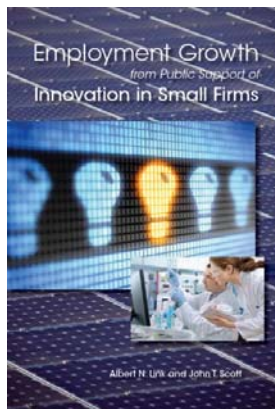




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Employment Growth from Public Support of Innovation in Small Firms

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KALAMAZOO, Mich.—Many studies establish the relationship between

investment in innovation (R&D) and economic growth (productivity). However, the link between innovation and employment has largely been ignored by scholars, until now.

In *Employment Growth from Public Support of Innovation in Small Firms*, a new book from the Upjohn Institute, Albert N. Link and John T. Scott provide a statistical assessment of the employment growth associated with public support of R&D in small, entrepreneurial firms through the Small Business Innovation Research (SBIR) program. While on the surface the SBIR program is generally intended to stimulate innovation leading to commercialization, and this is how government and scholars have historically judged the program, Link and Scott suggest that it may be assessed from a different perspective. To them, the extent to which long-term job creation results from public support of R&D should be evaluated.

The authors' analyses are based on a database assembled at the request of Congress by the National Research Council of the National Academies. The data are limited to Phase II SBIR awards given by the five largest donor agencies: the Department of Defense, the National Institutes of Health, the National Aeronautics and Space Administration, the Department of

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Energy, and the National Science Foundation. Link and Scott use the data to assess both project-specific and longer-term, firm-wide impacts on employment gains. In analyses of the former, the authors are not surprised to find that SBIR-funded projects generally retain few employees after completion of the project. However, they do find that firms tend to retain more employees when the government uses the technology created with the SBIR award, thereby creating a market for the funded innovation.

The authors also argue that the employment impacts associated with public investments in innovation via the SBIR program are appropriately assessed by looking at the broader, long-term employment impact on the firm as a whole. And, indeed, the statistical model they estimate allows them to make direct causal inferences about the impact of SBIR-funded initiatives on overall firm employment growth.

While Link and Scott report substantial gains in employment at four out of five of the firms included in their sample, they are unable to conclude that the SBIR awards generated long-run job growth because the gains were not statistically significant. However, because firms often sell or license technology rights to other firms, employment effects are likely to show up elsewhere in the U.S. economy and in foreign markets.

Employment Growth from Public Support of Innovation in Small Firms, by Albert N. Link and John T. Scott, is published by the W.E. Upjohn Institute for Employment Research. January 2012. 177 pp. \$40 cloth 978-0-88099-386-9 / \$18 paper 978-88099-385-2 / \$18 ebook 978-0-88099-394-4. Opinions expressed are solely those of the authors. We encourage you to request a review copy. Contact: Richard Wyrwa.

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