WHY INNOVATIVE ACTIVITY VARIES?  
THE ROLE OF HIGHER EDUCATION IN LOCAL INNOVATIVE ACTIVITY

By Joshua L. Rosenbloom

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ABSTRACT

Innovation has been the primary source of improvements in the standard of
living over since the Industrial Revolution. With the growth of the knowledge
economy local economic development officials have sought to foster innovation
within their communities. Many have also sponsored efforts to benchmark local
levels of innovation in comparison to other places. This paper offers a careful
analysis of the characteristics and interrelationships between the most widely
used measures of local innovative activity. It proposes and estimates a model of
the causes of intercity variation in innovation, and shows that much of this
variation be accounted for by differences in the size of the higher education
sector. On the other hand, it finds that some aspects of innovation
commercialization—especially venture capital investment and Initial Public
Offerings—tend to be more concentrated in a few locations than the model
would predict, suggesting the presence of economies of scale in these activities.

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