

# Education and Innovation

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## Introduction

Recent work has unveiled a large role for education (and various types of education policies, from expanding access to improving inputs) on long-run student outcomes. Less is known, however, about the role of education in encouraging entrepreneurship and innovation.

In this chapter, we review the existing literature and combine estimates on the effects of improving access and the quality of education, as well as the role of different inputs and skills for accessing innovation and entrepreneurship, to provide a first answer to this question. We also outline possible avenues for future research.

We structure the chapter as follows. First, we provide a brief review of the theoretical work linking education to innovation. We then explore the possible effects of three sets of policies: 1) expanding access to education, 2) improving the quality of education to those with access and 3) improving the match between potential innovators and the education they need to thrive. We conclude that innovators and entrepreneurs are not born, but made, and that education, along with many others, is an important channel in encouraging entrepreneurship and innovation.

## Education and Innovation: Theory

The importance of human capital and education for innovation and growth is theoretically grounded in models of endogenous growth, such as Romer (1986, 1990, 1994). Two ingredients of this class of models are critical. First, human capital is factor-augmenting in the production of knowledge (or ideas). Second, ideas are non-rival, implying that they can be used by others who have not developed them, creating positive externalities that fuel growth. The combination of these two ingredients suggests that investments in education, which “create” human capital, not only benefits their original recipients, but also encourage growth for the entire economy. A corollary is that, since private individuals do not internalize the social benefits of education,

private investments in education are likely to be too low from a social perspective, which calls for public investments in education.

### *Defining Human Capital*

The concept of human capital is at the core of this class of models. But what exactly is “human capital”? Early research (e.g. Romer 1990) proxied differences in human capital by years of education. Subsequent work has tried to better characterize the types of investments that produce valuable knowledge and contribute to innovation and growth. Focusing on the production of knowledge, Scotchmer (1991) argued the production of innovation is cumulative, and that that new knowledge builds on existing knowledge. Baumol (2006) emphasized the importance of scientific knowledge for innovation and growth. More recently, macroeconomic models such as Lucas (2015), Lucas and Moll (2014), and Akcigit et al. (2018) have argued that social learning and interactions play a key role in encouraging growth, while Bell et al. (2019) have stressed the importance of mentorship for producing innovators.

How can education produce the type of knowledge that generates innovation and growth? Altonji et al. (2012) show substantial differences in the labor market returns to different college majors, which suggests that the content of education matters. In an attempt to create a mapping between higher education, research, and innovation, Biasi and Ma (2020) link the content of college and university courses with that of academic publications and patents, and show large differences among and within schools in the extent to which course content is “keeping the pace” with the knowledge frontier. Deming and Noray (2020) find that the economic return to technology-intensive jobs and college majors declines with work experience, and they connect this decline to obsolescence of older-vintage skills learned in school. Taken together, this literature suggests that educational institutions foster innovation by teaching skills that keep workers near the technology frontier.

### *Growth Accounting*

Empirical support for endogenous growth theory comes from exercises of growth accounting, which have shown that differences in human capital can explain differences in rates of growth. Mankiw, Romer and Weill (1992), Benhabib and Spiegel (1994), Bils and Klenow (2000) as well as Manuelli and Seshadri (2014) use cross-country evidence to establish a link

between human capital and growth. Hendricks and Schoellmann (2017) investigate wage gains and wage convergence for immigrants to the United States and find that differences in human capital levels in the sending country explain 60 percent of the observed difference in wage gains. Jones (2014) argues that standard growth accounting models estimate a lower bound for the importance of human capital for growth and demonstrates that an alternative method of aggregating human capital in models of endogenous growth can explain all of the observed cross-country income differences.

In an attempt to better capture human capital, Hanushek and Woessmann (2008) examine the relationship between growth and alternative measures of workers' cognitive skills. They find that countries which increase cognitive skills grow more quickly. Hanushek et al (2017) further show that cross-state variation within the US in "knowledge capital" can explain 20-30 percent of state variation in per capita GDP. Relatedly, Schoellmann (2012) use wage returns to schooling to measure differences in the quality of education across countries and finds that foreign workers from countries with better education experience larger wage gains upon moving to the United States.

Yet, despite the strong evidence that links human capital with economic growth, there is as yet, little direct evidence of a causal effect of human capital on innovation, with a few notable exceptions, such as Bianchi and Giorcelli (2019, discussed below).

## **Investing in Basic Skills**

Are inventors born or made? Providing an answer to this question requires understanding the production function for innovation. Susanne Scotchmer (1991) modeled innovation as a cumulative process, whereby existing knowledge acts as an input in the production of new content. One of the prerequisites for the production of high-quality innovative content is therefore the ability to reach the knowledge frontier. As technology progresses, however, this frontier shifts outwards (Jones 2009), increasing the "burden of knowledge" on potential inventors.

What does it take to reach the knowledge frontier? Like innovation, education is a cumulative process, and access to higher-level knowledge relies on access to basic education and skills in the very first years of life. Einstein could hardly have been able to invent the general

relativity theory, had he not had access to primary and secondary education. In this chapter, we argue that education can support the development of innate traits, such as cognitive and non-cognitive abilities, that encourage entrepreneurship and innovation.

### *Schooling and Cognitive Abilities*

Recent research has emphasized the importance of innate traits of successful inventors and entrepreneurs. Aghion et al. (2017), for example, argue that inventors tend to have higher IQ, which has been interpreted as a signal of high ability and talent. Emphasis on these “innate” traits might suggest that luck is a key factor for becoming a successful inventor.

A closer look at the empirical evidence, however, reveals that education can play an equally important role in determining whether innate traits lead towards innovation. Time spent in school, for example, has a causal positive effect on children’s cognitive abilities. Ritchie and Tucker-Drob (2018) use a regression-discontinuity design on school entry-age cutoffs to show that an additional year of schooling increases IQ by 1 to 5 points. Moreover, they find that effects persist across the life span. Similarly, Cornelissen and Dustmann (2019) use differences in school-entry rules across regions in England to show that schooling improves literacy and numeracy skills of children aged 5 to 7, as well as non-cognitive skills for children aged 11.

The benefits of additional schooling, however, are not confined to the early years. Cascio and Lewis (2006) explore the effects of an additional year of high school on a person’s score in the Armed Forces Qualifying Test, and find large effects especially on racial minorities. These findings suggest that late investments in schooling can help close racial and ethnic gaps in cognitive skills. Using data from Sweden and exploiting conditionally random variation in in test-taking dates, Carlsson et al. (2015) estimate that ten additional days of high school raise intelligence scores by one percent of a standard deviation. Adding to this evidence, Card and Giuliano (2016 a, b) show that underrepresented minorities benefit from increased access to gifted and talented programs (more on this in the next section): Gaining access to these programs in fourth grade leads to a 0.7 standard deviation increase in math test scores for Black students, from 0.8 to 1.5 standard deviations.<sup>1</sup> Such a large increase could trigger important improvements in the odds that Black students become inventors: the estimates of Bell et al. (2019) suggest that a similar shift in the Math test score distribution is associated with an increase in the probability

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<sup>1</sup> See Card and Giuliano (2016a), Table 3.

of being an inventor (defined as someone who ever patented) from 0.1 to 0.7 per thousand for Black students.<sup>2</sup> Such an increase would close a large share of the innovation gap between Black and European-American students, and suggest that education can help to produce many future innovators.

### *Schooling and Non-Cognitive Abilities*

Cognitive abilities, however, are not the only innate trait associated with innovation and entrepreneurship. Levine and Rubinstein (2016) find that entrepreneurs have specific personality traits, which make them “smart and illicit.” Compared with the unincorporated self-employed, the incorporated self-employed (as a proxy for entrepreneurs) tend to score higher on cognitive tests, show greater self-esteem, and are more likely to have engaged in illicit activities as teenagers. Education can keep “smart and illicit” individuals, especially those coming from less advantaged backgrounds, from falling through the cracks.

Despite these advances, the predictive power of individual traits is fairly low, and there are enormous potential returns to democratizing access to education and to supporting everyone to reach the knowledge frontier.

## **Universities as a Source of Entrepreneurship and Innovation**

If education is important for producing future innovators, what is the role of universities in this process? To answer this question, we first review the existing evidence on linkages between universities, entrepreneurship, and innovation.

Today, universities such as Stanford and MIT in the United States or the Technion in Israel serve as catalysts for entrepreneurship and innovation. But can entrepreneurship be taught? Many university professors believe that yes, entrepreneurship is a skill that can be trained through exposure and experience. Israel’s Technion was one of the first universities to offer a course in entrepreneurship, when Nobel Laureate Dan Shechtman, world-renowned for his work in chemistry and material science, set up a course on technological entrepreneurship.<sup>3</sup> Shechtman

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<sup>2</sup> Bell et al. (2019), Figure IV (B).

<sup>3</sup> “Technion fosters entrepreneurship within ivory towers as Startup Nation calls” Times of Israel, 25 December 2019. Available at <https://www.timesofisrael.com/technion-fosters-entrepreneurship-within-ivory-towers-as-startup-nation-calls/>

has been running this course successfully for more than 30 years, and the Technion now pushes to deepen its commitment to teaching entrepreneurship. Ezri Tarazi, a professor of industrial design who is in charge of Technion's program, argues that entrepreneurship can in fact be taught and "Talent can be developed."

Focusing on a major technology based university, the Massachusetts Institute of Technology (MIT), Hsu, Roberts, and Easley (2007) examine trends in entrepreneurship among MIT alumni since the 1930s to investigate who enters entrepreneurship and how this has changed over time. One of their most striking findings is that rates of company formation by MIT alumni have increased dramatically since the 1930s, suggesting that MIT may have become "better" at encouraging entrepreneurship. Notably, they find that rates of entrepreneurship are generally higher among MIT alumni who are foreign-citizens (which may present an effect of positive selection) and that women alumnae lag behind their male colleagues in the rate at which they become entrepreneurs. Both of these findings suggest that expanding access to university education can encourage entrepreneurship and innovation, especially if they are combined with programs targeting underrepresented minorities and female entrepreneurs.

The origins of MIT and other "technology-based" universities like Cornell and Iowa State can be traced back to the "land-grant universities, established by the Morrill Acts of 1862 and 1890. Funded initially by granting federally-controlled land to colleges, the mission of these colleges was purposefully practical (in stark contrast to the liberal arts curriculum), focusing on practical agriculture, science, military science, and engineering.

Research on the land grant college system suggests that it played a particularly important role in encouraging local entrepreneurship and innovation. Kantor and Whalley (2020) show that agricultural extension centers that were connected to the US land grant system created important productivity spillovers to the local economy. A working paper by Maloney and Caicedo (2020) shows that the land grant universities, which trained engineers, encouraged county-level economic growth. In addition, research by Andrews (2018), Hausman (2013), Valero and Van Reenen (2019) has shown that the establishment of universities increased local invention. Andrews (2020) examines the effects of land grant colleges on agricultural patenting and productivity by exploiting cases in which the location (county) in a state that received a land grant college was chosen through an "as good as random" process, and compares outcomes for

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these 29 universities with runner-up counties that were not chosen. Andrews find that agricultural innovation (both in terms of patents and new crop varieties) increased in these counties relative to the control.

Rosenberg (2009) argued that reliance on local funding has created strong incentives to focus on applied research (Rosenberg 2009) that has helped create local clusters of innovation. Land grant colleges in particular were good at securing social returns from publicly funded research, and perhaps even superior to the current, US system focused on patenting, licensing, and technology transfer (Mowery et al 2004).

The available evidence suggests that funding plays a major role in determining the rate and direction of technical change. Hvide and Jones (2018), for example, show that a change in funding rules in Norway created dramatic effects on both entrepreneurship and patenting. Until 2003, Norwegian professors benefitted from the “professor’s privilege,” granting full rights to new business ventures and intellectual property. In that year, however, Norway switched to a system of shared rights, similar to the system established by the Bay-Dole Act of 1980, which grants just one third of these rights to the professor, with two-thirds going to the university (e.g., Lach and Schankerman 2008). Using comprehensive data on Norwegian workers, firms, and patents, Hvide and Jones document a 50 percent decline in entrepreneurship and innovation in response to this change. Earlier research, using alumni presentation on Congressional appropriations committees as an instrument for research funding, Payne and Siow (2003) had shown that an increase of \$1 million in federal research funding (in year 1996 \$) results in 10 additional articles and 0.2 additional patents.

Analyses of university patenting have shown that the relationship between universities and innovations that surround them is in flux and may be weakening over time (Henderson, Jaffe, and Trajtenberg 2006). Yet, the available evidence may underestimate the real benefits of universities for entrepreneurship and innovation if universities develop *methods* rather than creating specific start-ups and firms. Cohen et al (2002) find that actual products from academic research are less important than research techniques and tools (Cohen et al., 2002). Wright (2012) further shows that the way of doing agricultural research that was developed in the land grant system helped to encourage agricultural innovation that formed the foundation of the Green Revolution. More recently, examining drug development over the 1988-2005 period, Sampat and Lichtenberg (2011) find that public sector labs account directly for about 10 percent of drugs, but

may enable two-thirds of marketed drugs. Taken together, these findings suggests that spillovers from universities to the private sectors are difficult to quantify and easy to underestimate.

Another channel by which education can encourage innovation is by improving a person's access to mentors and potential collaborators and mentors. Jones, Wuchty and Uzzi (2007, 2008), Jones (2009), Deming (2017), Bell, Jaravel and Petkova (2018) all show that innovation often happens in teams. Universities and other types of educational may provide the settings in which these teams are formed.

Spillovers in teams and among highly skilled individuals more general appear to be particularly important in STEM. Azoulay et al (2010), for example, document that the death of a superstar in science reduces the productivity of their collaborators. Bell et al. (2019) use tax data linked with patent records to show that mentors matter greatly for invention. Moser, Voena, and Waldinger (2014) show that the arrival of prominent German Jewish émigré chemists promoted lead to a substantial increase in patenting in the fields of the émigrés. Moser and San (2020) further show that restrictions on immigration in the 1920s, which reduced the number of Eastern and Southern European-born scientists who were active in the United States caused a persistent decline in invention by US-born inventors. Taken together, this literature suggests that educational institutions are an important source of innovation.

## **Improving the Type and Quality of Education**

Beyond simply expanding access to education, improving the type and quality of education might have large effects on innovation, entrepreneurship, and growth. Underepresented minorities benefit from targeted programs, such as gifted and talented programs in K-12 schools (Card and Giuliano 2016a, 2016b), and their gains in test scores can translate into increased chances of becoming innovators. Improving access to these types of programs and expanding their scale could in principle democratize access to invention. On the other hand, certain types of education programs, especially in the context of higher education, seem to be particularly beneficial for innovation. Bianchi and Giorcelli (2019), for example, show that increased and “democratized” access to STEM education, through the opening of vocational and technical programs in 1960 Italy, led to increases in patenting. Similarly, Toivanen and Vaananen (2016) find large, positive causal effects of expanding access to Engineering MSc in Finland on patenting.



Yet, in spite of a possible “democratizing” role of higher education for invention, Bell et al. (2019) show that US inventors (measured through patentees) comes from a small set of top US schools, which admit very few low-income students. These findings casts doubts on the idea that the current US education system is effective in providing access to the type of innovation that is needed for broad-based and “democratic” invention.

## **Effects of Innovation on Education**

Our discussion to this point has focused on the potential benefits that improvements in access and in the quality of education can have for innovation, entrepreneurship and, ultimately, growth. Innovation, however, can also directly affect education, for example by reducing costs, improving quality and efficiency.

In recent years, the education sector has adopted new technologies at a much slower rate compared with other sectors (Chatterji 2017). Since 1995, has been experiencing slow productivity growth (Cutler 2001). A possible reason for this is that the private benefits from technology adoption are smaller in education than in other sectors, due to the structure of the market (Chatterji and Jones 2012). Alternatively, management challenges, which are typical of large organizations in the education sector, may have hindered the adoption of new technologies due to a bias in favor of the “status quo” and distorted incentives (for example to prevent the substitution of labor with capital or the change in curricula).

A first strand of research has used experiments to evaluate the effect the adoption of new technologies in the classroom on student achievement. In the United States, technology adoption has proceeded at a reasonable pace. The ratio of students to computers for 15 years old is close to one (Bulman and Fairlie 2016), and nearly all students have access to internet (Golsbee and Guryan 2006, Fairlie et al. 2010). Barrow et al. (2009) argue that technology adoption in schools could be beneficial because it allows for better personalization of the learning experience.

Chatterji 2017 explains “However, despite the ubiquity of technology in the classroom and various proposed mechanisms of action, rigorous evaluations of the impact of technology on student performance are rare and results are mixed (Bulman and Fairlie 2016). Goolsbee and Guryan (2006) find that while E-Rate increased investments in education technology between 1996-2000 in California public schools, it produced no statistical impact on student performance.

This finding is consistent with other studies from the United States and around the world, which find little or no impact of technology on student outcomes (e.g., Angrist and Lavy 2002; Rouse and Krueger 2004). However, some studies have found a positive impact of technology on student performance (Ragosta 1982; Banerjee et al. 2007; Machin et al. 2007; Barrow, Markman and Rouse 2009; Cheung and Slavin 2013; Muralidharan et al. 2016). As discussed in Barrow et al. (2009), these benefits must be weighed against the costs of program adoption and ongoing implementation.”

Even when technology is present in the classroom, teachers and students might not use it (e.g., Cuban et al. 2001) or use it in suboptimal ways (Wenglinsky 1998). For example, recent high-profile technology interventions, such as a \$1 billion tablet initiative in the Los Angeles Unified School District, have been roundly criticized by journalists and education policy experts due to implementation challenges. In the Los Angeles Unified school district, for example, many students were unable to access the required curriculum due to serious technical issues.

## **Discussion**

Taken together, the research that we have reviewed in this chapter indicates that improvements in access and in the quality of education have immense potential in encouraging entrepreneurship and innovation. Education provides the tools that creative individuals need to succeed as inventors and entrepreneurs. Some of these tools can be measured quantitatively, through improvements in IQ scores, which have been linked to innovation. But many others are more intangible, including tools taught in entrepreneurship programs across the world. These programs encourage innovation at two important margins. Firstly, they help people who would have been innovators anyway to become more successful, either in terms of increased invention or by creating new businesses that are more profitable. Secondly, they allow creative individuals who would otherwise not have become inventors or entrepreneurs to break that barrier and reach their potential. Based on the research in this survey, we conclude that this second mechanism is particularly important in encouraging innovation through education.

Many big questions, however, remain to be answered. For example, to better guide education policy we need better estimates of the marginal returns to investments in skills for different types of people (such as men vs. women, majority students vs underrepresented minorities). Moreover, there is a great need for additional research on the *stage* of life at which

investments in education are most effective in encouraging creativity and innovation (e.g., early childhood education vs. universities). There is also no real consensus on the *type* of education that is most successful in encouraging innovation (e.g., training in math and science vs. soft skills).

Different answers to these questions imply radically divergent policies, ranging from focused investments in the “best and brightest” to concerted efforts at expanding and maintaining a broad pipeline of innovation. Putting aside considerations of inequality for the moment, the approach we take to “access” helps determine the level and the quality of innovation. These considerations heighten the urgency of the issue for education policy.

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