UNLEASH THE LITTLE GUYS

ONCE THE LAND OF THE FREE, AMERICA NOW HOLDS UP ENTREPRENEURS AND START-UPS. FOUR WAYS TO FIX THE PROBLEM. >>> BY CARL J. SCHRAMM

MUCH OF THE CURRENT DEBATE over U.S. economic policy is focused on the alleged threat China and India pose to American leadership in the global economy. Pointing to both countries' strong growth rates, trade surpluses with the United States, expanding capital markets and huge populations, alarmists claim that the United States is poised to fall behind—and that American workers and businesses are already feeling the crunch.

What's more troubling is the pace of research-and-development moving from the United States to India and China, and indications that Chinese and Indian scientists, so vital to U.S. economic growth, are returning home due to extended visa delays. This poses a competitive threat to entrepreneurial activity, America's most important growth engine. The impetus is now on U.S. policymakers, business leaders and universities to turn the tide. The process by which entrepreneurial activity generates growth was dubbed "creative destruction" by economist Joseph Schumpeter. As companies grow, they are forced to adapt and innovate to stay relevant. This process of weeding out inefficient companies ensures that strong, growth-oriented firms are left in their place.

Since the United States gave up bureaucratic capitalism in favor of entrepreneurial capitalism in the early 1980s, its economy has doubled in size, creating 45 million new jobs and unleashing a technological revolution leading to increased productivity and better living standards. As evidence that Schumpeter was correct, net job creation in the United States occurs almost entirely in firms less than five years old.

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Over the same period, America's traditional economic competitors, including most European countries and Japan, have experienced slow growth and high unemployment. Embracing economic stability above all else, Europe and Japan have protected ossifying companies, limiting opportunities for the creation of new, innovative firms.

European countries that have managed to break free of so-called Eurosclerosis—including Ireland, Iceland, Norway, several Eastern European nations and such areas as Scotland—have embraced the entrepreneurial system of low taxes, efficient regulation and flexible labor laws that underpin U.S. economic success. India and, to a lesser extent, China have also made substantial progress toward promoting entrepreneurship by encouraging business formation and expanding property rights.

Given this emerging entrepreneurial competition, the United States needs to strengthen its own entrepreneurial environment by addressing several key issues: health care, education, immigration and research.

HEALTH CARE: Today, American workers' independence is severely hampered by their reliance on employer-linked health insurance, a relic of the World War II era. Employer-based health insurance has several deficiencies. First, relying on employers for health coverage makes starting a business doubly risky. Leaving an employer means not only loss of income, but also loss of insurance. This results in "job lock" the fear that leaving a company to start a new enterprise will make finding adequate health insurance impossible. New entrepreneurial firms also have smaller "risk pools," which results in their having to pay higher premiums than large companies—costs that get passed on to employees or result in lower profits for the firm.

Decoupling health insurance from employment would motivate prospective entrepreneurs to take the critical step of leaving their current jobs and starting businesses. It would also create a more level

THE NEED FOR SPEED: *Though U.S. R&D is still strong (at centers like MIT's Whitehead Institute, above), Asia is coming on fast*

playing field between large and small firms.

The most direct way to accomplish this would be to phase out the tax policy that led to the current employer-based health-insurance system in the first place. Employees no longer covered by their employer-provided plans would benefit from a rise in their real wages (roughly equivalent to the cost of health insurance previously paid for by their employer), which they would use to purchase health insurance on their own, or through any number of non-employer groups. Some portion of the resulting gain in federal revenues—roughly $125 billion—could then be used to support the health-insurance premiums of individuals with low to moderate incomes.

EDUCATION: Innovation and science are closely linked, so ensuring the United States has an adequate pipeline of science and engineering graduates should be a priority.

Since 2000, there have been more foreign students than American-born students studying engineering, the physical sciences and mathematics at the graduate level at U.S. universities, and although the gap has narrowed somewhat since then, that is most likely because of post-September 11 immigration restrictions and not because of an improvement in the U.S. numbers.

Perhaps the best way to train and cultivate scientists—and to keep strong the link between science and innovation—is to ex-

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GROWTH INVESTMENT: *More money for science education is long overdue*

pose our graduate students and postdoctoral fellows to commercialization and entrepreneurship practices.

IMMIGRATION: The dearth of U.S.-born scientists and engineers necessitates policies to welcome more immigrant scientists to America. A team of researchers at Duke University and the University of California, Berkeley, recently found that between 1995 and 2005 immigrants founded or co-founded 25 percent of all U.S. high-tech firms, and in 2006 accounted for 24 percent of international patent applications from the United States.

Today more than 1 million people are waiting in line for legal permanent-resident status. Yet skilled workers and their families have access to only about 120,000 visas each year.

What's worse, the number of visas available to immigrants from any one country is fewer than 10,000, so the wait time for those from countries with the largest populations, such as India and China, is close to six years. The United States faces a potential reverse brain drain as increasing numbers of skilled Indian and Chinese workers return home to booming economies.

U.S. officials have made a dent in reducing visa-processing backlogs, but even if the current backlog were eliminated completely, with more than a million people waiting for only 120,000 visas each year, it will keep reappearing faster than it can be erased. The only permanent solution is to increase the number of available visas.

One idea that would boost innovation and cost the federal government very little is to grant permanent residency and work status, and perhaps even automatic citizenship, to immigrants who enter the country to study mathematics, engineering or the sciences upon receipt of their degrees from qualified universities.

IN DEMAND: *American economic growth depends on the creation of companies like Apple*

R&D FUNDING: Research is the lifeblood of an innovation-based economy. Yet most universities (aside from a handful including Stanford, MIT and Berkeley) do not have a broad innovation and commercialization strategy required to support potential entrepreneurial outcomes. Thus, a number of U.S. companies have shifted their spending to universities in England, India, Russia and China. The U.S. government, as the primary funding source for university-based research, can help educate universities about the importance of expeditiously commercializing ideas developed by their faculty. More ambitiously, federal agencies could condition their research grants on universities' experimenting with and using alternative approaches to commercializing research.

Action in these four areas is essential to reinvigorating the entrepreneurial atmosphere that has nurtured U.S. economic growth for 25 years. The United States is no longer the world's entrepreneurial upstart. Emerging economies are bringing innovations and new challenges to the global market. Faced with this competition, the task for the United States now is to avoid getting complacent and to stay ahead of the pack.

SCHRAMM *is president and CEO of the Kauffman Foundation and a coauthor of "Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity."*

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