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Opinion - Start-Ups, Not Bailouts

By Thomas L. Friedman

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Here's my fun fact for the day, provided courtesy of Robert Litan, who directs research at the Kauffman Foundation, which specializes in promoting innovation in America: "Between 1980 and 2005, virtually all net new jobs created in the U.S. were created by firms that were 5 years old or less," said Litan. "That is about 40 million jobs. That means the established firms created no new net jobs during that period."

Message: If we want to bring down unemployment in a sustainable way, neither rescuing General Motors nor funding more road construction will do it. We need to create a big bushel of new companies — fast. We've got to get more Americans working again for their own dignity — and to generate the rising incomes and wealth we need to pay for existing entitlements, as well as all the new investments we'll need to make. It was just reported that Social Security this year will pay out more in benefits than it receives in payroll taxes — a red line we were not expected to cross until at least 2016.

But you cannot say this often enough: Good-paying jobs don't come from bailouts. They come from start-ups. And where do start-ups come from? They come from smart, creative, inspired risk-takers. How do we get more of those? There are only two ways: grow more by improving our schools or import more by recruiting talented immigrants. Surely, we need to do both, and we need to start by breaking the deadlock in Congress over immigration, so we can develop a much more strategic approach to attracting more of the world's creative risk-takers. "Roughly 25 percent of successful high-tech start-ups over the last decade were founded or co-founded by immigrants," said Litan. Think Sergey Brin, the Russian-born co-founder of Google, or Vinod Khosla, the India-born co-founder of Sun Microsystems.

That is no surprise. After all, Craig Mundie, the chief research and strategy officer of Microsoft, asks: What made America this incredible engine of prosperity? It was immigration, plus free markets. Because we were so open to immigration — and immigrants are by definition high-aspiring risk-takers, ready to leave their native lands in search of greater opportunities — "we as a country accumulated a disproportionate share of the world's high-I.Q. risk-takers."

In addition, because of our vibrant and meritocratic university system, the best foreign students who wanted the best education also came here, and many of them also stayed. In its heyday, our unique system also attracted a disproportionate share of high-I.Q. risk-takers to high government service. So when you put all this together, with our free markets and democracy, it made it easy here for creative, high-I.Q. risk-takers to raise capital for their ideas and commercialize them. In short, America had a very powerful, self-reinforcing engine for growing innovative new companies.

“When you get this happy coincidence of high-I.Q. risk-takers in government and a society that is biased toward high-I.Q. risk-takers, you get these above-average returns as a country,” argued Mundie. “What is common to Singapore, Israel and America? They were all built by high-I.Q. risk-takers and all thrived — but only in the U.S. did it happen at a large scale and with global diversity, so you had this really rich cross-section.”

What is worrisome about America today is the combination of cutbacks in higher education, restrictions on immigration and a toxic public space that dissuades talented people from going into government. Together, all of these trends are slowly eating away at our differentiated edge in attracting and enabling the world’s biggest mass of smart, creative risk-takers.

It isn’t drastic, but it is a decline — at a time when technology is allowing other countries to leverage and empower more of their own high-I.Q. risk-takers. If we don’t reverse this trend, over time, “we could lose our most important competitive edge — the only edge from which sustainable advantage accrues” — having the world’s biggest and most diverse pool of high-I.Q. risk-takers, said Mundie. “If we don’t have that competitive edge, our standard of living will eventually revert to the global mean.”

Right now we have thousands of foreign students in America and one million engineers, scientists and other highly skilled workers here on H-1B temporary visas, which require them to return home when the visas expire. That’s nuts. “We ought to have a ‘job-creators visa’ for people already here,” said Litan. “And once you’ve hired, say, 5 or 10 American nonfamily members, you should get a green card.”

We need health care, financial reform and education reform. But we also need to be thinking just as seriously and urgently about what are the ingredients that foster entrepreneurship — how new businesses are catalyzed, inspired and enabled and how we enlist more people to do that — so no one ever says about America what that officer says to Tom Cruise in “Top Gun”: “Son, your ego’s writing checks your body can’t cash.”