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A Rose By Any Other Name: How Labels Get In the Way of U.S. Innovation Policy

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If one listens to the rhetoric coming out of Washington, 2011 is shaping up to be the Year of Innovation Policy. Policymakers recognize that a real economic recovery will require real growth, and correctly see the innovation sector as the most likely source for that growth.

Yet while policymakers have identified the right goal – and while our innovation sector does need Washington to change its approach – it is far from clear that the policymaking process is set up to tackle this challenge in a way that will yield meaningful results.

Some of this is substantive. But some of it is a by-product of the words we use and the many, less-than-obvious ways that innovation policies bubble up through our policymaking apparatus.

The labels we use shape our perceptions of an issue and, hence, predispose us to favor (or reject) particular solutions. Labels link one issue to others and, consequently, define the set of related issues that will be considered as part of any single whole. And labels define jurisdiction and, as a result, the process through which any legislation must pass and the agencies that will be responsible for carrying out any policy.

In each of these areas, labels get in the way. For a variety of reasons, Washington D.C.'s institutions are ill equipped to think about innovation policy in a comprehensive way. Instead, the innovation agenda gets fractured into a series of unconnected elements, impeding our ability to consider and act upon a set of policies that truly will allow our innovation sector to be as robust as possible in the century to come.

This paper discusses the ways in which labels get in the way of sound innovation policymaking and the flow of capital to high growth startups, using the Dodd-Frank Act as a principle lens though which to examine the issue.

I begin by exploring why the innovation sector is so critical to the broader U.S. economy. I then provide an overview of the how much – and how effectively – capital has been flowing to the startup sector over the past decade, as well as the legal, regulatory and market dynamics that have affected those capital flows.

I then examine how the Dodd-Frank Act missed several opportunities to promote a high-growth, innovation agenda. Among other issues, I examine Dodd-Frank's impact on the ability of high tech startups to access capital, through the so-called Volcker Rule, new SEC registration requirements, and new rules defining "accredited investors," as well as Dodd-Frank's impact on growing businesses' ability to manage their businesses and grow rapidly, through debit card inter-exchange fee regulation and restrictions on forwards and swaps. I also examine how Dodd-Frank arose out of and reinforced a deeper public anti-risk sentiment that seriously threatens the long term success of America's innovation sector. Finally, I also examine how Dodd-Frank compounded the effect other laws and regulations have had on the ability of high growth technology companies to obtain the capital they need to finance their growth.

I close with three concrete recommendations for aligning our vision of a sound, comprehensive and effective national innovation policy with our decision-making structures. First, I argue that the technology sector must work harder to help policymakers understand why the innovation sector is important to all Americans, and ensure that a pro-innovation agenda will, in fact, benefit the country as a whole. Second, I argue that proponents of an innovation agenda must work to help this country move beyond a culture that is hostile to risk-taking. While an aversion to risk is a logical reaction to the devastating events of the last few years, we must learn one again to embrace risk-taking and disruptive innovation. And third, I argue that we must

challenge Congress and the Administration to break through traditional bureaucratic structures of Committees, agencies, and turf in order to consider innovation policy in a holistic way, and with a sense of urgency.