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## The Innovation Economy

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- ❖ **The Innovation Economy is the most important part of the American economy**
  - Accepted economic wisdom, this is where all the net new jobs are created<sup>i</sup>
  
- ❖ **Economic reality is**
  - An unprecedented decline in new business formation over the past 5 years<sup>ii</sup>
  - Business deaths now outpace business births<sup>iii</sup>
  - 48% decline in the number of venture capital firms<sup>iv</sup>
  - 50% decline in the number of public listed companies over the past 20 years<sup>v</sup>
  - Huge concentration of economic gains and venture investments<sup>vi</sup>
  - Absence of small, regional IPOs<sup>vii</sup>
  
- ❖ **Near term future is**
  - Job reducing information technology, advanced automation, robots, artificial intelligence
  - 47% of workers in America have jobs at high risk of potential automation<sup>viii</sup>
  
- ❖ **Emerging companies have unique needs**
  - They are always short of capital
  - Regulatory requirements are often developed for larger companies and create major burdens for new companies
  - Emerging companies have no voice in DC; always strapped for capital, not organized, do not have the voice of big business and big labor
  - Laws/retirement plans are not conducive to self-employment which is an important part of the new economy
  
- ❖ **National economic policy should recognize the importance of the Innovation Economy**
  - Public face of economic policy will always be the high profile big subjects – income inequality, manufacturing, exports and infrastructure investments, but to create real growth and employment there should be an important focus on the needs and capital requirements of the Innovation Economy
  - Congress should continually focus on, talk about the job creating economic importance of emerging companies and The Innovation Economy
  
- ❖ **Create a Presidential Commission on the Innovation Economy**
  - Permanent advisory commission made up of industry leaders, venture capitalists, academics, lawyers, entrepreneurs
  - Role is to prioritize and advise the Congress, Administration, and various agencies on the needs of the Innovation Economy

- Short Term Needs of The Innovation Economy
  - Encourage qualified investment
    - Fix general solicitation; allow investors to self-certify
    - Safe harbor to issuers for funds from friends and family
    - Modify and expand equity crowd funding
    - Don't change accreditation standards but allow education, occupation, and experience based accreditation
  - Regulatory burdens; solicit ideas for most immediate impact
- Long Term Issues
  - Regional concentration of venture capital, new company formation; lots of great ideas in other regions; perhaps bring back SBIC program for those regions
  - Decline in number of venture firms
  - Loss of regional IPOs
  - Loss of smaller IPOs
  - Correct long term capital gains tax policy to encourage new company investment
  - Enhance/expedited entrepreneurship visa programs
  - Retirement plans for self-employed persons
  - Regulatory burdens
  - Research and development should be 2% of GDP<sup>ix</sup>
  - Biotech

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<sup>i</sup> "The Importance of Young Firms for Economic Growth," Kauffman Foundation (Sept. 2015).

<sup>ii</sup> Multiple Sources: 1. "The New Map of Economic Growth and Recovery," Economic Innovation Group (May 2016). 2. "The Surprising Slowdown in Startups," Fortune (March 2016). 3. "The Role of Entrepreneurship in US Job Creation and Economic Dynamism," Ryan Decker – Federal Reserve Board, John Haltiwanger – University of Maryland, Ron Jarmin – U.S. Census Bureau, Javier Miranda – U.S. Census Bureau (July 2014).

<sup>iii</sup> "Declining Business Dynamism in the United States," Brookings Institute (May 2014).

<sup>iv</sup> "Shrinkage: Number of VC professionals plummets 60% in past 10 years, funds decline 25%," Geekwire (May 2014). The data in the article shows that the number of VC firms investing \$5M+ annually decreased by 50% from 2000 to 2013.

<sup>v</sup> "Where have all the Public Companies Gone?" Bloomberg (June 2015).

<sup>vi</sup> "Geographic Inequality Is Swallowing the Recovery," The Atlantic (May 2016).

<sup>vii</sup> "The Disappearing Small IPO and the Lifecycle of the Small Firm," Steven Solomon – UC Berkeley, Paul Rose – Ohio State University (July 2014).

<sup>viii</sup> Multiple Sources: 1. "The Future of Employment: How Susceptible are Jobs to Computerisation?" Carl Benedict Frey and Michael A. Osborne – University of Oxford (2013). 2. "Technology at Work v2.0: The Future Is Not What It Used To Be," Citibank, University of Oxford (2016).

<sup>ix</sup> "Federal Research and Development Funding: FY2016," Congressional Research Service (2016).