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Explore the report: https://brook.gs/2OOal2O

Nation can spread growth across country by investing in innovation centers

Washington, D.C. — The U.S. technology sector continues to grow rapidly, driving the nation's innovation and overall economic growth. However, advanced technology companies are increasingly concentrated in only a few very high-cost hubs—such as Silicon Valley, Boston, and Seattle—creating a "winner-take-most" dynamic. The result is not only increasing regional inequality and lost opportunity in the heartland, but reduced U.S. competitiveness as well.

Now, a new report from the Brookings Metropolitan Policy Program and the Information Technology & Innovation Foundation (ITIF) argues that it's time for the federal government to take aggressive steps to counter the nation's epidemic of regional division and avoid ceding its innovation lead to China.

Specifically, the new report—titled "The case for growth centers: How to spread tech innovation across America"—proposes that Congress establish a major new initiative to select a set of promising metro areas to receive a major package of federal innovation inputs and supports that would help these areas accelerate, transform, and scale up their innovation sectors. The report envisions the designation of eight to 10 potential growth centers (all at a location removed from existing successful tech hubs) that would receive substantial financial and regulatory support for 10 years to get "over the hump" and become new, self-sustaining innovation centers.

Authored by ITIF President Robert D. Atkinson, Brookings Senior Fellow and Policy Director Mark Muro, and Brookings Research Analyst Jacob Whiton, the report details how the winner-take-most dynamics of the innovation economy have led to dominance but also livability and competitiveness crises: spiraling real estate costs, traffic gridlock, and increasingly uncompetitive wage and salary costs. Meanwhile, in many of the "left-behind places," the struggle to keep up has brought stagnation and frustration.

These uneven realities represent a serious productivity, competitiveness, and equity problem. The new proposal represents a major push to counter these dynamics and stem the epidemic of regional inequality. One has only to examine the history of U.S. technology hubs such as Boston, the Bay Area, and North Carolina's Research Triangle to see that the federal government has often played important, if not decisive, roles in helping new tech centers attain self-sustaining critical mass.

Primary takeaways from the report include:

1. **Regional divergence has reached extreme levels in the U.S. innovation sector.** The innovation sector—comprised of 13 of the nation's highest-tech, highest-R&D "advanced" industries—contributes inordinately to regional and U.S. prosperity. Just five top innovation metro areas—Boston, San Francisco, San Jose, Seattle, and San Diego—accounted for more than 90% of the nation's innovation-sector growth during the years 2005 to 2017.

2. **High levels of territorial polarization are now a grave national problem.** Many Americans reside far from the opportunities associated with the nation's innovation centers, undercutting economic inclusion and raising social justice issues. Moreover, the costs of excessive tech concentration have meant less overall innovation industry activity in the United States, in part because companies increasingly move activity from high-cost U.S. tech hubs to medium-cost foreign hubs. Creating tech hubs in the heartland will provide an opportunity to reduce "innovation offshoring."

3. **Markets alone won't solve the problem; federally led, place-based interventions will be essential in ameliorating it.** Substantial evidence now suggests that the agglomeration of firms brings with it strong self-reinforcing tendencies that not only inhibit the spread of development, but are likely to exacerbate its concentration. Moreover, subnational technology-based economic development efforts cannot significantly change these patterns by themselves, in part because the resources states and cities can bring to bear are limited.

4. **The nation should counter regional divergence by creating eight to 10 new regional "growth centers" across the heartland.** Central to this package will be a direct R&D funding surge worth up to $700 million a year in each metro area for 10 years; other inputs, including an antitrust exemption for firms to collaborate on location decisions, are also critical. A rough estimate of the cost of such a program suggests that a growth centers surge focused on 10 metro areas would cost the federal government on the order of $100 billion over 10 years. That is substantially less than the 10-year cost of U.S. fossil fuel subsidies.

5. **Numerous metropolitan areas in most regions have the potential to become one of America's next dynamic innovation centers.** Some 35 potentially transformative metro areas surface as candidates for growth center designation. Candidates are situated in at least 19 states, lie in multiple regions (especially the Great Lakes, Upper South, and Intermountain West), and exist far removed from the coastal superstars.

Report co-author and president of ITIF, Robert D. Atkinson, said, "America's successful tech hubs haven't emerged by accident—most are products of deliberate policy choices and federal government support. The neoclassical economics idea that markets can be left to drive innovation has instead left the heartland behind. A strong federal effort focused on helping some metros transition into self-sustaining tech hubs can help more Americans benefit from the significant opportunities enabled by high-tech industry growth."

Mark Muro, co-author and Brookings Metro senior fellow and policy director, said, "The nation's tech-driven spatial divides have reached emergency status and won't resolve themselves on their own. It's time for the nation to push back against these trends and conduct a major experiment to see if we can help eight to 10 promising metros emerge as really dynamic anchors of growth in the nation's heartland."

The report's webpage can be viewed here: https://brook.gs/2OOal2O.

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