



# BOOSTING U.S. INNOVATION, COMPETITIVENESS, AND PRODUCTIVITY

*Winning the Race 2012 is a series of ten policy briefs that lay out broad principles and actionable ideas for the next administration to embrace to help the United States win the race for global innovation advantage.*

## Context and Policy Divide

Since the economy has still not fully recovered from the Great Recession, the challenge for the next administration will be two-fold: restoring U.S. global innovation leadership and driving productivity growth. To achieve robust job growth, the United States needs a growing and competitive “traded sector engine” powered by innovation. America also needs strong productivity growth because it is the surest way of addressing the fiscal challenge presented by the baby boom retirement. The next administration needs to make both top priorities and not be diverted by non-crisis foreign policy challenges or other domestic policy issues. We need the next President to state, to paraphrase John F. Kennedy, “Let every nation know, whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hardship, support any friend, oppose any foe, in order to assure the survival and the success of U.S. innovation leadership.”

However, as long as economic policy is a fight between small government, free-market advocates and big government, Keynesian redistributionists it will be difficult to address major economic challenges. The next administration needs to put aside obsolete doctrinal views and focus pragmatically on ensuring that economic organizations in the United States (for-profit, non-profit and government) boost competitiveness, innovation, and productivity.

## Innovation Race Principles

- **Recognize that the United States is losing an intense race for global innovation advantage.** For too long, we have thought the United States didn’t compete with other nations, or that if we did, we were natural born winners. In fact, we do compete and in the last decade fundamental sources of U.S. competitiveness have deteriorated, from decaying industries and infrastructure to an erosion of innovation capacity. The result is lost jobs, lost income and lost confidence in America’s future.
- **Recognize that smart, proactive public policies – some of which entail government “getting out of the way” but others that entail government becoming a smart partner**

**with industry – are critical if the United States is to win the innovation race.** The prevailing view is that government's job is merely to set the stage and to create the climate in which companies can prosper. But in a new globally competitive world where U.S. establishments are competing against other businesses *and* their governments, this 20<sup>th</sup> century view is a recipe for more stagnation. We need a national competitiveness, innovation and productivity strategy.

- **Recognize that higher productivity does not lead to fewer jobs and is central to long-term fiscal health.** The economic evidence is clear: higher productivity does not reduce jobs, but it is the sole long-term source of higher American living standards.
- **Put restoring the United States' competitive edge and boosting productivity at the top of the agenda.** It is easy for administrations to talk about growing the economy but to then yield the task to business so public officials can deal with pressing foreign policy or social issues. But restoring U.S. competitiveness is central to ensuring the United States' lead role in the world economy, if for no other reason as it gives us the resources we need to intervene in international security matters when necessary.

### **Policy Recommendations**

- ✓ **Challenge Americans with bold goals:** The next administration needs to mobilize the public's imagination by setting bold goals for 2020, such as eliminating the trade deficit, expanding technology jobs by one-third, raising per-capita incomes by one-third, and transforming government, transportation, health care, and education systems through information technology.
- ✓ **Bring in an economic team that understands the real economy:** When administrations want economic advice they normally turn to neo-classical economists. But most neo-classical economists focus on issues related to interest rates, inflation, savings rates, and other monetary factors and not on the real economy of organizations, technology and production. The next administration should ensure that its core economic team in the National Economic Council, the Council of Economic Advisors, and top positions in Treasury and other related agencies is populated by individuals who understand the real economy and are committed to the idea that the United States is in economic competition with other nations and that the role of government is to help establishments in America win that competition.
- ✓ **Develop a national innovation and competitiveness strategy:** Many nations, as well as most U.S. states, have detailed innovation and competitiveness strategies. But the United States does not, at least not a strategy based on a comprehensive analysis of traded-sector strengths and weaknesses, opportunities and threats, and the viability of a range of public policies. The next administration should make the development and implementation of such a strategy a top commitment.



## Related ITIF Resources

*The Chain of Logic to Get to a Robust National Innovation and Competitiveness Policy*

*Atlantic Century II: Benchmarking U.S. and EU Innovation and Competitiveness*

*The Global Innovation Policy Index*

*Innovation Economics: The Race for Global Advantage* (Yale University Press, September, 2012)



The United States is losing the race for global innovation advantage and the jobs and income that come with that. Many other nations are putting in place better tax, talent, technology and trade policies and reaping the rewards of higher growth, more robust job creation, and faster income growth. It's not too late for the United States to regain its lead but the federal government will need to act boldly and with resolve to design and implement strategies that include cutting business taxes and boosting public investment. *Winning the Race 2012* is a series of ten policy briefs that lay out broad principles and actionable ideas for the next administration to embrace to help the United States win the race for global innovation advantage. For more actionable policy ideas, visit ITIF's *Polymakers Toolbox* at [www.itif.org/policymakers-toolbox](http://www.itif.org/policymakers-toolbox).

### **ABOUT ITIF**

The Information Technology and Innovation Foundation (ITIF) is a non-partisan think tank whose mission is to formulate and promote policies to advance technological innovation and productivity internationally, in Washington, and in the states. For more information, go to [www.itif.org](http://www.itif.org)

