2018 Nobel Prize Recognizes Economic Importance of Strong Patent Rights

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On October 8th, the 2018 Nobel Prize in Economics was awarded to Paul Romer, an American economist who has produced foundational work on patent rights and the policies underlying sustainable economic growth.

Beginning with his Ph.D dissertation in 1983, Romer's work has demonstrated that innovation is a product of strong intellectual property rights and investments in research and development (R&D)—upending then-prevailing assumptions that new ideas simply arise irrespective of the regulatory conditions in effect. Thanks to Romer, it is now widely recognized that policymakers have the ability to promote technological innovation and spur overall economic growth by, among other things, establishing a strong patent system and investing in new technologies.

Romer identified strong patent rights, in particular, as imperative for sustained economic growth, because they incentivize the costly R&D necessary to develop transformative ideas. Unlike many other standard economic goods, Romer distinguishes ideas as "nonrival" goods—that is, an idea does not experience diminishing returns the more other people use it. As a result, without robust protections in place, someone who develops a successful new idea would not reap the full benefits of the numerous other users who copy the idea for their own advantage. Patent rights are designed in part to address these "positive externalities" of innovation, so that the full range of benefits that flow from successful new technologies are more fully captured by the innovator. A strong patent system thus helps ensure that innovators are properly rewarded for sharing their intellectual property—incentivizing its creation while driving technological progress and overall economic growth in the process.

In light of Romer's findings, U.S. policymakers should be concerned as metrics indicate that the U.S. patent system is currently in the midst of a decline. According to the U.S. Chamber of Commerce's Global IP Index, the United States dropped to twelfth place worldwide in patent system strength in 2018, down from tenth last year and first place every year before that. The 2018 Bloomberg Innovation Index also showed the U.S. falling out of the top ten most innovative countries for the first time since that Index began in 2013.

If the incentives to innovate in the United States indeed are weakening, innovators will be discouraged from investing in the costly and risky R&D necessary to create new technologies—jeopardizing the potential for long-term growth under Romer's economic theory.

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