

Congress of the United States

U.S. House of Representatives

Committee on Small Business

2361 Rayburn House Office Building

Washington, DC 20515-6515

To: Members, Subcommittee on Economic Growth, Tax and Capital Access, Committee on Small Business
From: Committee Staff
Date: April 12, 2013
Re: Subcommittee Hearing: *"Innovation as a Catalyst for New Jobs"*

I. Hearing Overview

This hearing is the first in a series that will examine how to bolster America's competitiveness and propel economic growth through innovation and entrepreneurship. As the country continues to struggle with high unemployment and a sluggish economy, the question remains: where will jobs come from? Historically, America has prospered due to its ability to capitalize on innovation and generate jobs through entrepreneurship. Given this, entrepreneurship and innovation work in tandem, rather than as two separate concepts. However, as the economy has changed, so have the propellers of innovation. Therefore, it is vital to understand how innovation leads to entrepreneurship, what conditions are necessary to grow communities that are innovation-friendly which in turn will create jobs, and what some of the most innovative localities are doing to attract high-tech companies, thereby allowing entrepreneurship to thrive in those communities.

II. America's Innovative Strength as a Mechanism for Job Creation

In 2007, the Organisation for Economic Co-operation and Development¹ noted, "the capability to innovate and to bring innovation successfully to market will be a crucial determinant of the global competitiveness of nations over the coming decade."² For America, innovation has consistently been a critical competitive advantage and is a significant impetus of "job growth and a higher standard of living for future generations."³ According to Bloomberg's Global Innovation Index the United States remains the most innovative nation in the World.⁴

¹ The Organisation for Economic Co-operation and Development (OECD) is a group of 34 member countries originally founded in 1961 and headquartered in Paris, France. OECD aims to promote economic and social policies worldwide by allowing member countries a forum engage with one another on common problems and share best practices. See <http://www.oecd.org/> for further information.

² OECD, INNOVATION AND GROWTH: RATIONALE FOR AN INNOVATION STRATEGY 3 (2007), available at <http://www.oecd.org/science/inno/39374789.pdf>.

³ UNITED STATES DEPT. OF COMMERCE, THE COMPETITIVENESS AND INNOVATIVE CAPACITY OF THE UNITED STATES 2-1 (Jan. 2012), available at

http://www.commerce.gov/sites/default/files/documents/2012/january/competes_010511_0.pdf.

⁴ Bloomberg Rankings, *50 Most Innovative Countries*, BLOOMBERG, Feb. 1, 2013, available at <http://www.bloomberg.com/slideshow/2013-02-01/50-most-innovative-countries.html#slide51>.

To demonstrate the importance of innovation as a means to job creation, one only needs to look back to the 1990s and the economic success of the information technology wave, or “IT wave.” Due to the IT wave “from 1995 through 2000, the United States sustained annual [gross domestic product (GDP)] growth around 4.2 percent and productivity growth of 3.5 percent — stunning results for a mature economy.”⁵ Notably, this produced “real income growth for everyone, not just those at the very top [...and] over the decade of the 1990s, the [United States] economy created 22 million net new jobs, or 2.2 million jobs a year.”⁶ For example, innovation giant Apple boasts that it “has created entirely new products – and entirely new industries – by focusing on innovation.”⁷ This has led to nearly 600,000 jobs in the United States.⁸ Given these facts and last month’s weak job creation numbers, the dire need to focus on innovation, proven to create new jobs and industries, is evident.⁹

The ability of new firms to spur job creation is well-established. “Since 1977, newly born companies usually create a net 3 million jobs per year,”¹⁰ but in 2010 this number fell to 2.34 million.¹¹ Today, it is even harder for entrepreneurs to start firms as demonstrated by the declining rate in entrepreneurial job creation, which has decreased by one-third to 7.8 percent under President Obama.¹² Despite this downturn, recent studies by the Kauffman Foundation found that “fast-growing young firms, comprising less than 1 percent of all companies, generate roughly 10 percent of new jobs in any given year.”¹³ These firms generally “create about twenty-seven jobs per year, with most growing to a size of about twenty to ninety-nine employees.”¹⁴ Further, established companies typically acquire innovative startup firms relying on startups “to pioneer innovations (and create jobs).”¹⁵

Today, America’s unemployment rate stands at 7.6 percent.¹⁶ By 2020, unemployment is forecast to “gradually decline to 5 percent. Yet this assumes a pace of new job creation that is quite high by historical levels – the [United States] economy must create new jobs for not only the millions of currently unemployed people but also those who will newly enter the labor force

⁵ Susan Hockfield, President, Massachusetts Institute of Technology, Keynote Address at the National Governors Association: Restarting America’s Job Creation Engine (July 15, 2011), *available at* <http://web.mit.edu/newsoffice/2011/nga-conference-hockfield-0715.html>.

⁶ *Id.*

⁷ Apple, Job Creation, *available at* <http://www.apple.com/about/job-creation/> (last visited Apr. 8, 2013).

⁸ *Id.*

⁹ During March 2013, the total nonfarm payroll employment was 88,000. BUREAU OF LABOR AND STATISTICS, EMPLOYMENT SITUATION SUMMARY – MARCH 2013 (Apr. 5, 2013), *available at* <http://www.bls.gov/news.release/empstat.nr0.htm>.

¹⁰ TIM KANE, HUDSON INSTITUTE, THE COLLAPSE OF STARTUPS IN JOB CREATION 2 (Sept. 2012), *available at* <http://www.hudson.org/files/publications/Kane--TheCollapseofStartupsinJobCreation0912web.pdf>.

¹¹ *Id.*

¹² *Id.* at 2-3. Please note page 2 of this report indicates that “the average rate for entrepreneurial job creation under the previous three presidents was 11.3, 11.2, and 10.8 respectively.”

¹³ DANE STANGLER, EWING MARION KAUFFMAN FOUNDATION, HIGH-GROWTH FIRMS AND THE FUTURE OF THE AMERICAN ECONOMY 2 (Mar. 2010), *available at* <http://www.kauffman.org/uploadedfiles/high-growth-firms-study.pdf>.

¹⁴ *Id.* at 6.

¹⁵ *Id.* at 8.

¹⁶ BUREAU OF LABOR AND STATISTICS, EMPLOYMENT SITUATION SUMMARY – MARCH 2013 (Apr. 5, 2013), *available at* <http://www.bls.gov/news.release/empstat.nr0.htm>.

each year.”¹⁷ In light of this, the country must focus on trends occurring throughout various communities and the private sector that are enabling entrepreneurs to ignite a new wave of economic growth.

III. How Communities Create Ecosystems That Harness Innovation for Job Growth

The merger among innovation, new firms, and job creation is an established cycle, and is necessary to foster economic growth that lowers the unemployment rate. For this to occur, conditions must be conducive for establishing entrepreneurial endeavors that harness innovative ideas and allow startups to thrive. This requires the private sector and communities to work together to create environments that will encourage entrepreneurs to open new firms.

One avenue for bringing startups into local communities is found in incubators and accelerators. These tend to focus on aligning the strengths of a local community with businesses that the incubator or accelerator seeks to promote while providing the benefits of increased networking opportunities for participating entrepreneurs. A business incubator is “an organization designed to accelerate the growth and success of entrepreneurial companies through an array of business support resources and services that could include physical space, capital, coaching, common services, and networking connections.”¹⁸ The National Business Incubator Association estimates that there are nearly 1,250 incubators operating in the United States.¹⁹

Although similar in goals, an accelerator is typically “a time-specific, mentorship-driven program designed to provide startups with critical resources to help them make rapid progress on product and customer development.”²⁰ Further, accelerators for high-growth companies often come after the incubation stage.²¹ Startup accelerators are popping up in various communities and provide entrepreneurs with the benefit of having a mentor and knowledge base to aid a startup in developing their innovation into a commercial service or product. Both incubators and accelerators allow the merger of ideas to expand, and innovative new startups to learn best practices, which can lead to success and ultimately job creation.

The Startup America Partnership is another example of utilizing local communities’ strengths to spur innovation. Startup America is completely funded by non-profits and private

¹⁷ DANE STANGLER, EWING MARION KAUFFMAN FOUNDATION, HIGH-GROWTH FIRMS AND THE FUTURE OF THE AMERICAN ECONOMY 2 (Mar. 2010) available at <http://www.kauffman.org/uploadedfiles/high-growth-firms-study.pdf>. The Congressional Budget Office in Feb. 2013 projected that “the unemployment rate inches down from 5.5 percent at the end of 2018 to 5.2 percent by 2023.” CONGRESSIONAL BUDGET OFFICE, THE BUDGET AND ECONOMIC OUTLOOK: FISCAL YEARS 2013 TO 2023 46 (Feb. 2013), available at <https://www.cbo.gov/sites/default/files/cbofiles/attachments/43907-BudgetOutlook.pdf>.

¹⁸ Entrepreneur, Business Incubator, available at <http://www.entrepreneur.com/encyclopedia/business-incubator#> (last visited Apr. 8, 2013).

¹⁹ National Business Incubation Association, Business Incubation FAQ, available at http://www.nbia.org/resource_library/faq/index.php#3 (last visited Apr. 8, 2013).

²⁰ Paula Andruss, *What to Look for in an Accelerator Program*, ENTREPRENEUR, Jan. 30, 2013, available at <http://www.entrepreneur.com/article/225242>.

²¹ Rhonda Abrams, *Strategies: Accelerators Can Give Business a Jump Start*, USA TODAY, Mar. 29, 2013, available at <http://www.usatoday.com/story/money/columnist/abrams/2013/03/29/small-business-accelerators/2029605/>.

entities and aims to “create strong startup ecosystems in every state.”²² Broadly, Startup America divides the United States into regions which are led by “local champions,” who are in charge of enhancing community awareness on the importance of startups and discussing best practices with other “local champions” at a national level.²³ This approach allows entrepreneurs to work within a national network, yet also focus on aligning their local communities’ strengths to the startup businesses, allowing each region’s ecosystem to be collectively shaped by its individual localities.

Another mechanism that communities use to establish an environment for innovation and job creation is the installment of broadband communication facilities. According to the Federal Communications Commission, “areas that got broadband for the first time experienced a creation of 2.6 jobs for every one job lost.”²⁴ Well, if that is the case for conventional broadband, the question is whether even faster broadband would experience similar growth. Google is currently testing this through the installation of Google Fiber in Kansas City,²⁵ which will have speeds up to 1 gigabyte per second.²⁶ Entrepreneurs have moved into the area to take advantage of the advanced telecommunications infrastructure and the lower office space rental costs compared to those associated with other high-technology areas, such as Silicon Valley, Boston, or the Flatiron district in New York City.²⁷ Once the entrepreneurs moved into Kansas City, investors and venture capitalists followed, hoping to find the next successful technology company.²⁸ In turn, this will spur additional entrepreneurs to move to Kansas City in order to link up with investors. This creates an innovation cycle with the ultimate result of significant job growth from rapidly expanding small businesses.

IV. Conclusion

America is at a critical impasse; how can it utilize its placement as the most innovative country in the world to create jobs and generate economic growth? Across the country, various private entities are recognizing that a variety of approaches can be taken to capitalize on America’s innovative spirit. While this means different things in each community, it is evident

²² Startup America Partnership, About Startup America, available at http://www.s.co/about#quicktabs-about_us=0 (last visited Apr. 8, 2013).

²³ Sarah Max, *Helping Start-Ups With Local Support and National Networks*, N.Y. TIMES, Feb. 7, 2013, available at <http://dealbook.nytimes.com/2013/02/07/helping-start-ups-with-local-support-and-national-networks/>. See also Startup America Partnership, About Startup America - FAQs, available at http://www.s.co/about#quicktabs-about_us=3 (last visited Apr. 8, 2013). Please note currently Startup America has launched 32 regions.

²⁴ Cecilia Kang, *Google Fiber Provides Faster Internet and, Cities Hope, Business Growth*, THE WASH. POST, Jan. 25, 2013, available at http://www.washingtonpost.com/business/technology/google-fiber-provides-faster-internet-and-cities-hope-business-growth/2013/01/25/08b466fc-6028-11e2-b05a-605528f6b712_story.html.

²⁵ Please note originally Google selected Kansas City, KS, but then decided to incorporate Kansas City, MO, as well, thus Kansas City is used broadly to incorporate both cities as Google Fiber resides in both. Additionally on Apr. 9, 2013, Google announced an expansion of Google Fiber would be occurring in Austin, TX. See Posting of Milo Medin to Google Fiber Blog, Google Fiber’s Next Stop: Austin, Texas (Apr. 9, 2013), available at <http://googlefiberblog.blogspot.com/>.

²⁶ Google, Google Fiber - Features, available at <https://fiber.google.com/features/> (last visited Apr. 8, 2013).

²⁷ Jack Nicas, *High-Speed Internet Spawns Prairie Startups*, WALL ST. J., Nov. 13, 2012, available at <http://online.wsj.com/article/SB10001424127887324073504578109520790985296.html>.

²⁸ Cecilia Kang, *Google Fiber Provides Faster Internet and, Cities Hope, Business Growth*, THE WASH. POST, Jan. 25, 2013, available at http://www.washingtonpost.com/business/technology/google-fiber-provides-faster-internet-and-cities-hope-business-growth/2013/01/25/08b466fc-6028-11e2-b05a-605528f6b712_story.html.

that moving forward, the creation of innovation-friendly environments is necessary to allow entrepreneurs to generate new jobs and perpetuate economic growth.