


Challenges in the U.S. Innovation System

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Challenges facing the U.S.

- Cost of Doing Business
- Decline in R&D funding
- Visa policies
- Science & Technology education
- Wall Street Pressure

Cost of Doing Business

- Regulatory compliance costs are disproportionately heavier on small firms
 - Cost of federal regulations totals \$1.1 trillion;
 - Cost per employee for firms with fewer than 20 employees is \$7,647.
- Soaring cost of health care
- High corporate tax rates
- Increasing energy costs

Decline in R&D Dollars

- Both federal and private sector investments in R&D have been down for years
 - Particularly in basic and physical sciences
- Most dollars have gone to incremental development
 - New research for creative solutions has been hampered by demand for risk-averse solutions with quick turnarounds
- Congress is considering a bill to increase federal R&D spending to:
 - Accelerate tech transfer
 - Create innovation test beds

Visa Policy

- Since 9/11, it's been very difficult for foreign travelers to enter the U.S.
 - U.S. companies have lost millions because foreign customers couldn't enter to view products
 - Foreign students are going to other countries for higher education
 - Other countries are taking advantage of the opportunity

Science & Technology Education

- The number of students (American and foreign-born) going into S&T continues to decline
 - U.S. companies have arguably created their own problem.
 - As offshoring of engineering work continues, students perceive less opportunity and choose other fields
 - As the number of S&T students decreases, companies perceive the need to seek engineering work offshore
 - NOTE: India now claims it can't find enough engineers (the increase in living standards means cost of labor is rising)
 - Other countries' educational quality is rising
 - Foreign-born students that do study here are finding their way back home

Wall Street Pressure

- Quarterly earnings reporting creates undue pressure on managers to focus on short-term results
- Discourages investment in real R&D
- Discourages long-term planning
- U.S. Chamber of Commerce chastised Wall Street and encourages all publicly-traded executives to stop reporting quarterly projections

Offshoring

- The biggest challenge for the U.S. is balancing low-end manufacturing and services offshore, while maintaining domestic incentives for companies (foreign and domestic) to develop next generation, or leap ahead, technologies onshore.

Conclusion

- First step to fixing a problem is recognizing there is one
- The U.S. has been in denial, but reality seems to be setting in
 - Augustine Report by The National Academies
 - Legislation recognizing need for innovation leap
 - Thomas Donohue, U.S. Chamber of Commerce