

The New York Times

December 8, 2009

OP-ED COLUMNIST

An Innovation Agenda

By **DAVID BROOKS**

The economy seems to be stabilizing, and this has prompted a shift in the public mood. Raw fear has given way to anxiety that the recovery will be feeble and drab. Companies are hoarding cash. Banks aren't lending to small businesses. Private research spending is drifting downward.

People are asking anxious questions about America's future. Will it take years before the animal spirits revive? Can the economy rebalance so that it relies less on consumption and debt and more on innovation and export? Have we entered a period of relative decline? The first thing to say is, let's not get carried away with the malaise. The U.S. remains the world's most competitive economy, the leader in information technology, biotechnology and nearly every cutting-edge sector.

The American model remains an impressive growth engine, even allowing for the debt-fueled bubble. The U.S. economy grew by 63 percent between 1991 and 2009, compared with 35 percent for France, 22 percent for Germany and 16 percent for Japan over the same period. In 1975, the U.S. accounted for 26.3 percent of world G.D.P. Today, after the rise of the Asian tigers, the U.S. actually accounts for a slightly higher share of world output: 26.7 percent.

The U.S. has its problems, but Americans would be crazy to trade their problems with those of any other large nation.

Moreover, there's a straightforward way to revive innovation. In an unfairly neglected white paper on the subject, President Obama's National Economic Council argued that the U.S. should not be in the industrial policy business. Governments that try to pick winners "too often end up wasting resources and stifling rather than promoting innovation." But there are several things the government can do to improve the economic ecology. If you begin with that framework, you can quickly come up with a bipartisan innovation agenda.

First, push hard to fulfill the Obama administration's education reforms. Those reforms, embraced by Republicans and Democrats, encourage charter school innovation, improve teacher quality, support community colleges and simplify finances for college students and war veterans. That's the surest way to improve human capital.

Second, pay for basic research. Federal research money has been astonishingly productive, leading to DNA sequencing, semiconductors, lasers and many other technologies. Yet this financing has slipped, especially in physics, math and engineering. Overall

research-and-development funding has slipped, too. The U.S. should

aim to spend 3 percent of G.D.P. on research, as it did in the 1960s. Third, rebuild the nation's infrastructure. Abraham Lincoln spent the first half of his career promoting canals and railroads. Today, the updated needs are just as great, and there's widespread agreement that decisions should be made by a National Infrastructure Bank, not pork-seeking politicians.

Fourth, find a fiscal exit strategy. If the deficits continue to surge, interest payments on the debt will be stifling. More important, the mounting deficits destroy confidence by sending the message that the American government is dysfunctional. The only way to realistically fix this problem is to appoint a binding commission, already supported by Republicans and Democrats, which would create a roadmap toward fiscal responsibility and then allow the Congress to vote on it, up or down.

Fifth, gradually address global imbalances. American consumers are now spending less and saving more. But the world economy will be out of whack if the Chinese continue to consume too little. The only solution is slow diplomacy to rebalance exchange rates and other distorting policies.

Sixth, loosen the so-called H-1B visa quotas to attract skilled immigrants. Seventh, encourage regional innovation clusters. Innovation doesn't happen at the national level. It happens within hot spots - places where hordes of entrepreneurs gather to compete, meet face to face, pollinate ideas. Regional authorities can't innovate themselves, but they can encourage those who do to cluster.

Eighth, lower the corporate tax rate so it matches international norms. Ninth, don't be stupid. Don't make labor markets rigid. Don't pick trade fights with the Chinese. Don't get infatuated with research tax credits and other gimmicks, which don't increase overall research-and-development spending but just increase the salaries of the people who would be doing it anyway.

This sort of agenda doesn't rely on politicians who think they can predict the next new thing. Nor does it mean merely letting the market go its own way. (The market seems to have a preference for useless financial instruments and insane compensation packages.) Instead, it's an agenda that would steer and spark innovation without controlling it, which is what government has done since the days of Alexander Hamilton. It's the sort of thing the country does periodically, each time we need to recover from one of our binges of national stupidity.