

Technological Innovation and Economic Growth

A Brief Report on the Evidence

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Key materials

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Most economists agree that technological innovation is a key driver of economic growth and human well-being. Negative cultural attitudes about technology and its disruptive effects could threaten reaping these benefits. Policy responses that reflect such attitudes (and discourage innovation) risk triggering economic stagnation, decreased economic dynamism, and lower living standards. James Broughel and Adam Thierer make this case in “Technological Innovation and Economic Growth: A Brief Report on the Evidence.”

The Effects of Innovation

- Technological innovation brings benefits. It increases productivity and brings citizens new and better goods and services that improve their overall standard of living.
- The benefits of innovation are sometimes slow to materialize. They often fall broadly across the entire population. Those who stand to benefit most—the poor and future generations—have little or no political influence.
- Innovation causes short-term disruptions. These disruptions may be unsettling, as some old business models fail and some individuals lose their jobs.
- Incumbent interests may resist change. Those affected are often well-organized and powerful. They may try to derail opportunities for innovation and entrepreneurship that could lead to more growth and prosperity over the long haul.
- Policymakers act within notoriously short time horizons. They are also likely to hear disproportionately from constituencies and interests that are harmed by new technologies. This may lead to (1) resistance to change among policymakers and (2) policy interventions that stifle entrepreneurship and protect incumbents from new competitors.

The Need for Sound Public Policy

Public policy plays an important role in fostering innovation by establishing the “rules of the game.” These include the rule of law, property rights, patent protections, contracts, free trade policies, freedom to travel, various incentives to invest, and light-touch regulations and regulatory regimes. When it comes to new technologies, the policy default should be permissionless innovation rather than restrictive regulations.

Permissionless innovation is the idea that experimentation should generally be permitted by default, even when innovation might lead to some short-term disruption of established business models. In the long run, the perpetual search for new and better ways of doing things drives human learning and, ultimately, prosperity for all.