How can we, as entrepreneurs, do a better job of creating more jobs?

As I’ve written about recently in the New York Times and discussed in How Will You Measure Your Life?, there are three kinds of innovations. The first are “Empowering” innovations that transform expensive products into affordable ones that many more people can buy. These are innovations that create new jobs – millions of new jobs – that go unfilled because people don’t yet have the skills to fulfill them. “Sustaining” innovations are the ones that replace old products with newer models. “Efficiency” innovations – the ones most common in our current economy – are the ones that reduce or simplify the processes in the creation and delivery of an existing service or product. Efficiency innovations are a natural part of the economic cycle, but these are the innovations that streamline process and actually reduce the number of available jobs.

So if empowering innovations are the ones with dramatic ability to create new jobs, why are we not creating more of them?

In our traditional economic cycles, all three kinds of innovations occurred within a natural and repeatable sequence. Our current economy, however, has gone off of the rails in large part because we are focused almost entirely
on efficiency innovations—on streamlining and wringing bottom line savings and additional profits out of our existing organizations. We are missing out on the opportunity to open up new markets where great empowering innovations and extraordinary new profit and job creation can occur.

Why is this occurring?

We are focused on the wrong metrics. Our universities are training entrepreneurs—and investors—to focus on fast and efficient return on capital investment. Efficiency innovations provide return on investment in 12-18 months. Empowering innovations take 5-10 years to yield a return. We have ample capital—oceans of capital—that is being reinvested into efficiency innovation. As long as this continues to happen, we will continue to experience the tremendous chasm between capital investment and the creation of meaningful numbers of new jobs and especially of highly specialized jobs.

To focus capital and entrepreneurship in on empowering innovation, we should change the capital gains tax rate. We would be better served by a regressive tax rate, that would become progressively smaller the longer the investment is held. Currently, investors have no financial incentive to invest for the long term—returns on investments held for less than a year are taxed as personal income, but capital gain taxe applies unilaterally and equally to any investment held for even a day beyond 365 days. Investors are lacking sufficient incentive (beyond simply postponing the timing of the taxable event) to invest for the longer term that would allow the next generation of empowering innovations to occur.

Federal tax returns from capital gains comprise only a tiny portion of tax revenue, so the impact on near term federal budget would be minimal—but the impact on our long-term economy if we were able to promote and support the incentive to invest in the longer term empowering innovations would be immense, as our prior economic cycles has shown.

Finally, we should do all we are able to change the politics that works on the assumption that taxing the wealthiest American’s heavily and redistributing that wealth to the hands of struggling American’s will not help our economy to return to health. It would simply replace consumption with consumption. With no new innovations available to purchase, consumers would use the redistributed money to pay off debts, or to continue to purchase sustaining innovations (newer products to replace older models). Little to no empowering innovation will occur within this model.

Regardless of politics, we should come together in our support of empowering innovation—our entrepreneurs—and our recognition that it will take some counter-intuitive thinking to turn our economy’s problems around.

Thank you, Dr. Christensen, for your insightful thinking. I have had the chance as well to read your book, How Will You Measure Your Life? and was
profoundly influenced by many aspects, which I’m going to write about in another column.

For entrepreneurs, the conclusions are clear and give us much to think about. We need to support the invention of empowering innovations, particularly within bioscience and our medical devices sectors, which I wrote about in my column with **Kelvyn Cullimore** and the **Medical Device Manufacturing Association (MDMA)** last week. Our medical breakthroughs (as well as our ability to create vast numbers of new jobs) will depend on these steps.

Our investment sector, as well, which I am writing about in my own coming book, must support all kinds of innovation, with high attention to both the innovations that can help entrepreneurs to take the first step in creating their own new jobs and also the investment that can support farsighted thinking, and enable the research that takes significant investment and time to create the breakthroughs that can have a vast influence on our eventual future.

What are your thoughts on innovation? You can reach me here, at @AskAlanEHall, or at www.AlanEHall.com.

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