How Does (and Should) the Law Impact the Supply of Innovation?

Mike Meurer
Boston University School of Law

Governments use many strategies to promote the supply of innovation. Which instruments are most effective? Ideally, how should the policies be integrated and managed?

The supply of innovation depends on a scientific infrastructure, a robust labor market with highly trained STEM workers, and financiers who will tolerate risky investments. INFRASTRUCTURE. Government investment in federal and university laboratories promote innovation by contributing knowledge, and data to the public domain, by training knowledge workers, and funding facilities. LABOR. Trade secret, employment, and antitrust laws can be used to influence the mobility of knowledge workers and the diffusion of technology. Economists have wrestled with the question of when the law should tolerate restriction on employee movement to induce employer training versus encourage employee movement to motivate employees to train themselves and share their knowledge with new employers. Rectifying employment discrimination and thoughtful immigration policy could significantly promote innovation by improving the quantity and quality of the STEM workforce. FINANCE. Financial markets spur innovation by fostering the establishment and growth of high-tech start-ups, and more generally by financing innovation. Economists have identified various aspects of financial markets important to innovation and amendable to policy intervention such as: private equity (does it make firms impatient and less inclined to invest in R&D?); venture capital funding (generally linked to successful high-tech start-ups and increased innovation), anti-takeover laws and laws that discourage firing employees may encourage both desirable and undesirable innovative risk-taking, and lenient bankruptcy law arguably causes more innovation.