





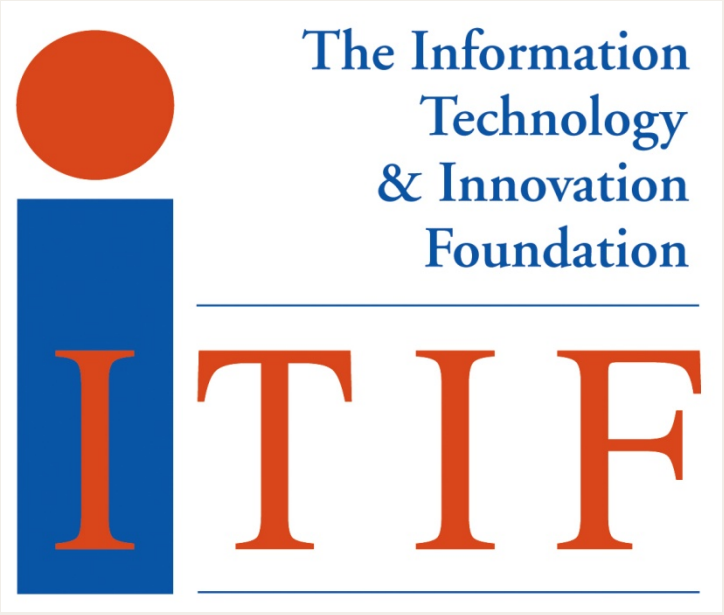


July 17, 2009

Innovation-Based Economic Development

Dr. Robert Atkinson
President
Information Technology and Innovation Foundation

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



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)

Innovation is Critical to Economic Success

- Generates quality jobs and rising incomes.
- Innovation in new processes boosts productivity.
- Helps the U.S., states, and regions maintain economic leadership, especially in the face of competition from low-wage regions.

Innovation Drives Regional Prosperity

Differences in patenting intensity accounts for 30% of the variation across U.S. regions in the average wage. (Porter)

Patenting and R&D support greater gains in regional per-worker earnings. (Goldstein)

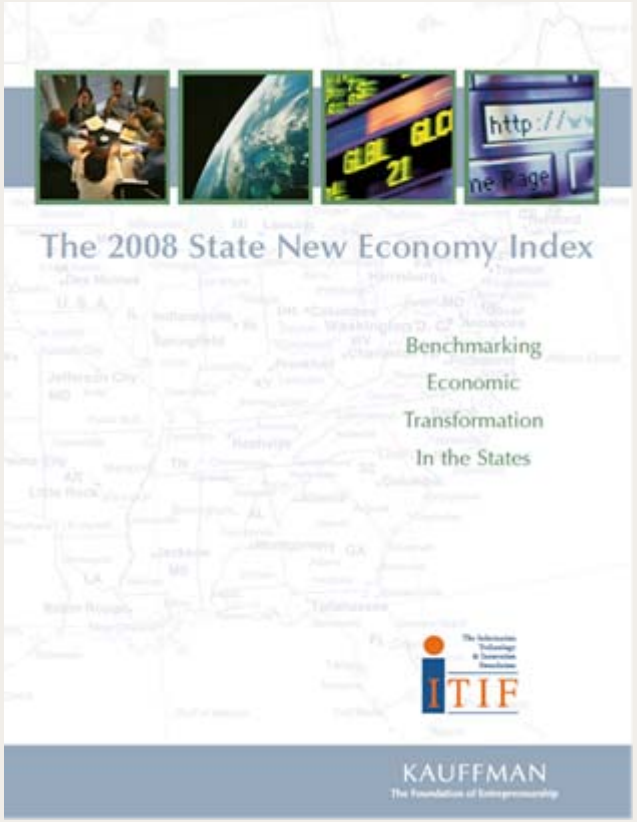
Average wages in U.S. high-tech clusters are $63,970 versus $43,180 in non-high tech trade clusters.

Positive correlation between increases in state per-capita income between 2004 and 1999 and innovation factors:

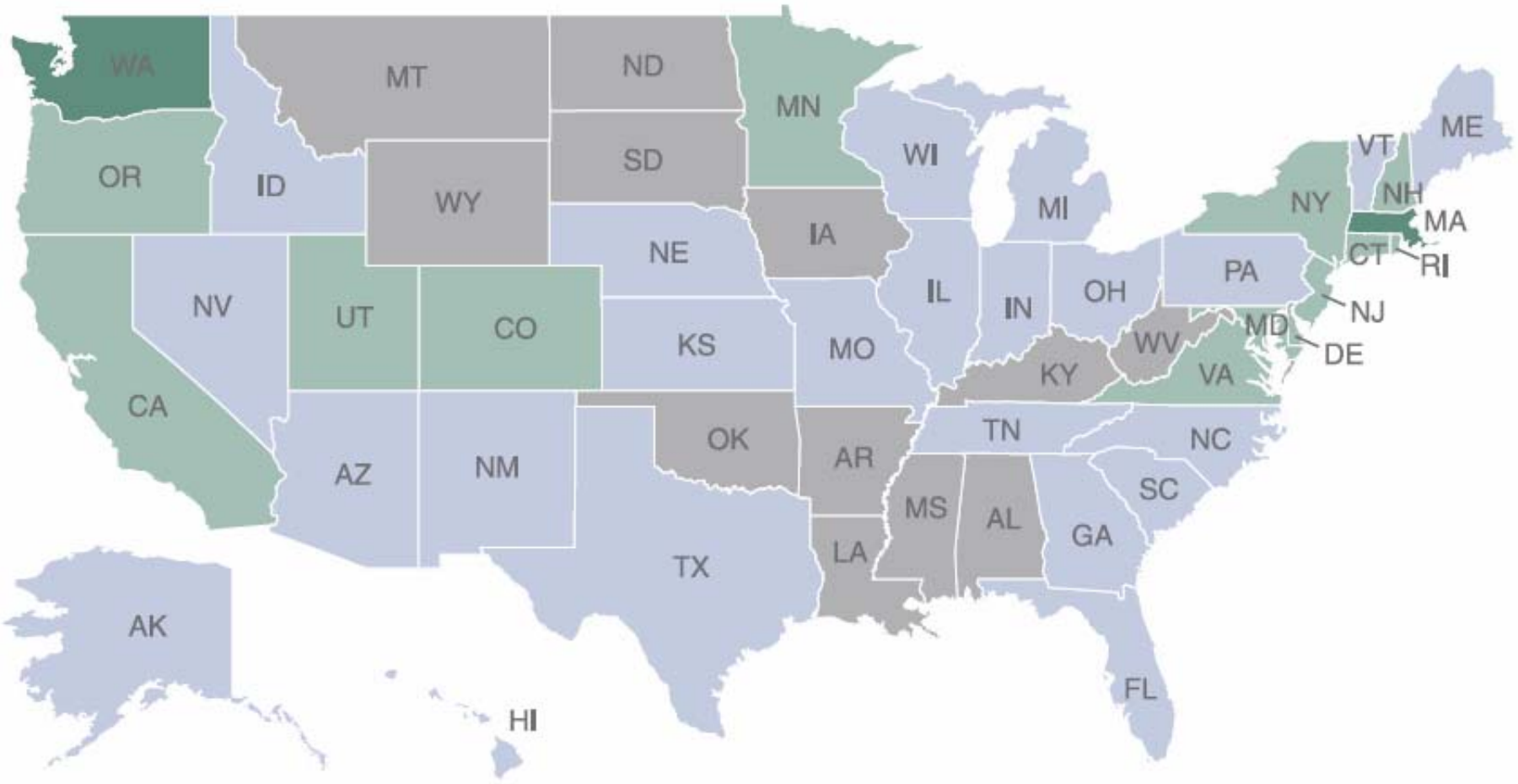
High tech jobs: 0.51 **Venture capital: 0.49**
R&D investment by industry: 0.48 **Scientists and engineers: 0.44**

The *2008 State New Economy Index* uses 5 groups of 29 indicators to map how well places are adapting to the New Economy:

- Knowledge Jobs
- Globalization
- Economic Dynamism
- Digital Economy
- Technological Innovation



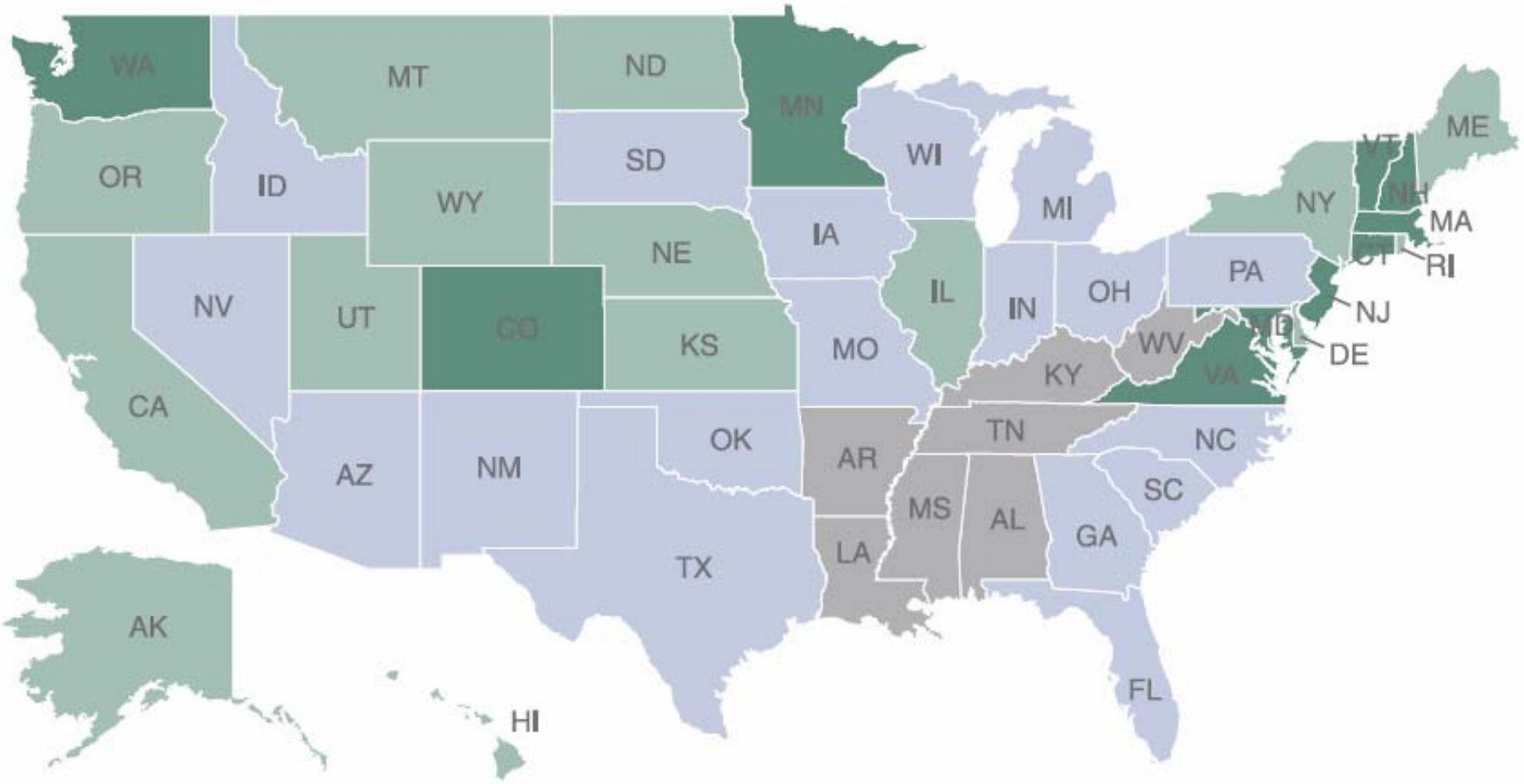
2008 SNEI Overall Scores



Iowa

2002	2007	2008
40	38	42

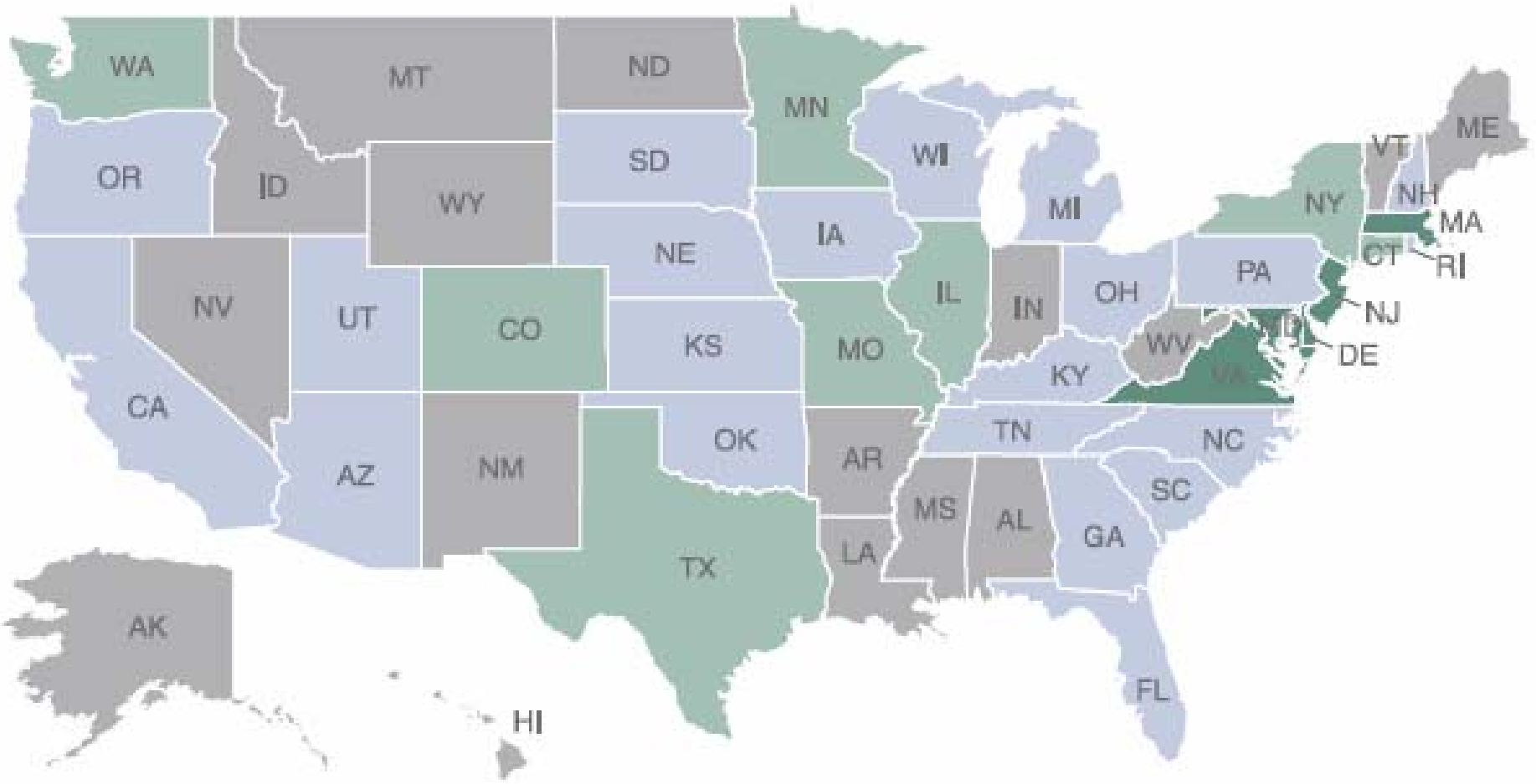
Workforce Education



Iowa

2002	2007	2008
17	19	15

Information Technology Jobs

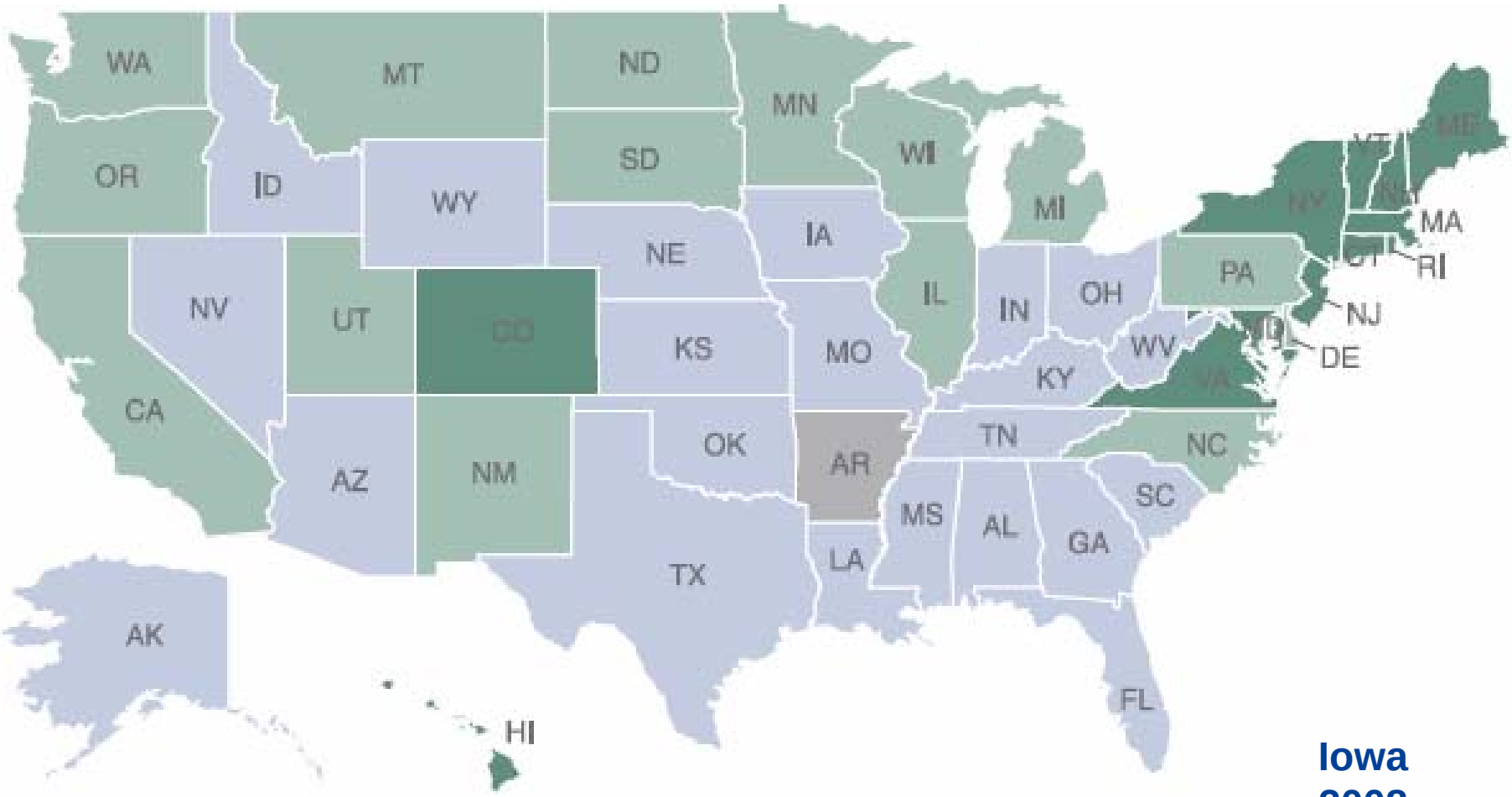


THE INFORMATION TECHNOLOGY & INNOVATION FOUNDATION

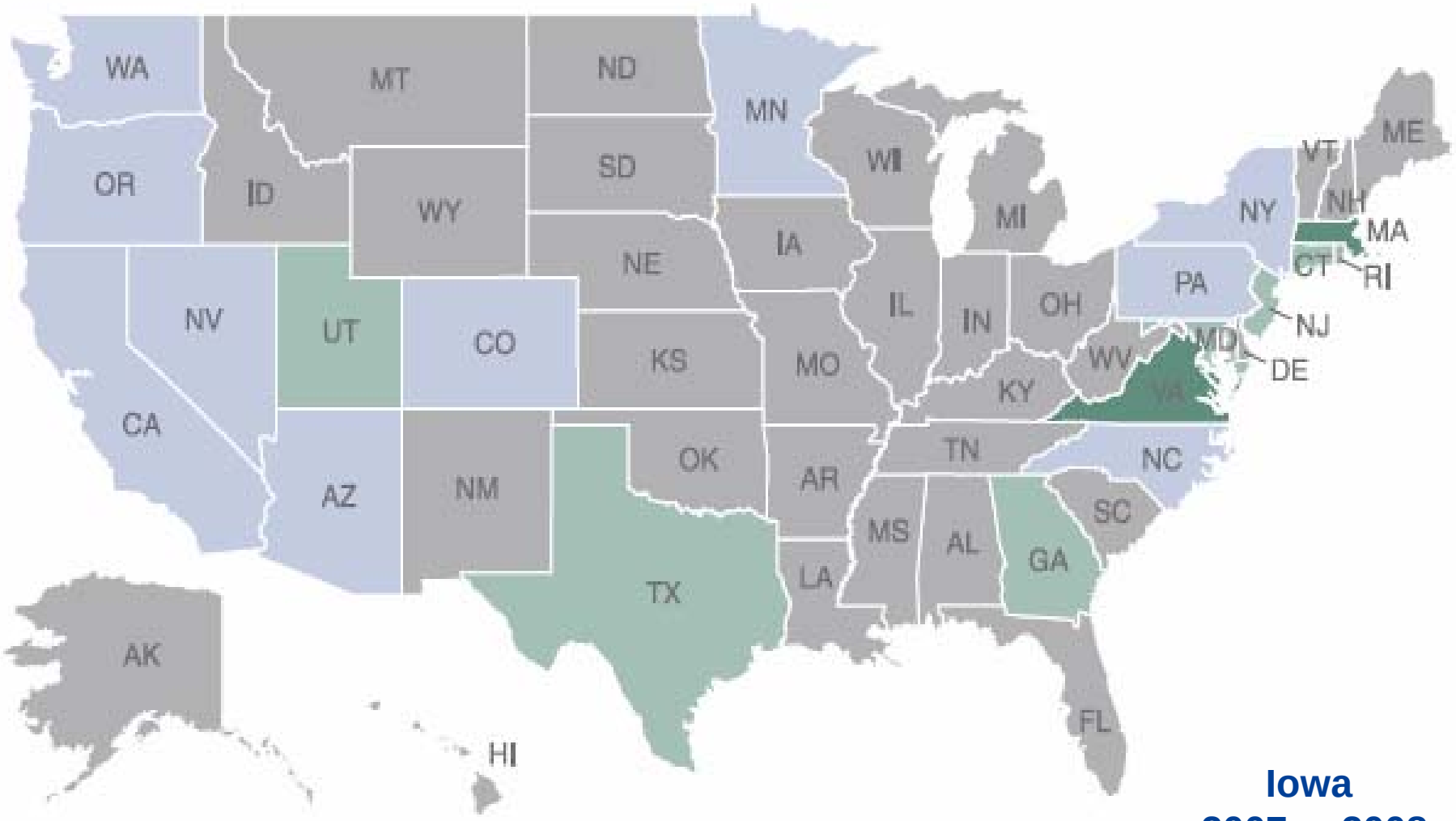
Iowa

2002	2007	2008
33	29	26

U.S. Migration of Knowledge Workers



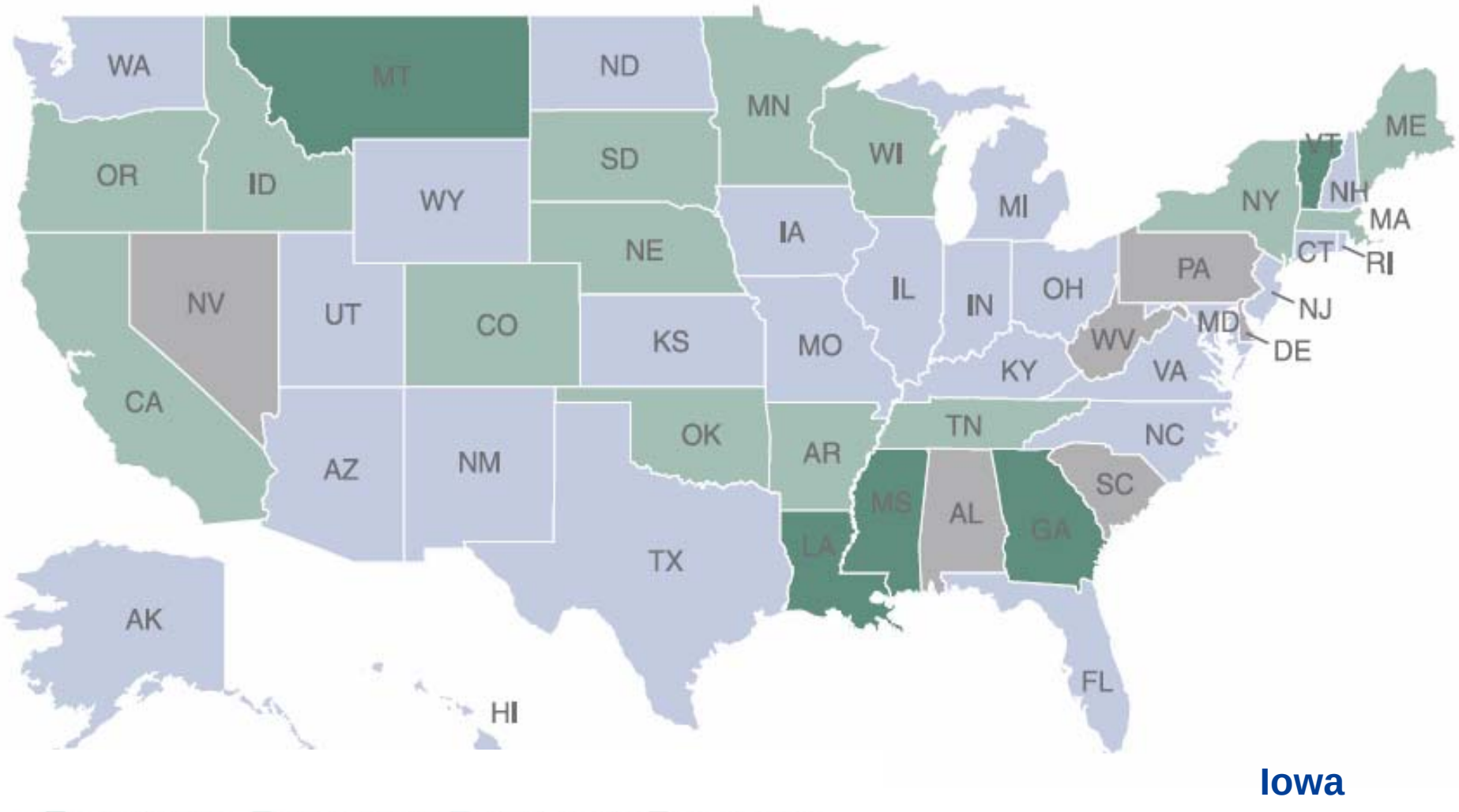
Fastest-Growing Firms



Iowa

2007	2008
39	38

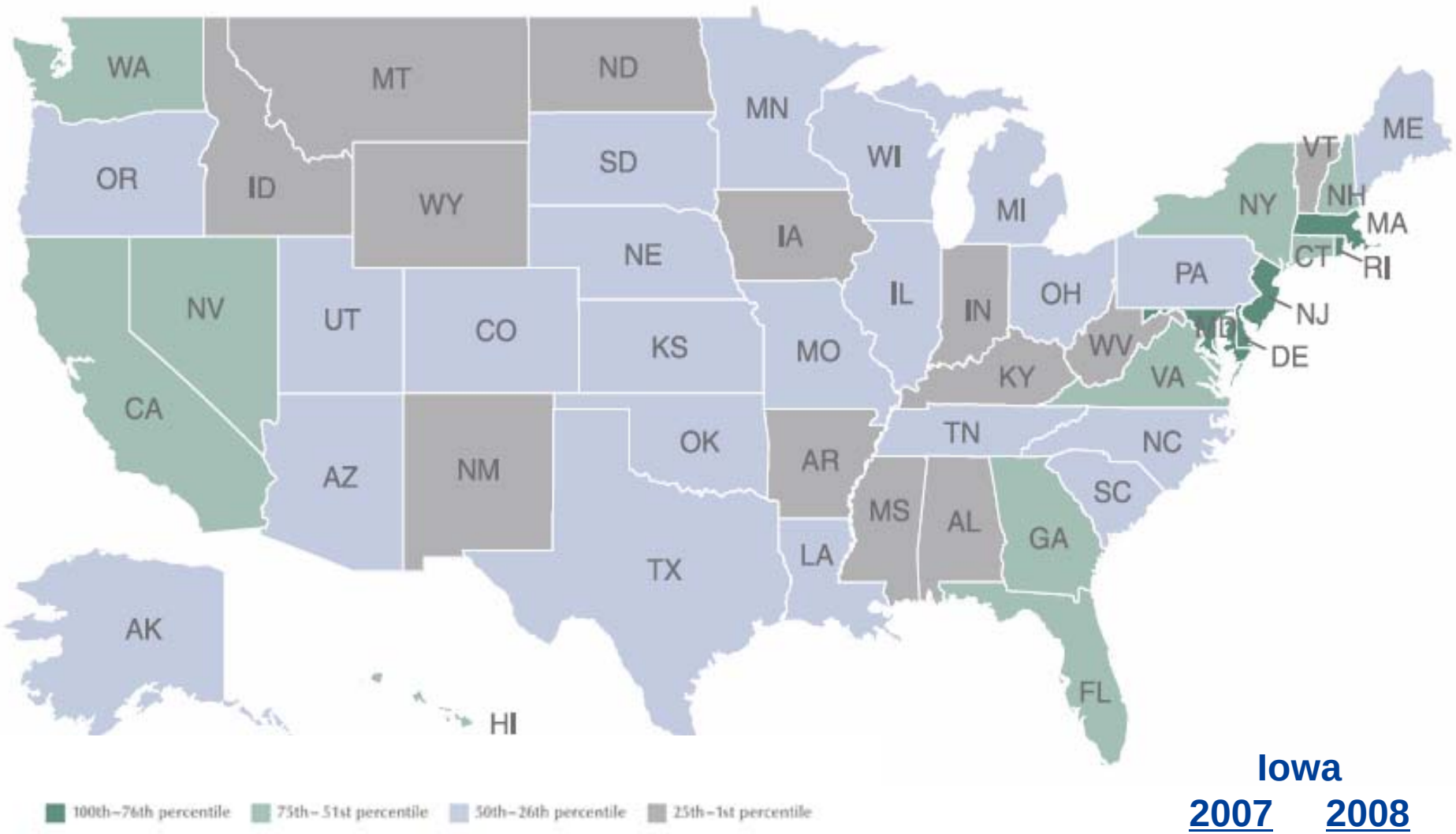
Entrepreneurial Activity



Iowa

2007	2008
26	20

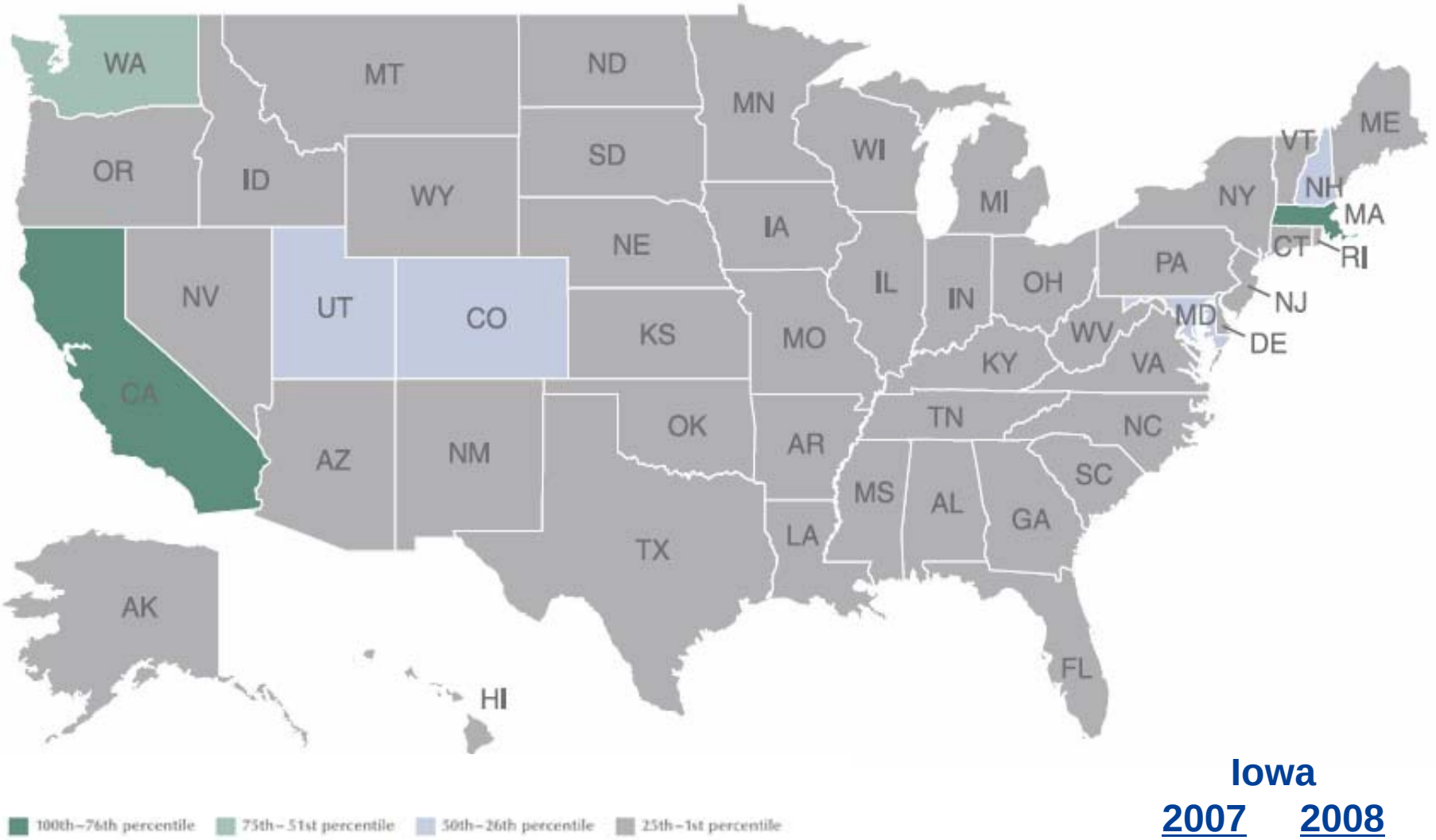
Broadband Telecommunications



Iowa

2007	2008
42	46

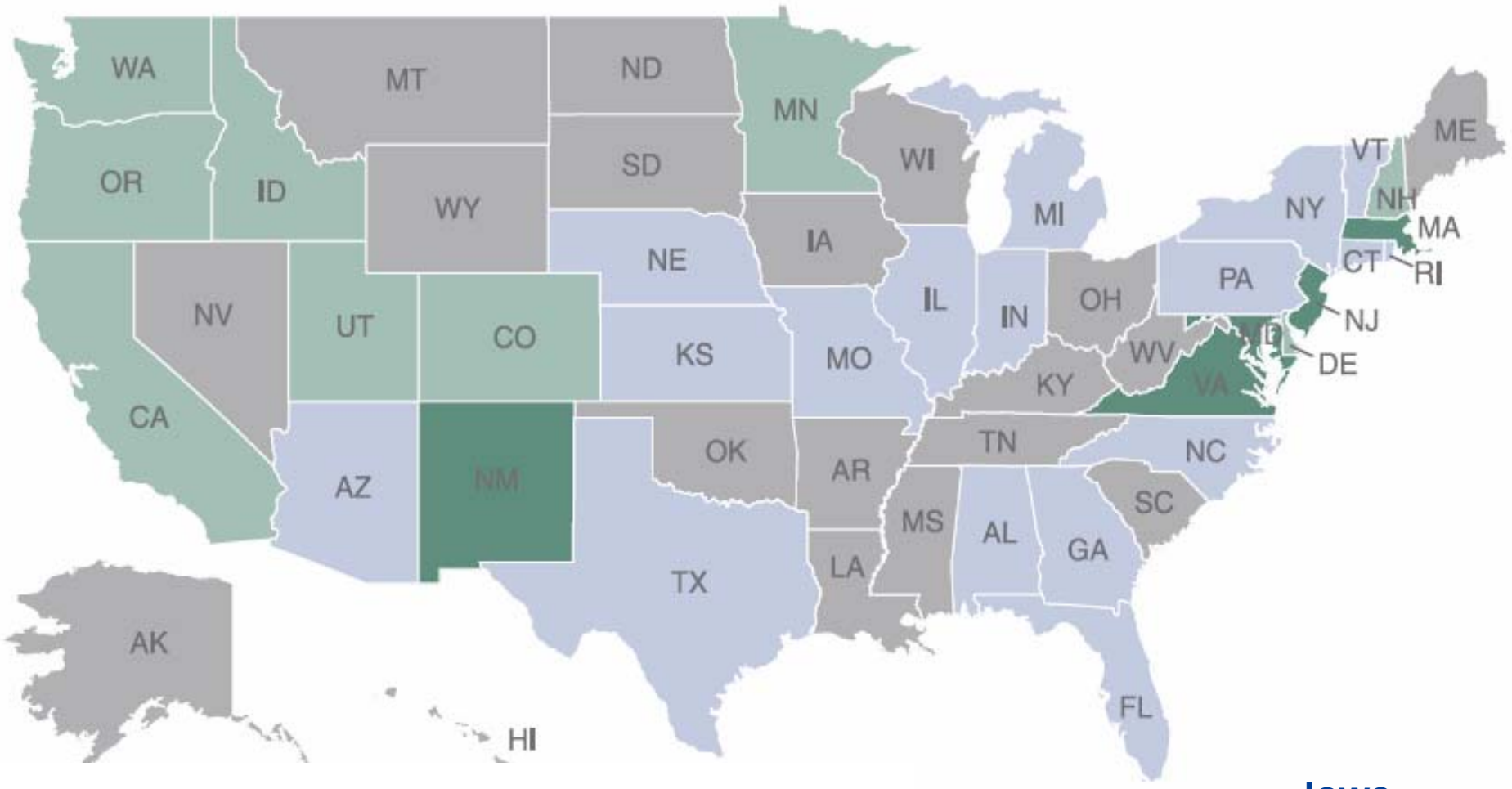
Venture Capital



Iowa

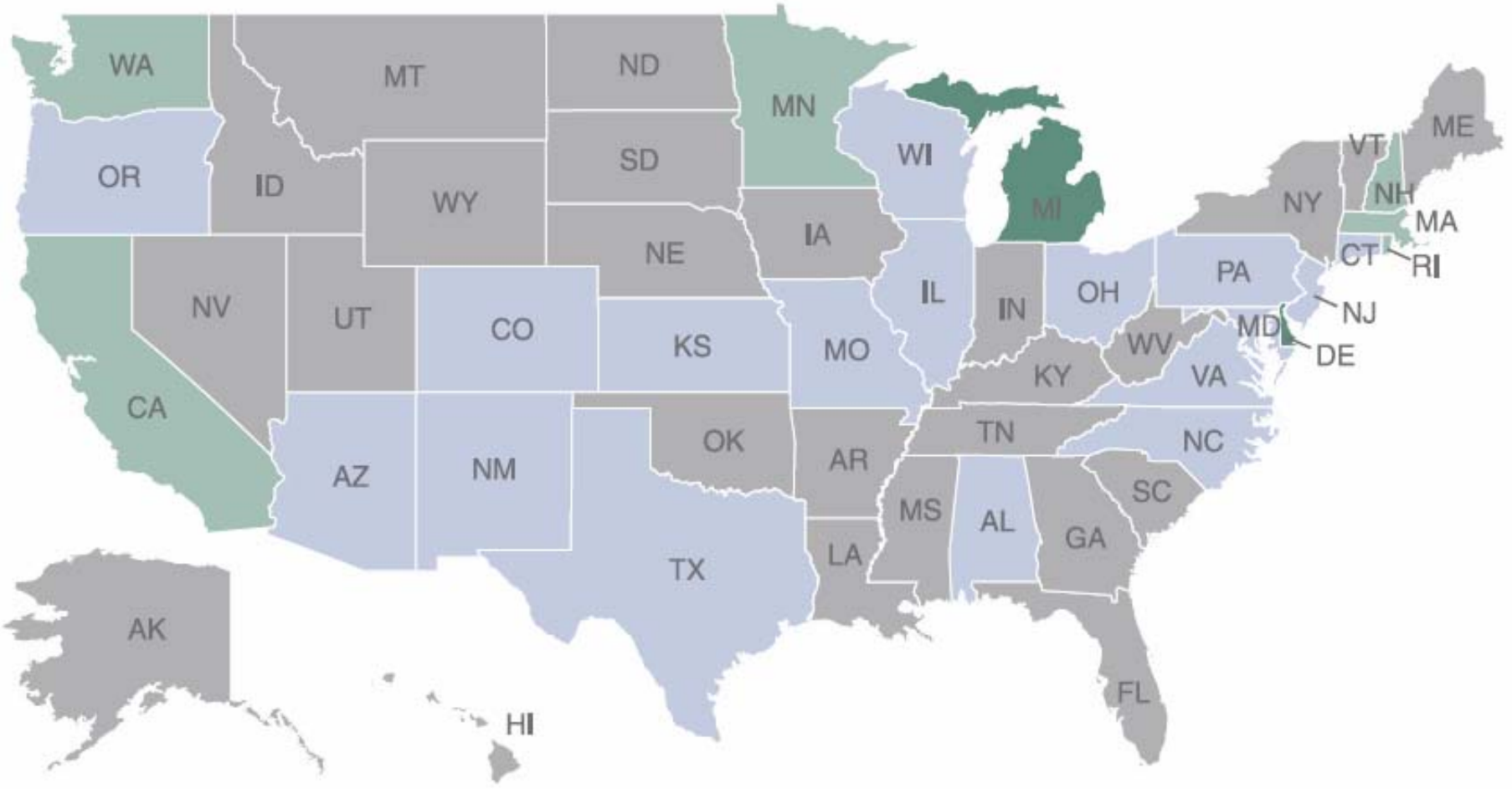
2007	2008
42	37

High-Tech Jobs



Iowa		
2002	2007	2008
28	37	37

Industry Investment in R&D



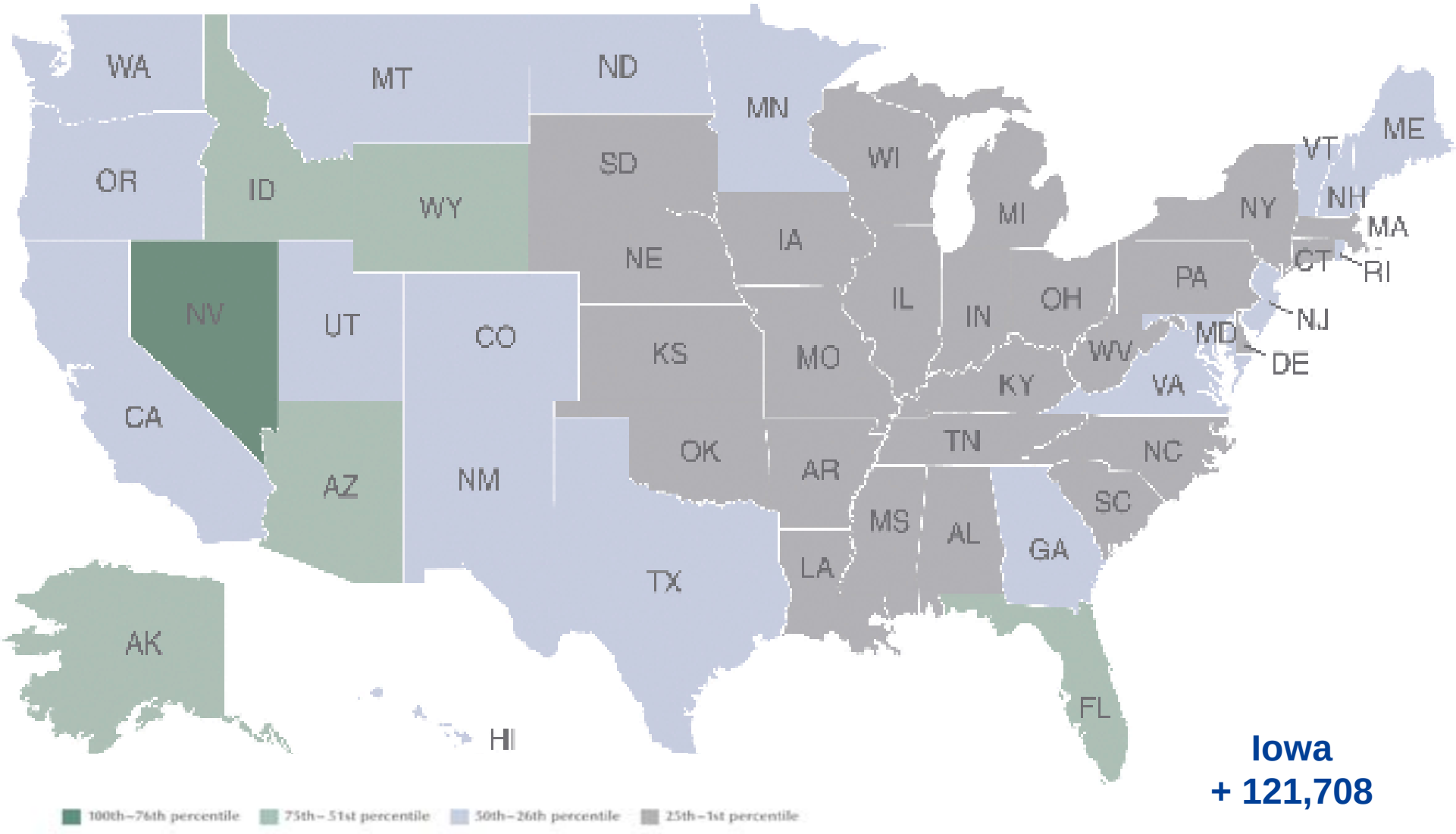
Iowa

2002	2007	2008
33	29	31

So, Do These Rankings Matter?

Not for Jobs

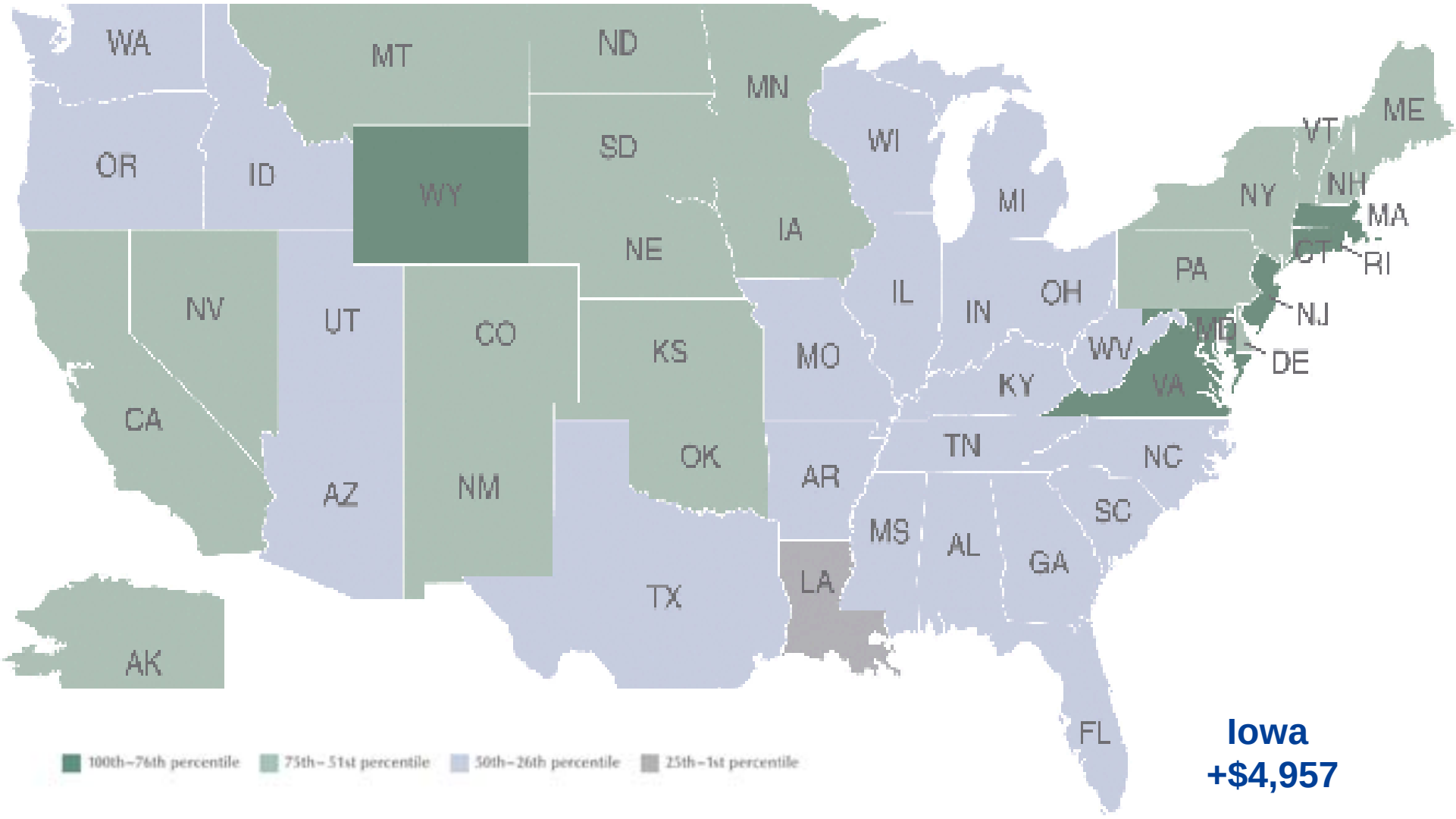
- Employment Growth 2002-2006



Iowa
+ 121,708

Yes for Income

- State Per Capita Income Growth 2002-2006



Iowa
+$4,957

An Innovation Economy Requires an Innovation-Based Economic Development Policy

Embrace Innovation Economics



Conventional economic thinking, based on neo-classical or Keynesian economics, ignores innovation.

Innovation economics is based on the view that:
innovation powers growth, and
bold public-private partnerships to spur innovation are required.

www.innovationeconomics.org

Economic Development Doctrines and State Economic Development Policy

	Conventional Economic Development	Neo-classical Business Climate	Neo-Keynesian Populist	Innovation Economics
Source of Growth				
Principal Economic Development Means				
Object of Policy				
Quality of Life				
Goal				

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	Conventional Economic Development	Neo-classical Business Climate	Neo-Keynesian Populist	Innovation Economics
Source of Growth	Capital investment			
Principal Economic Development Means	Drive down costs through firm-specific subsidies			
Object of Policy	Recruitment of out-of-state firms			
Quality of Life	Minor importance			
Goal	Get big			

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	Conventional Economic Development	Neo-classical Business Climate	Neo-Keynesian Populist	Innovation Economics
Source of Growth	Capital investment	**Capital investment**		
Principal Economic Development Means	Drive down costs through firm-specific subsidies	**Drive down costs through lower taxes and regulations**		
Object of Policy	Recruitment of out-of-state firms	**Recruitment of out-of-state firms**		
Quality of Life	Minor importance	**Not important**		
Goal	Get big	**Get big**		

Economic Development Doctrines and State Economic Development Policy

	Conventional Economic Development	Neo-classical Business Climate	Neo-Keynesian Populist	Innovation Economics
Source of Growth	Capital investment	Capital investment	**Worker incomes**	
Principal Economic Development Means	Drive down costs through firm-specific subsidies	Drive down costs through lower taxes and regulations	**Drive up wages, foster progressive taxes and public spending**	
Object of Policy	Recruitment of out-of-state firms	Recruitment of out-of-state firms	**Small and socially-conscious business**	
Quality of Life	Minor importance	Not important	**High importance**	
Goal	Get big	Get big	**Get fair**	

Economic Development Doctrines and State Economic Development Policy

	Conventional Economic Development	Neo-classical Business Climate	Neo-Keynesian Populist	Innovation Economics
Source of Growth	Capital investment	Capital investment	Worker incomes	**Innovation and organizational learning**
Principal Economic Development Means	Drive down costs through firm-specific subsidies	Drive down costs through lower taxes and regulations	Drive up wages, foster progressive taxes and public spending	**Spur firm innovation through targeted supports (e.g., research, financing, skills, etc.) and incentives for firms.**
Object of Policy	Recruitment of out-of-state firms	Recruitment of out-of-state firms	Small and socially-conscious business	**High growth entrepreneurs and existing firms**
Quality of Life	Minor importance	Not important	High importance	**Moderately important to attract and retain knowledge workers.**
Goal	Get big	Get big	Get fair	**Get prosperous**

Get the Key Principles Right

- Its not just the number of jobs, but the quality and wage/salary level of the jobs.

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- Regions' competitive future rest on innovation and entrepreneurship.

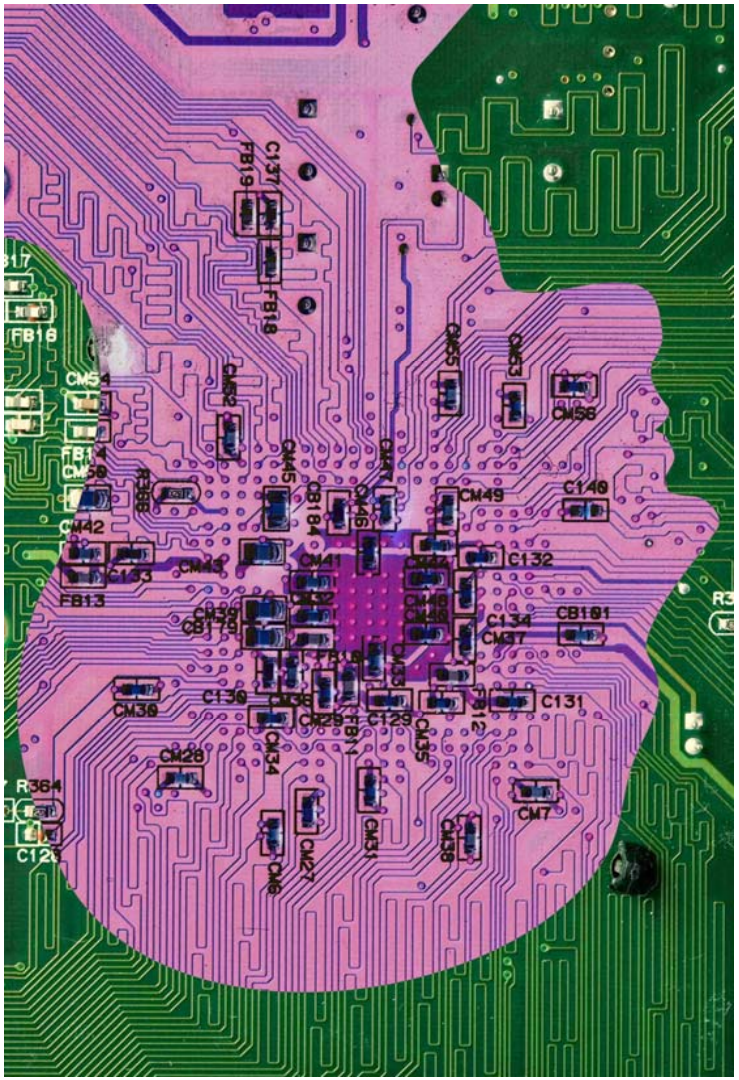
Get the Key Principles Right

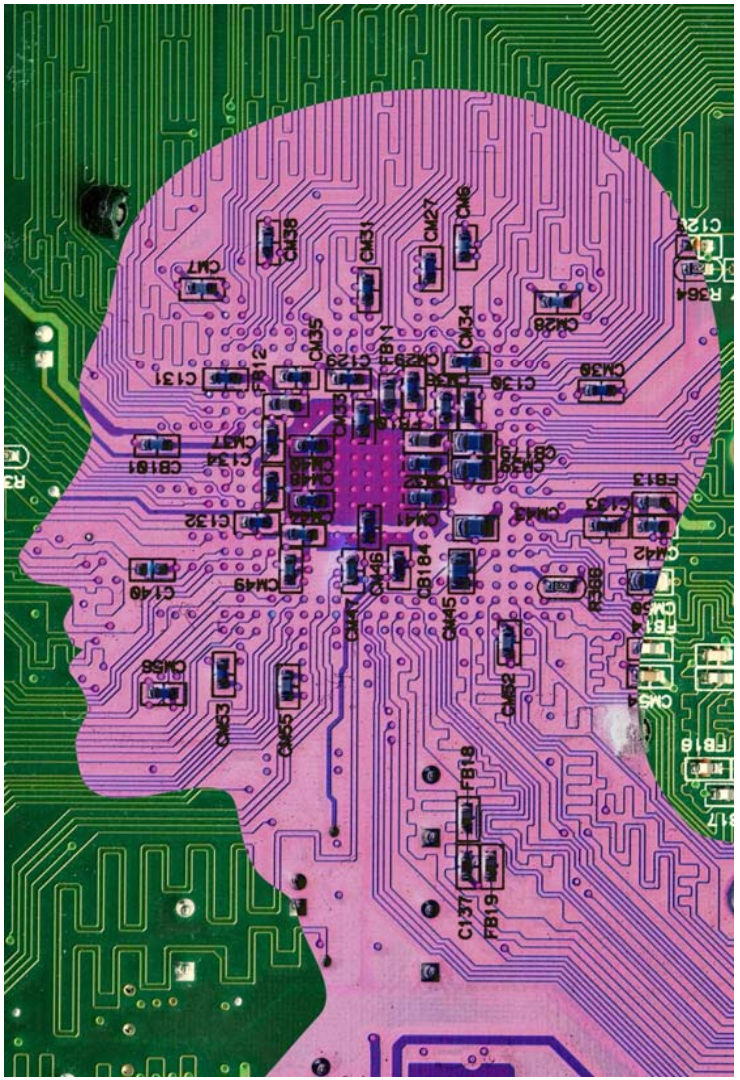
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- Regions' competitive future rest on innovation and entrepreneurship.
- Different parts of the state will play different roles in the global economy.

Looking backward to stop the clock doesn't work



Looking forward to create the future does





Thank you

ratkinson@itif.org

www.itif.org

