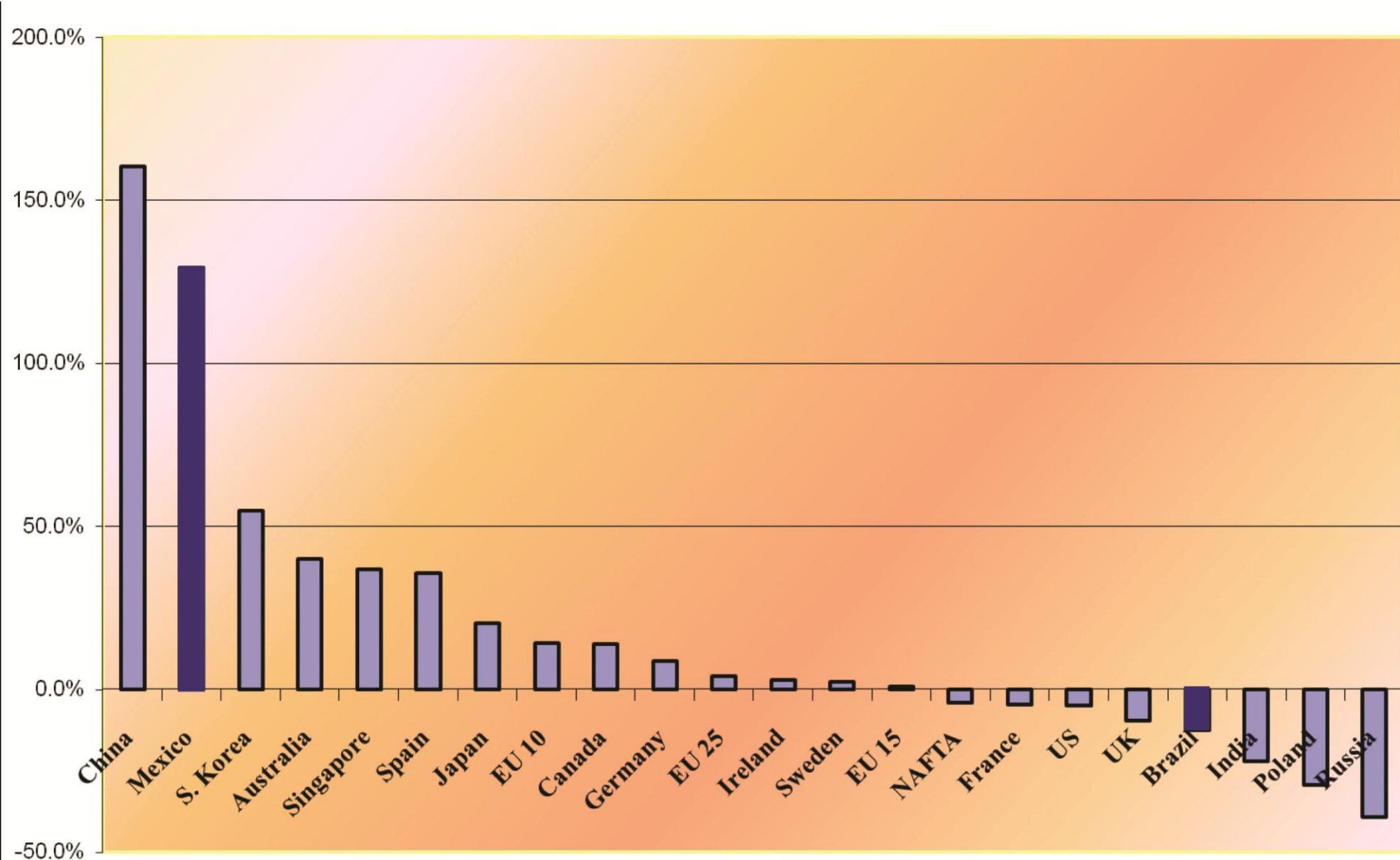




# Corporate R&D



# Corporate R&D Change: 2003-2007



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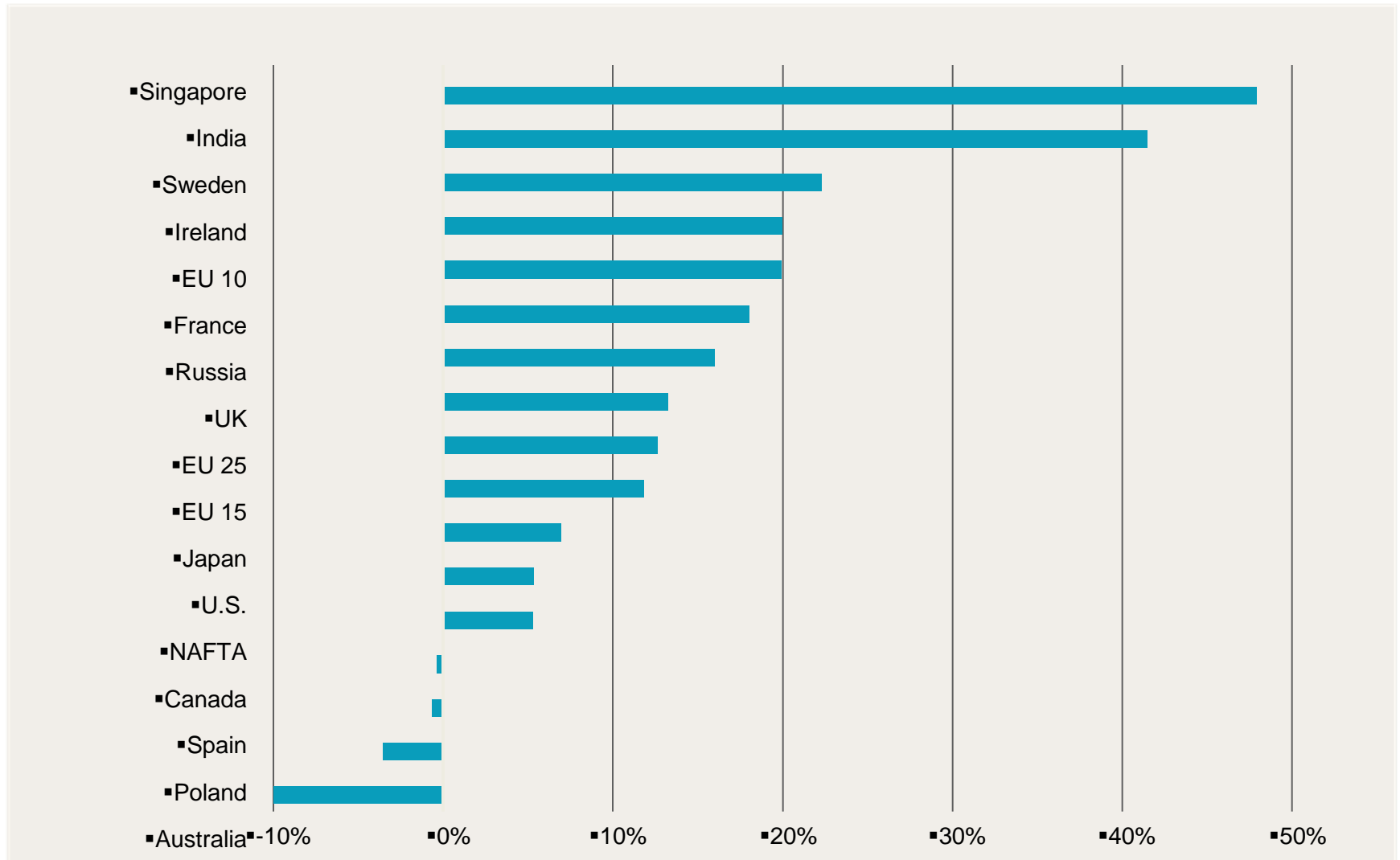
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**Innovation Policies**

## ■ Some Comforting, But Misleading, Beliefs

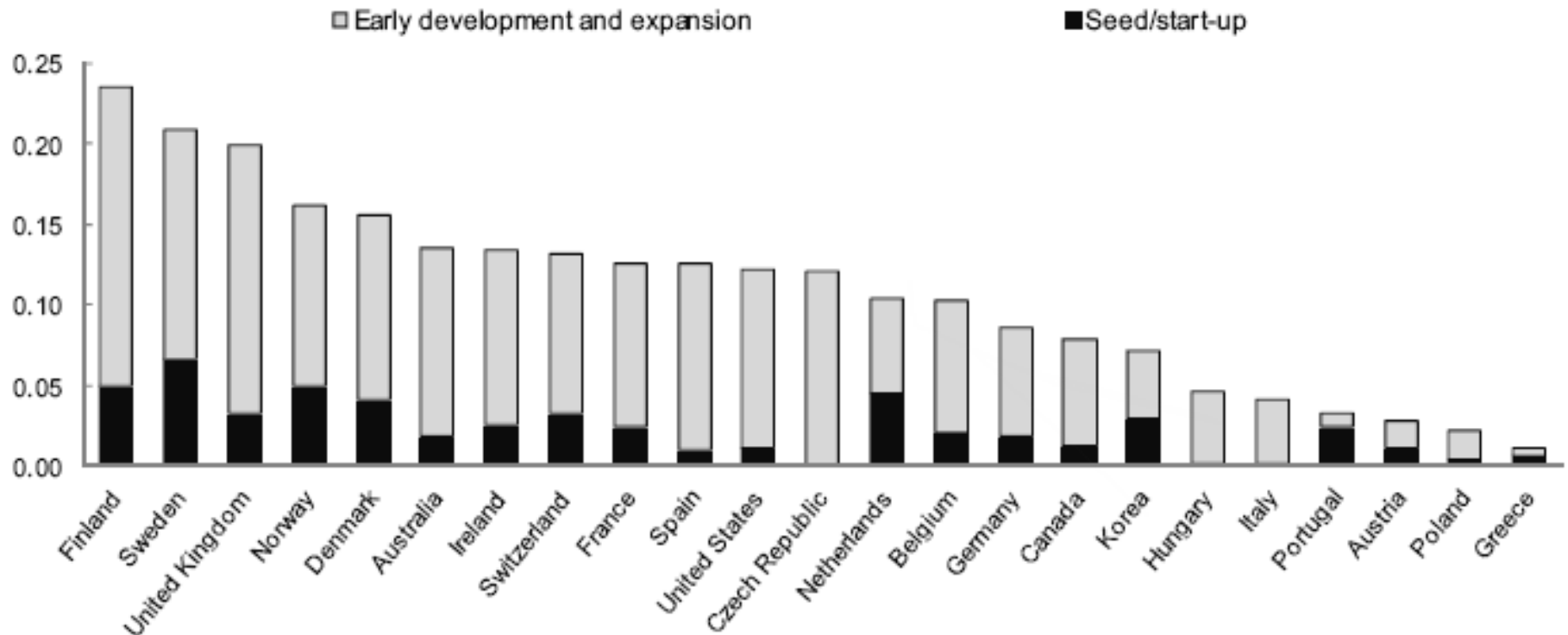
- We cried wolf in the 50's and 80's. We are doing the same now.
- Green is the savior.
- **Our entrepreneurialism will save us.**

## ■ New Firm Change: 2003–2005

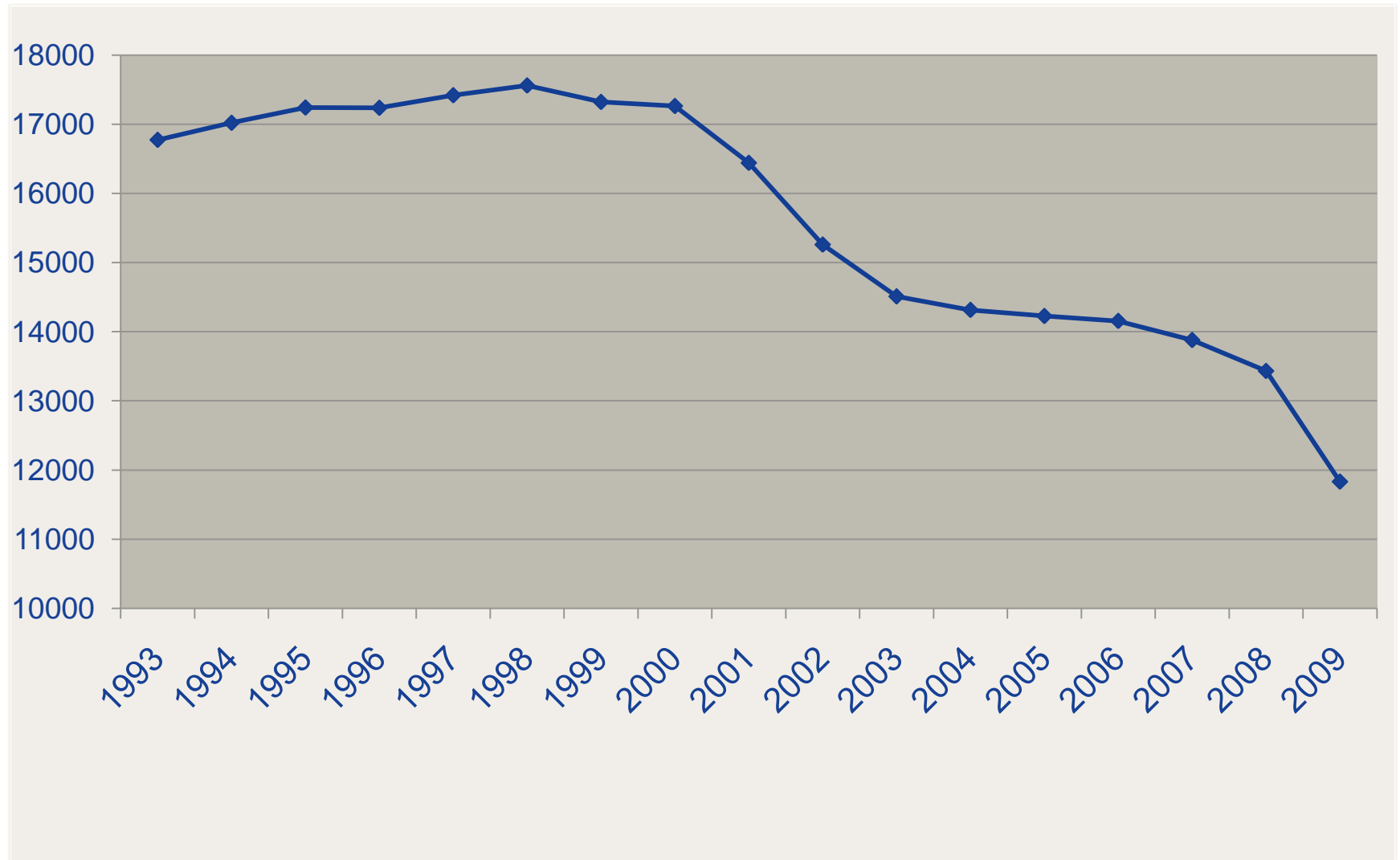


## Venture capital investments, 2008

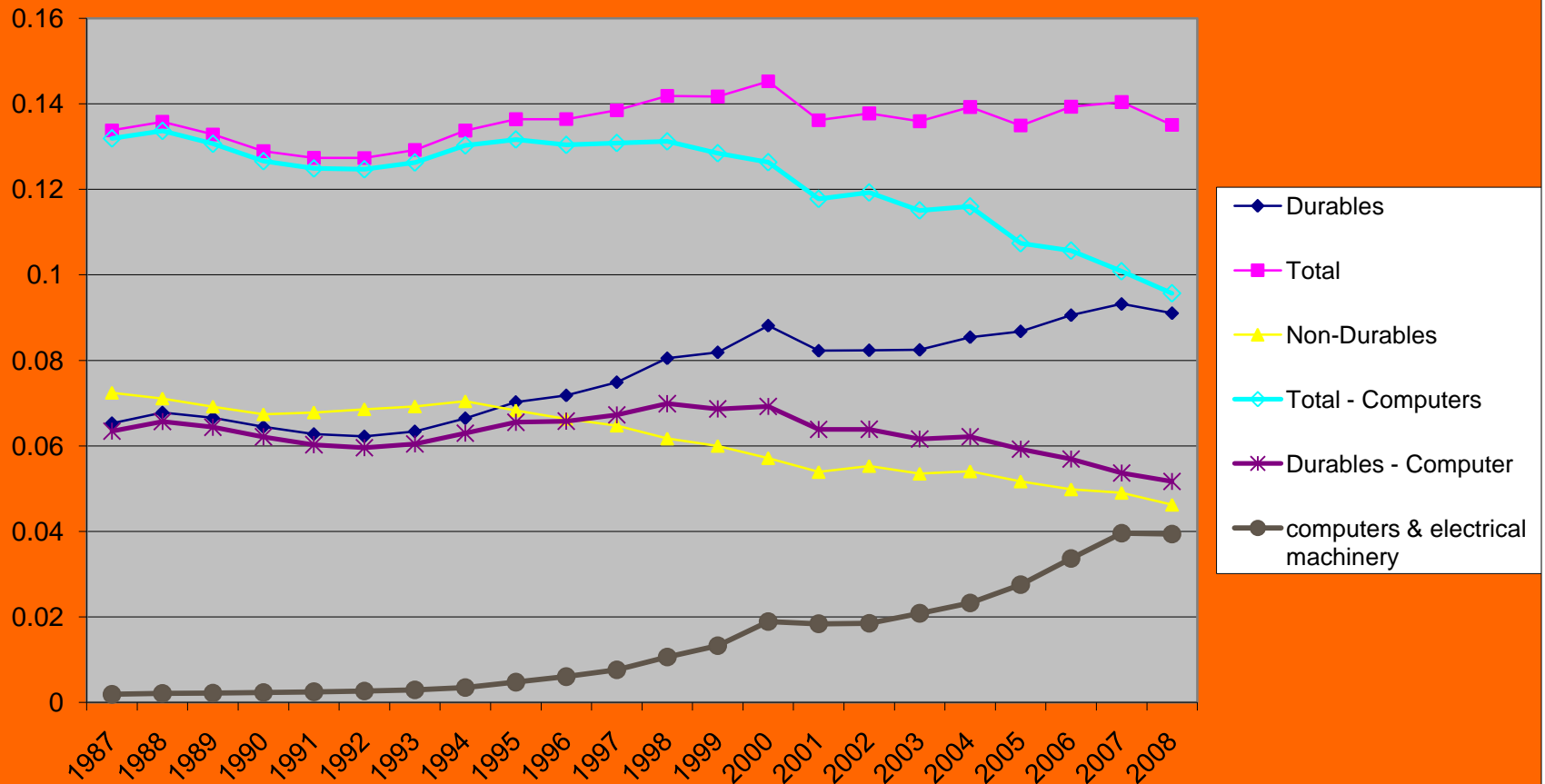
As a percentage of GDP



## ■ U.S. Manufacturing Jobs Have Declined



## ■ Partly Because Manufacturing Value Added Has Declined





## ■ Decline of U.S. Manufacturing Industries

<b>Industry</b>	<b>U.S Share Global Manufacturing</b>		<b>Chinese Share Global Manufacturing</b>	
	<b><u>Late 90s</u></b>	<b><u>2008</u></b>	<b><u>Late 90s</u></b>	<b><u>2008</u></b>
Printed circuit boards	29% ('98)	8%	7% ('98)	31.4%
Photovoltaics (solar)	30% ('99)	5.6%	1% ('99)	32%
Semiconductors	23% ('95)	17%		
Semi fab. plants under construction		8%		40%
Passenger vehicles	14.5% ('99)	7.5%	1.5% ('99)	12.7%
Machine tools		5.1%		35%

## ■ Some Comforting, But Misleading, Beliefs

- We cried wolf in the 50's and 80's. We are doing the same now.
- Green is the savior.
- Our entrepreneurialism will save us.
- Manufacturing output is actually up, job loss is just from productivity.
- **China isn't entrepreneurial.**

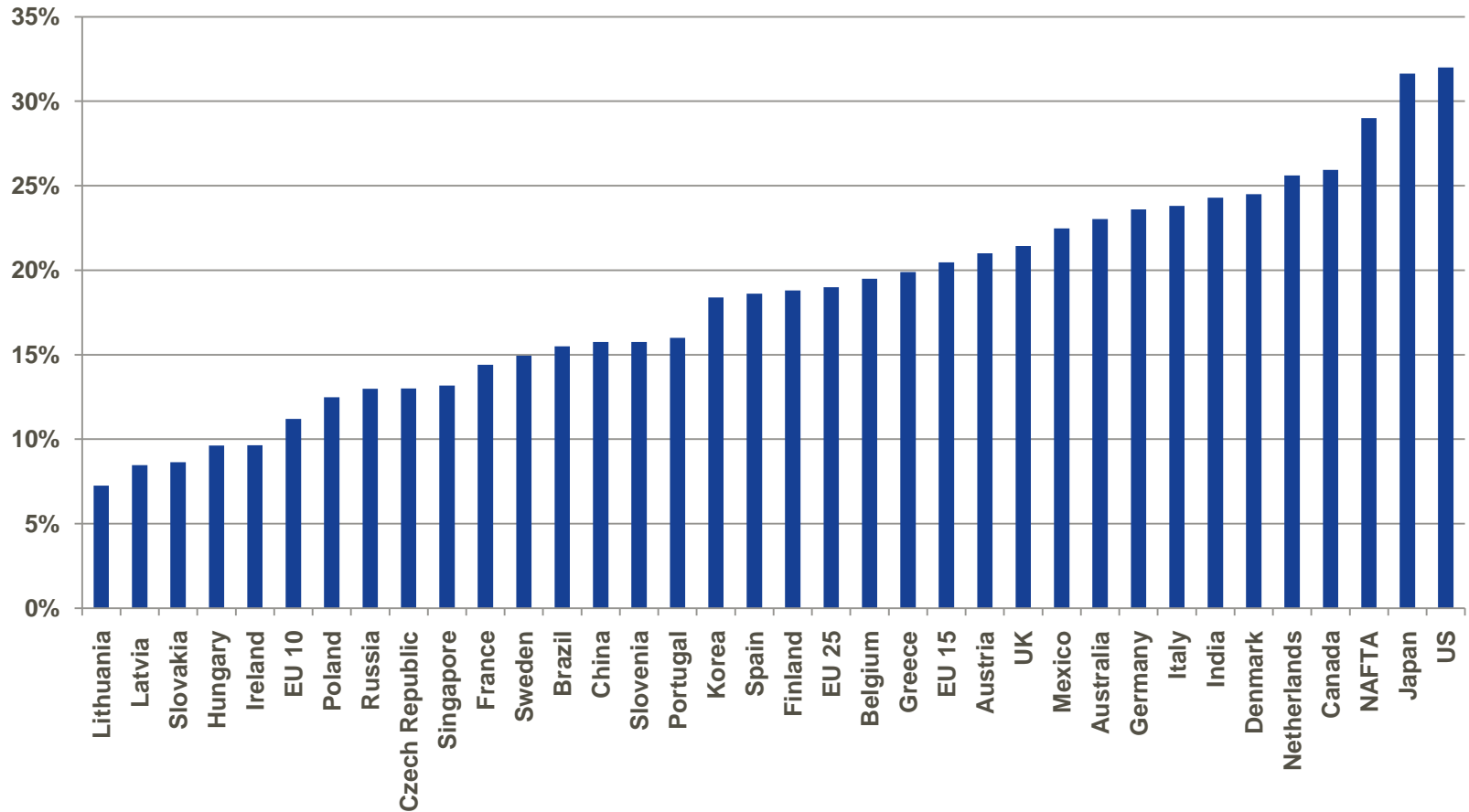
## ■ Why Have We Lost Our Lead?

- Other countries acted, we haven't.

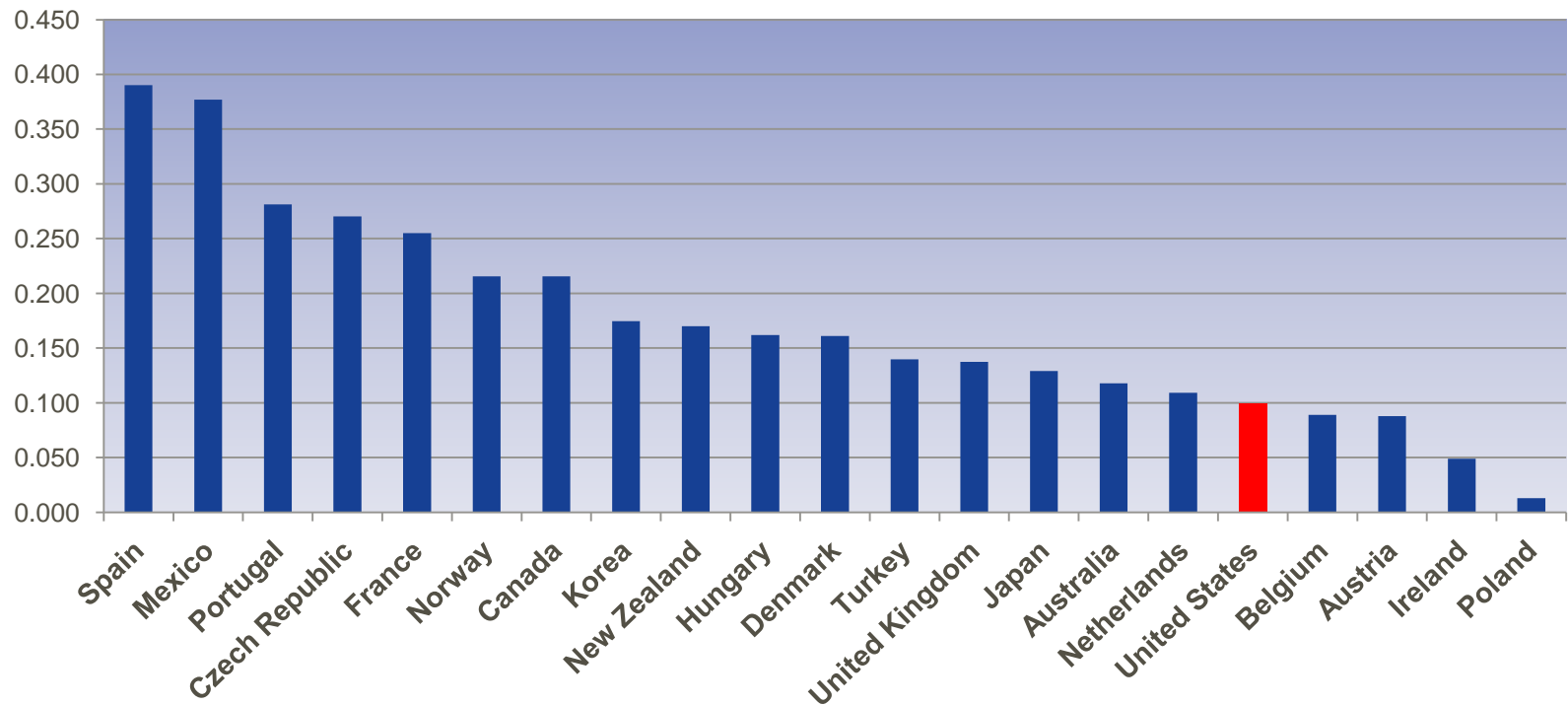
## ■ Outside: Innovation Policies

Country	Existence of National Innovation Foundation (s) or Agency	Definitively Articulated National Innovation Strategy/Policy	Stated Commitment to Lead the World in Transitioning to a Digital Economy	Implemented a National Broadband Strategy
<b>Denmark</b>	Yes	Yes	Yes	Yes
<b>Finland</b>	Yes	Yes	Yes	Yes
<b>Ireland</b>	Yes	Yes	Yes	Yes
<b>Japan</b>	Yes	Yes	Yes	Yes
<b>The Netherlands</b>	Yes	Yes	No	Yes
<b>Portugal</b>	Yes	Yes	No	Yes
<b>Singapore</b>	Yes	Yes	Yes	Yes
<b>South Korea</b>	Yes	Yes	Yes	Yes
<b>Sweden</b>	Yes	Yes	Yes	Yes
<b>United Kingdom</b>	Yes	Yes	No	Yes
<b>United States</b>	No	Yes	No	Yes

## Effective Corporate Tax Rates, 2008



## R&D Tax Generosity for OECD Nations



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# Getting Back on Track: the Case for a National Innovation Policy



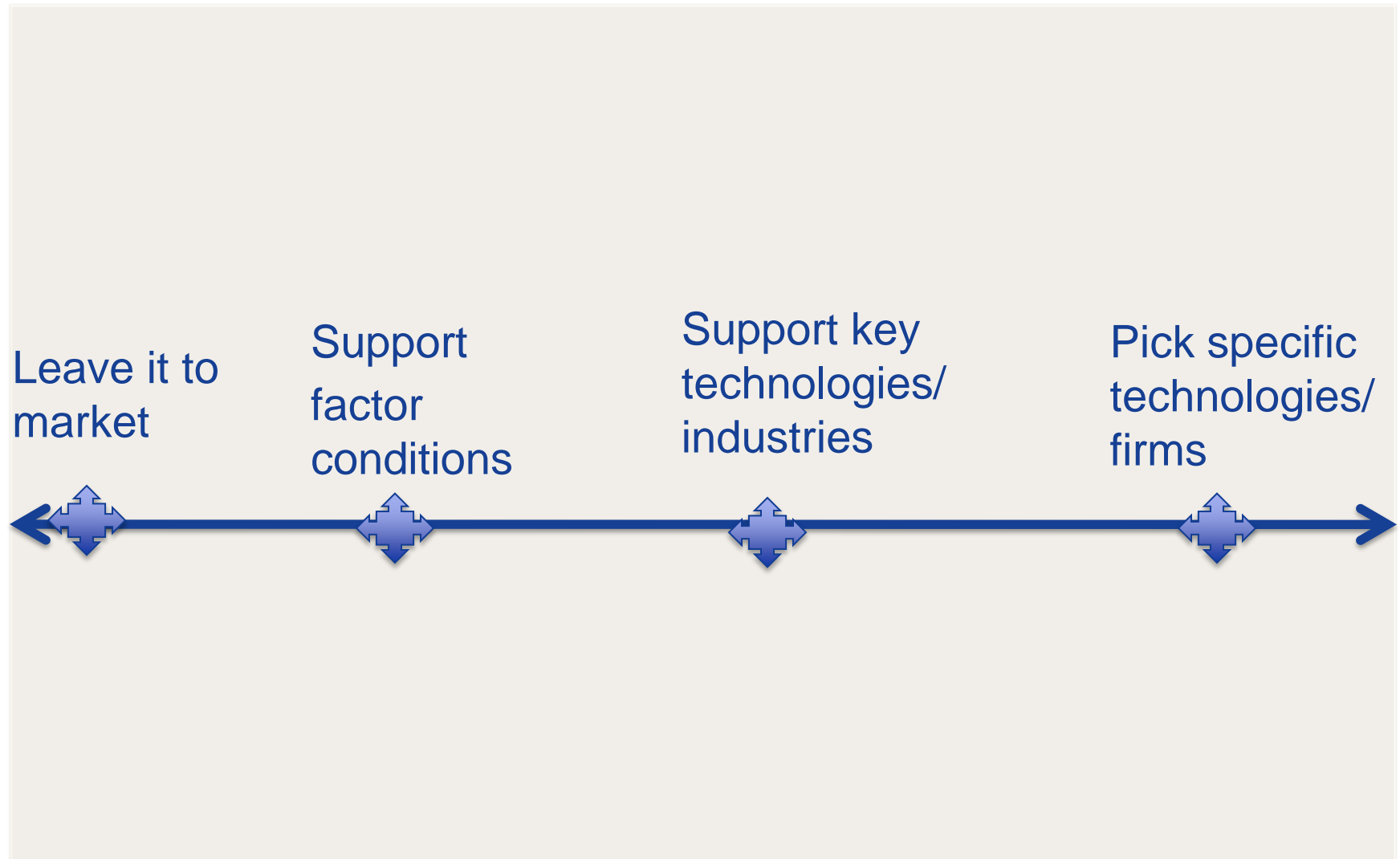
## ■ What is a National Innovation Strategy?

- *“Those elements of science, technology, and economic policy that explicitly aim at promoting the development, spread, and efficient use of new products, processes, and services.”*
- A well-conceived, strategic approach that proactively anticipates and articulates the interactions among policies in science and technology, R&D, education, workforce training, immigration, tax, trade, intellectual property, and digital infrastructure investments in driving innovation to create social and economic welfare.

## ■ Why Do Nations Need an Innovation Strategy?

1. Because technological innovation drives long-run economic growth.
2. Difficulty in addressing complex and systemic challenges.
3. Markets alone do not produce societally optimal levels of innovation.
4. Because the stakes have been raised.
  - Globalization means that more of an economy's economic activity is traded and at risk of foreign competition.
  - Other countries are conscientiously targeting the highest-value added sectors of economic activity.
  - Two dozen countries now have formal innovation strategies.

## ■ Should Government Pick Winners?



# ■ Developing a National Innovation Strategy

## 1. Support factor conditions

- Research funding
- Education and skills, including high skilled immigration
- College quality: 39 percent of 24 year college grads aren't fully literate, much less fully logical, analytical, creative and collaborative (Role of New College)

## 2. Support an innovation environment

- Tax policy (e.g., R&D tax credit, Internet tax moratorium)
- Performance-based regulation

# ■ Developing a National Innovation Strategy

## 3. Foster institutional arrangements to spur innovations.

- \$ for Fed-state TBED partnerships
- Sector-based industry-university-government research partnerships.
- Championing innovation in the public sector.

## 4. Support innovation platforms.

- Sectors (e.g., health IT, smart grid, Intelligent Transportation Systems, housing, education)
- Functions (e.g., digital identification, mobile payments)
- Technologies (e.g., robotics, green energy, expert systems; genomics and proteomics).

## 5. Build federal capabilities

- National Innovation Foundation
- Office of Innovation Review
- Innovation in Innovation policy
- Better national and regional innovation metrics.

## ■ Develop an International Innovation Strategy

- Shortcuts to growth – export led mercantilism. Mercantilism is designed around the view that exports are better than imports.
- Distorting mercantilism is designed as promoting trade surpluses through a variety of negative-sum activities, such as:
  - Pricing under cost (dumping, subsidies, currency; limiting unions);
  - Limiting imports (closed markets, forced offsets; standards, manipulation, IP theft).
- Countries will do this unless there are rules that impose costs on their actions.
- Today's global bodies (World Bank, IMF, WIPO, WTO, AID, Ex-Im Bank, etc.) often turn a blind eye to these practices.

## ■ Why the U.S. Hasn't Had a National Innovation Strategy

### 1. **We don't need to.**

- We've always been ahead and we always will be. We have unlimited resources, better entrepreneurs, more technology, etc.
- Besides, nations don't compete, only companies do.

### 2. **Private markets do just fine for us by themselves alone.**

- IBM, Google, Oracle, Akamai, the Internet (ARPANET), Mosaic web browser, others all arose directly from government research funds or grants.
- And if you don't have those, you don't get the Amazons, e-Bays, etc.

### 3. **Dominant economic doctrines say there's no role for government.**

- Neo-classical and neo-Keynsian vs. innovation economics.
- Innovation is seen as "Manna from Heaven."

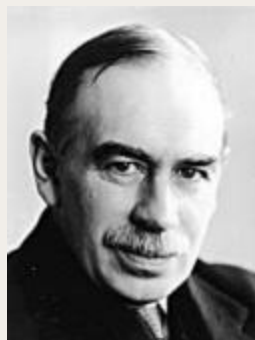
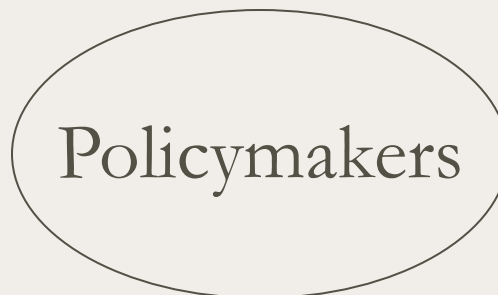
## ■ Three Dominant Economic Policy Doctrines



Rubinomics



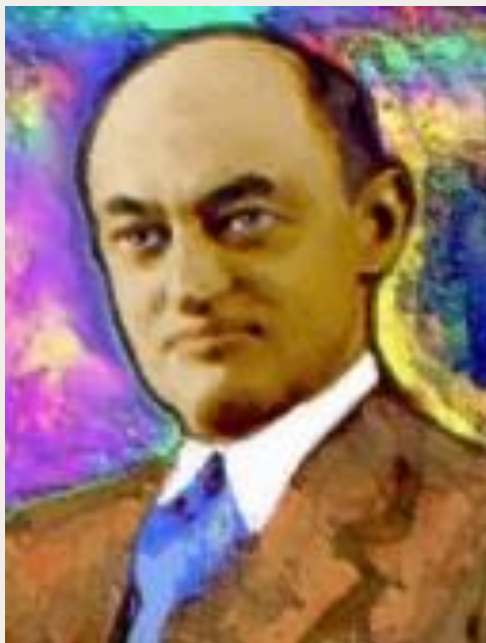
Supply-side  
Economics



Neo-Keynesian Economics



## ■ The New Kid on the Block – Innovation Economics



- Puts innovation at center of economic policy,
- Maximizes growth with proactive and strategic public policies to spur innovation.

[www.innovationeconomics.org](http://www.innovationeconomics.org)

## ■ Neo-Classical Economics vs. Innovationonomics



≠



- Farm subsidies do NOT equal investments in TBED
- Tight budgets should not be an excuse for limited investment in innovation

## ■ So, Will the U.S. Be Boston or Buffalo?

### Reasons for Buffalo:

- We have become a risk averse society that views innovation and progress with fear and loathing.
- We have become more concerned with protecting, preserving, and redistributing our previously accumulated wealth than growing it anew.
- We seem unable to summon any kind of centrist, moderate pro-market, pro-government policies.
- Our foreign policy is largely focused on military, not economic issues.
- We have no money.

## ■ So, Will the U.S. Be Boston or Buffalo?

### Reasons for Boston.

- We still have a creativity and risk-taking mentality that other nations, especially Asia, don't.
- We lead on IT companies and IT use in companies.
- Current administration is focusing on this and there is a growing realization in Washington that we have to act.
- It takes us time: As Churchill famously stated, “you can always count on the Americans to do the right thing... after they have exhausted all the other possibilities.”

*Thank you*

ratkinson@itif.org  
www.itif.org

