

Build a Stronger America

Join the Entrepreneurs' Movement

State of Entrepreneurship Speech

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National Press Club

January 19, 2010

We are meeting here today at a grave moment in our national economic life. The recession that began just over two years ago has taken a horrific toll on this country. Despite so-called “green shoots” that economists claim to see sprouting up around every corner, the recession continues to be all too real for fifteen million unemployed Americans, a number that worsened last month despite this incipient recovery. While there is no magic solution to this, I want to talk today about a possible answer.

Now, in the time it took for me to say those few sentences, one new company was founded in the United States, creating four new jobs. By the time I finish this speech, 20 new firms will have been started, creating roughly 80 new jobs. This is the hope and power of entrepreneurship—and while entrepreneurs are not the sought-after silver bullet, economic recovery will not happen without them.

I approach this as an economist, a class of thinkers now notorious for their failure to foresee the financial crisis and recession, yet insistent on their ability to bring us out of it. But I also stand here as the president of a foundation, whose donor, Ewing Kauffman, appreciated the contributions entrepreneurs make to our economy and society.

And yet, entrepreneurs are too often lost in glib economic policy discussions that center exclusively on interest rates, large-scale banks, and federal programs. These are indisputably important issues. But these policy instruments or institutions are not the primary engines of economic growth and advances in human welfare. Only new companies bring forth new innovations and new jobs.

Increasingly, I am pleased to report, economists and policymakers are beginning to recognize the vital role of entrepreneurs. Happily, their heightened interest is due, in part, to the Kauffman Foundation's significant funding of economic research. But even when policymakers do speak of entrepreneurship, it is most often in abstract terms—how much entrepreneurs contribute to this or that indicator, as if they were more a statistic than a living, human phenomenon.

And even that perspective can't be taken for granted. The dominant schools of economic thought in the 20th century downplayed or ignored the role of entrepreneurs, preferring instead to see all economic activity as the creature of three fundamental forces: big business, big labor, and big government.

Forgotten in this equation was the fundamental fact that every big company had to start small. There are no Athenas in business, no companies that spring fully formed from the mind of their founder. They all begin with one person and an idea.

That person is an entrepreneur ... and the idea is what sets him or her apart from the crowd, what compels him to leave a job, strike out on her own, and take a big risk. When that risk pans out, the result is a fast growing company, hundreds and possibly thousands of new jobs, new wealth invested in every sector of the economy and spent in every corner of society, and—most fundamentally—a new product, service or business model. Nearly everything we take for granted in our daily lives today began its own life in this way, as the creation of an entrepreneur. Think about automobiles, air conditioning and, more recently, software and search engines.

Given that entrepreneurs are vital to our nation's economic success and social health, how are they doing? What is the state of entrepreneurship today?

I have both the proverbial good news and bad news to report.

First, we know that in spite of everything, entrepreneurs are still active. Entrepreneurs are still the primary engine of job creation in the United States. In the last 30 years, literally all net job creation in this country has taken place in firms less than five years old.

To illustrate this point better, consider that eBay, in its first five years of existence, hired 640 people—an average of 128 new people per year. The eBays of the future are out there doing the same thing right now. A more recent example is Mary Naylor, founder and CEO of VIPdesk (based in Northern Virginia), who is here today and who will be joining our panel discussion later. Mary started her company with only \$2,000 and now runs the nation's largest corporate Concierge service.

This, ladies and gentlemen, is how recoveries are made.

Second, entrepreneurs are not easily discouraged. We know from our own research at Kauffman that past recessions have not prevented the formation and growth of great companies: half of today's Fortune 500 companies were founded in a recession or bear market. In boom times and in tough times, roughly 600,000 new firms are formed every year in America: about one per minute. That number is surprisingly constant. One might expect to see it fall in recessions, but it doesn't—in part because laid-off and underemployed workers often take the entrepreneurial leap, a step they perhaps avoid in more stable times.

Third, as America ages, the pool of potential entrepreneurs only increases. Contrary to popular belief, entrepreneurs by and large aren't kids working in their parents' garages. The average age of company founders in this country is 40! Moreover, there are more people aged 55 to 64 starting businesses than there are people aged 20 to 24. These are seasoned professionals, bringing the benefits of their expertise and activity to the communities and institutions that nurtured their talents and careers.

So, what's the bad news?

In a new poll we just completed, entrepreneurs paint a pretty grim picture. One-third of entrepreneurs tell us they have had to reduce their head counts in the past year, and close to two-thirds have seen their sales volume decrease. Two-thirds have seen their profitability decline as well. Additionally, and this is very worrisome, over 70 percent of entrepreneurs say that they don't expect to add additional employees this year.

Worse, with this continuing unemployment, consumers are understandably nervous about spending. In such an environment, it won't just be more government spending that will get consumers to open their wallets – responsibly, I might add, we don't want consumers overdoing it, as too many were pre-crisis by using their houses as ATMs. But this responsible spending, both here and abroad, won't happen until consumers

are once again excited to spend – not on the things that were around before the housing bubble popped, but on novel products and services. Once these are developed and widely commercialized, a virtuous cycle can begin. As consumers spend more, businesses have reason to invest and hire. And the more hiring that occurs, the higher incomes and spending will be. And then we will have the recovery we all want and are waiting for.

But to get this virtuous ball rolling we need – guess who – entrepreneurs, who are responsible for most of the breakthrough products that have changed our lives for the better. We need entrepreneurs for today’s breakthroughs in energy generation—only they will develop and commercialize the successor to petroleum. We need breakthroughs in health and medicine—and only entrepreneurs will bend the cost curve and continue to extend life expectancy. Entrepreneurs will also continue to provide services we need and want, such as Rosetta Stone, Zappos, and Mint.com.

We could wait for history to repeat itself, to generate the future Fortune 500, as entrepreneurs have done in previous downturns. But with another 85,000 jobs lost last month, I, for one, would be much more comfortable if we had some policies to help history along. Here, then, are some big ideas in that spirit.

First, let’s rationalize our immigration system. Over the last decade and a half, fully one quarter of all technology firms founded in the U.S. were started by immigrants. Factor in first-generation Americans—the children of immigrants—and the percentage rises. Reggie Aggarwal, founder and CEO of Cvent, has created some 500 jobs in the Washington area. Reggie is here today and will share his perspective during our panel discussion.

Our immigration policy needs to be friendlier to people like Reggie and his parents. We could start by offering instant citizenship to any of the thousands of bright young people from foreign countries who graduate from our universities. We should also change the provisions of the EB-5 visa, the so-called “entrepreneur’s visa.” Rather than requiring prospective immigrants to bring cash into the country – the current rule requires \$1,000,000 (or \$500,000 if the company is in a distressed area) – we should favor those who plan to come and start companies, and extend their visas once they begin hiring American residents. Countries such as Singapore already allow in new immigrant entrepreneurs who bring in far less, \$50,000, than we require. The United States simply cannot afford to lose the emerging global race for entrepreneurial talent.

Another high-impact, low-cost reform would be to make some of the more onerous Sarbanes-Oxley requirements optional. SOX was enacted, after all, to protect shareholders. So why not allow shareholders to vote on whether their companies will fulfill certain SOX requirements? This would permit companies whose shareholders don't feel the benefits of SOX outweigh the costs to access public capital more quickly and less expensively than is the case now.

Our third idea won't be cheap, but it would be effective. Let's exempt firms less than five years old, the ones that historically responsible for virtually all net new jobs, from payroll taxes. Doing this on a temporary basis – say, two years – would strengthen the incentive to hire while limiting the impact on the deficit. In this spirit we might also consider measures that encourage local banks to steer money into new companies.

The final three ideas all concern education. Let's start from the top—the faculty. It's time to implement a model of choice for academic entrepreneurs. Currently, professors can choose where to publish the results of federally funded research but can't choose what might even be more important to our economy – the appropriate expert to commercialize and license their technology. Professors are required to follow one path, the one defined by their university. Let's instead find multiple avenues to commercialize our federally funded research and use the right people to focus on economic outcomes. We are not talking about changing the Bayh-Dole legislation – it was the correct decision to have the university “own” federally funded inventions, but that does not mean universities have to control the licensing of these innovations. Rather, let's allow a free market in the licensing of technology developed by university faculty to flourish, which would bring consumers the benefits of new technologies much more quickly. Frank Douglas, another of our panelists and a former pharmaceutical industry leader, former head of the Center for Biomedical Innovation at MIT and a board member of PureTech Ventures, has dealt with many university scientists attempting to commercialize their technologies. He'll have more to say about all this shortly.

Our universities are also teeming with very smart graduate and post-doctoral students in the hard sciences, engineering, and other fields. A great many of them also have ideas that can be commercialized, but no idea how to go about the process. The post-doctoral fellowship, to enable students to continue their research, perhaps as a route to an academic career, has become a part of the academic landscape. We have 47,000 Postdocs in the U.S.— highly educated and potentially underutilized talent. It's time for the federal government to pay for commercialization

fellowships, along with special training and mentoring to allow the right ones to become scientific founders. Our new initiative, Kauffman Labs for Enterprise Creation, is doing pioneering work in this area.

Finally, we have to make much better efforts to capture the imagination of the young. The earlier we can interest students in entrepreneurship the better. Programs that introduce undergraduates to the possibilities of business creation can open up new horizons for talented kids and unleash an entrepreneurial drive that hitherto had lain dormant. The Network for Teaching Entrepreneurship, or NFTE, does great work in this area with high school students, primarily in the urban core. At the collegiate level, there's a promising new model at the University of Miami called LaunchPad that is housed in the school's career counseling center. In just a year of putting a sign on the door, nearly 1,000 students from all fields of study, got involved – proof that the entrepreneurial spirit is alive everywhere and often just needs a bit of nurturing.

This list of suggested policy steps is hardly complete. I offer these ideas merely to jump-start a much-needed conversation—at a time when our nation is bleeding jobs and needs some fresh solutions. Happily, eighty-five percent of the entrepreneurs in our new poll still believe this is a great country in which to start a business. And close to three-quarters of Americans want policies that will support entrepreneurship. Unleashing these innovators...these risk-takers...these job-creators is the best way to assure a sustained recovery, and to assuring that the state of our union is strong.