WINNING THE RACE 2012: #10

ITIF

The Information Technology & Innovation Foundation

OVERCOMING THE BARRIERS

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. ITIF's *Winning the Race* memos one through nine laid out a specific and actionable list of policy recommendations to help America win the innovation race, in areas from tax and trade to digital networks and science. But the real challenge is implementing needed policies. This memo discusses the challenges, principally in the realm of ideas and worldviews, that act as barriers to implementation and proposes one idea to overcome them.

Innovation Race Principles

- **Recognize that the U.S. economy competes with other economies.** A central challenge to putting in place policies to help America win the race is that too many in Washington do not believe that America is in a race for global innovation advantage. This perspective largely results from flawed advice from neoclassical economists, from Paul Krugman on the left to Kevin Hassett on the right, who counsel that countries do not compete; only companies do. But the reality is that if Boeing, Cisco, IBM, or any of the thousands of U.S. companies facing global competition were to lay off most of their U.S. workers because the United States loses the competitiveness race, the U.S. economy will be worse off.

- **Recognize the United States is losing the race for innovation advantage.** It's not enough to recognize that the United States competes; policymakers need to also recognize that it is not winning the race. The belief of many policymakers and advisors that the U.S. economy is making a comeback has fostered an entitlement mentality which assumes that policies that were good enough to assure U.S. innovation leadership in the past will be sufficient in the future. And even worse, that we can afford to abandon the successful policies of the past such as robust funding for government R&D or the R&D tax credit.

But as ITIF has documented, the United States no longer leads in innovation-based competitiveness.

- **Recognize that there is a difference between "computer chips" and "potato chips."** We can no longer be indifferent to the industrial and value-added mix of America's economy. While economic advisor Michael Boskin memorably quipped two decades ago, "Potato chips, computer chips, what's the difference?" today many economists still agree. But there is a profound difference. First, some industries, such as semiconductors, can experience very rapid growth, sparking the development of related industries and increased productivity of other sectors. Second, jobs in high-tech industries require a higher skill level and thus pay more than many other jobs. Third, if a country loses key traded sector industries, like the computer chip industry, to foreign competitors that value disappears as the industry's supply chains and industrial commons are hollowed out, slowing overall economic growth. Government does not have to pick winners (e.g., individual firms) to support policies based on an understanding that high value-added and innovation-based industries are vital to America's economic future.

- **Understand that markets acting alone will not produce innovation leadership.** The prevailing view that any government intervention must be inherently negative has blinded many policymakers to the fact that most other countries reject this belief, precisely because they see themselves in explicit competition with other nations. Most nations "intervene in the market" to make it easier for corporations to invest in higher-value-added activities that create higher-wage jobs in their nation. As such, U.S. policymakers need to recognize policies such as developing a national innovation strategy; funding research, including supporting advanced manufacturing research centers; and providing a more competitive corporate tax code, including a more generous R&D tax credit, is not some kind of heavy-handed industrial policy from the 1970s but rather smart innovation policy for the 21st century.

- **Recognize that neither "Main Street" nor "Wall Street" drive U.S. economic prosperity.** Economic politics is often framed as a clash between "Main Street" and "Wall Street." Some see Wall Street as providing the critical financial fuel that powers growth. Others see Main Street as populated by mom-and-pop businesses that create the lion's share of jobs. But this "Wall Street vs. Main Street" framing misses the point: what will determine whether America thrives in the global economy is not whether a local clothing shop on Main Street sells more pants or whether a Wall Street firm enjoys higher profits. It is whether companies that export goods and services, that boost productivity through the introduction of new technology, and that develop and commercialize innovations do well. These are not Main Street or Wall Street companies. These are often large, multinational corporations competing in global markets and high-growth innovation-based, entrepreneurial companies that want to be multi-national companies when they "grow up."

Policy Recommendations

- ✓ **Companies with a vital stake in the United States winning the race for global innovation advantage should create a new innovation-oriented trade association:** America would be farther down the road of having a robust national innovation and competitiveness strategy if U.S. business spoke with a more unified voice in support of such a strategy. But many in the business community either don't have a direct stake in innovation-based competitiveness or they put more emphasis on policies to cut costs than on policies to boost productivity, exports, and innovation. And while there are many industries with a stake in innovation policy, including advanced manufacturing, aerospace, biotechnology, medical devices, pharmaceuticals, semiconductors, and Internet and software, they largely speak through separate trade associations. And their focus is often on issues of particular concern to their industry, rather than on the issues central to the broader U.S. innovation economy, such as a better STEM workforce, a competitive corporate tax code that also drives innovation, increased funding for R&D, and trade enforcement policies targeted at unfair foreign "innovation mercantilist" polices. To create a stronger voice to advocate for robust U.S. innovation and competitiveness policies, firms in the United States should create a new innovation and competitiveness-oriented trade association to speak with one voice of these key issues.

Conclusion

At the end of the day, if the United States is going to move forward in the race for global advantage, both political parties will need to come together to compromise around pragmatic, pro-competitiveness and pro-innovation policies. This can happen, as evidenced by movement of bills such as the Startup America 2.0 Act in the Senate. But we need to see it in both chambers of Congress and the White House and on a much broader array of issues. To do this, those on the Left will need to abandon their reflexive, anti-corporate stance and acknowledge that policies that help, not hurt, corporations are often needed. They will need to see productivity and offshoring not as something corporations do because they are greedy, but as something they have to do to survive in global competition. They will need to realize that blame is not a strategy. For their part, those on the Right will need to abandon their strident anti-government ideology, and acknowledge the necessary role of government in helping to spur innovation and assisting U.S. establishments winning in the global innovation race. They need to recognize that their idealized world of yeoman entrepreneurs in the Wild West competing in unrestricted marketplaces is a world long gone. If the Right wants to shrink the state, it should focus on the entitlement state, not the innovation state.

Both the liberal anti-corporate and the conservative anti-government stances amount to an abandonment of U.S. corporations and high-growth entrepreneurs in their fight for global market share and U.S. jobs. For better or worse, U.S. businesses are competing against foreign companies supported by their governments. We should want U.S. establishments and entrepreneurs to win this race. We should want U.S. establishments to have the best workforce and science and technology transfer systems in the world. We should want U.S.

establishments to benefit from competitive tax and regulatory systems. We should want other nations to pay for U.S. exports and not steal them or force companies to sell at lower than market prices. We should want companies in the United States to be able to innovate around technology platforms that government helps support develop and deploy. We should want them to have access to the best and the brightest from around the world. And we should want them to be able to access foreign markets, but in nations that are playing by the rules. As such, both conservatives and liberals need to recognize that their long-standing views are a deterrent to the United States' success in the twenty-first-century race for global innovation advantage and that a new "Innovation Consensus" is needed.

Related ITIF Resources

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

Fifty Ways to Leave Your Competitiveness Woes Behind: A National Traded Sector Competitiveness Strategy

The Atlantic Century: Benchmarking EU and U.S. Innovation and Competitiveness

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

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 *Policymakers Toolbox* at www.itif.org/policymakers-toolbox.

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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.