

Small Business and Entrepreneurship during an Economic Recovery
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November 9, 2011

(Applause)

CARL SCHRAMM: Thank you Bob, and it is certainly a pleasure to be back here in Washington, particularly since I got here from Korea, and it's nice to have a Federal Reserve lunch, something without rice. Um, anyway. Well, already you can see I'm sort of smiling, happy to talk, and I have to remind myself I'm in Washington. This is not a city of humor. This is actually America's least fun city. Look at the buildings. I was just looking out the window here. There's the State Department, looks as if it was designed by Mussolini, and in fact, even the Federal Reserve Board itself across the street looks like a very somber palace.

My very first encounter in Washington was next door at the National Academy of Sciences where I had once upon a time as a young professor bamboozled a competition committee and became a post-doctoral fellow at the National Academy, and it was there I heard my first of three Washington jokes I'd ever heard in my entire life in this city, and I thought I'd tell them to lighten up the crowd here.

So, it turns out the customs inspector of the Port of New York had died and he had an urgent request for the President, President Roosevelt, er President Wilson. So he called the White House, it was a much smaller city in those days, and insisted he speak to the President, and the White House operator said, "It's 2:00 in the morning. Who is this?"

"I'm the Deputy Collector of customs of the Port of New York and I have very important news for the President. I have a very important question." Well, he pestered and pestered, to cut the joke a little short, and finally she connected him with the President at 2:00 a.m.

The President says, "Who is this? It's 2:00, this better be important."

And he said, "Yes, sir, it is, I'm the Deputy Collector of customs for the Port of New York. The Collector has just died."

He said, "Yes, well I'm so sorry to hear that. Why did you call me?"

And he said, "I was wondering if I could take his place."

President Wilson said, "If it's OK with the undertaker it's fine with me." (laughter)

So, anyway (laughter continues) with that type of response in Washington I declare this, I'm on a roll.

And, what I was going to do next was show you a three-minute cartoon, but this being very serious Washington it hadn't gone through the censors yet so we couldn't do this on the fly. But if you saw it, it would actually talk about what entrepreneurs do. In three minutes, you can go to Kauffman.org and find it, it's actually called *Three Things Entrepreneurs Do*. And I was going to show it and you would find it very captivating because it's the front end of graphics and voice-over and design. It's called a sketch book, and actually our having invented this has made a little teeny company in Chicago go from, six months ago, anticipated revenues this year of \$175,000 to now having well over \$1.2 million worth of business on the books. So I think of us as Kauffman as the angel foundation of entrepreneurship in this particular case.

Now, as an economist, I can now say very seriously, assume you've seen the cartoon, (laughter) and I would then say the reason we talk about what entrepreneurs do in a cartoon fashion in 2011 speaks volumes of why I'm here today and why this conference even exists. This is, in fact, a city -- apart from our current situation, this is in many ways a city that John Maynard Keynes created -- the architecture, the static nature of the legislation that moves through here. In fact, the humor itself -- think of Keynes -- the reason I reference that is that this is a city, where the economics that prevail in this city, are all big-firm economics and have been forever.

As witness a case in point, do we have something called the "New Business Administration"? No. The very name "Small Business" suggests static economy and small businesses are a secondary interest of somebody, who knows who, but certainly not important to the government. And indeed, as someone who advances the notion of the importance of new firm creation to macroeconomic growth, a nexus I want to speak of how that came to be, because it is not assumed and is still not assumed in economics.

You think about the reaction, try it yourself. Engage somebody in this city, particularly on the Hill, around the question of entrepreneur, and as surely as I stand here, Alicia said it, you know, people now speak the words entrepreneur, as a colleague of mine inelegantly says, I want to see the baby, don't talk about the labor. But if you think about this in these terms -- not birthing terms, but if you think about my ask, go talk to people in this city about entrepreneurship, and surely two things will pervade in the response, one of two. One is you're talking about hardware stores and the people who have been put out of work by big box stores. That's the narrative in this city. Or else, people will say, oh, I know all about what you're talking about. Let's talk about venture capital. No one will talk to you about the core essence of what it is the entrepreneur does, the entrepreneur's experience, and no one will speak to you about the nexus between firm starting and overall economic growth.

Bob has referenced Mr. Kauffman, and Mr. Kauffman was a person without a college degree who built a huge company. Mr. Kauffman's journey is typical of so many people. It is absolutely the journey of John Rockefeller who became a great philanthropist. He grows up dirt poor in rural America, in Mr. Kauffman's case, Missouri. Like Rockefeller, a father who was in and out of the household, very bad times, Kauffman born in the Depression. His mother moves to Kansas City to run a rooming house and he dies a billionaire. Kauffman dies in '93. Had he died in '98, excuse me, '83, we would likely not be the foundation of entrepreneurship because the very word was not in the American vocabulary in the 1980s as it was in the 1990s. But in his declaration as to the intent of his foundation, this man who gave us more written and video intent for his foundation says the following: Every time we, this foundation, helps an entrepreneur to start a new business we strengthen the national economy.

As an economist I can tell you, you can patrol the books of the 1980s, you can read Samuelsson. Galbraith in 1984 declares in writing that the age of the entrepreneur in America is over, that all new innovation in the United States will come from large company laboratories. He says these words even though Apple, Microsoft, Intel, Genentech are already up running and seen by some people as interesting, new parts of an economy. Indeed, if we were to speak to the ensconced economics advisers to this government, and when I say think of us as a Keynesian government, do name the board of sociologist advisers to the president, or the psychologist in chief to the President, okay? We have a Council of Economic Advisers, for obvious reasons, but most people on the Council of Economic Advisers in any snapshot of the years that you would care to pick will not speak to you about the importance of new firms to economic growth. They won't conceive of it. They will take much more a vision that pervades our macroeconomic thinking and indeed our microeconomic thinking. It assumes the big firm.

My entire graduate education, the undergraduate education of this day assumes the big firm. In my last business, I ran a merchant banking company before I came to Kauffman. My largest client was the Ford Motor Company. I was there almost every week, and I'd sit there having been an entrepreneur and curious about entrepreneurship, not in an academic way, I had never written about it. I would sit in the cafeteria and ask people randomly, how did this company become this company when there was once only Henry Ford? And MBAs by the score would look at me like that was about the most irrelevant historic question ever asked, and even one said, you're a consultant here. You don't ask questions like that here, okay? We are. We just are.

Interestingly I've been at the Kauffman Foundation for now almost ten years. It is very curious to look at the record that when I left the Ford Motor Company as my client, high and dry, the Ford Motor Company employed more people, I believe, than all three big three companies now

engage, now employ, so we may just be us, but we are certainly a big us that's declining, and of course this is one of the things that terrorizes economists in part because they have no theory about how to deal with an economy where big firms may not count as much.

Those of you trained as an economist know I speak here of a hidden worry inside most, or some economists. I think most economists are largely oblivious, and if you look at current economic policy in the United States, you know, the phrase "too big to fail" to those who worry about entrepreneurship is a terrifying phrase.

Now, let's talk about why it is we are here today and how it might be that we came here. I was a labor economist. When I got to the Kauffman Foundation I knew nothing about entrepreneurship other than I had intellectual curiosity and I had started four firms, and I knew it was important. I had been an adviser to venture firms and so forth, and I went to business schools in my very first six months because business schools are where we really used to dish out all of our money. And I sat in introductory classes to entrepreneurship. And I came away, God knows how it was that my brain was ordered this way, thinking my gosh, this all sounds like cheerleading camp. And these are professors, right? It was typical to haul in, for 13 weeks, twice a week, 26 enormously successful graduates of our business school who sat in your seats and they're going to tell your story. First of all, as a real honest to God economist, once upon a time, although labor is at the far edges at what economists greet as the same discipline, it struck me as a professor, let's just say as a professor, that your sense of discipline was to look at data, construct ways in which students might greet reality and provide them with hypothetical, if not theoretical, if not established, theories and theses about what it is they encountered.

And so I came to a view that what the state of understanding in the academic world of entrepreneurship was, given that my own discipline was basically tabula rasa, and not only ignorant but indifferent, if not vigorously ready to reject any interest, any intellectual curiosity in this. And by the way, this thesis -- we may go back and do textual analysis in 2002 and I can assure you I'll win any bet about this. You may present textbooks on entrepreneurship, but they are not textbooks as professors know textbooks. They are, in fact, books that are appropriately described as anthropology examinations of entrepreneurs in new business. You will not find what I think is a singular contribution of the Kauffman Foundation in the last ten years, a discussion of the nexus between new firm starts and macroeconomic health, and therein, is what really was the basis of what the Kauffman Foundation has done in the last ten years.

We began to devote a sizable amount of research monies. I believe in the philanthropy world, certainly in the private world, we're the largest funder of academic economic research, and our question was, what is this process of firm formation? And then to escape the business school because even there the answer is already known. It is the accumulation of a lot of anthropological studies, case studies if you will. Incidentally, I should say one thing. I suspect I'm safely in the world outside of business school professors and in the webcast they're unlikely to be watching this show, but, you know, trained once upon a time as a lawyer, there's a big difference in case study analysis in law and business.

Someone came to do a case study of the changing nature of the Kauffman Foundation from an eminent business school and as I talked this through with the person I said, "Now, are you going to tell this part of the story of this transformation?"

He said, "Well, that's not interesting to the students."

And I said, "Well, what will you say" -- I said, "You're changing the facts." He said, "Our business school cases are meant to illustrate what it is we want to teach." Now, case study in the law is exactly what the words of the judge said happened in reality. There's no sort of, or, a professor doesn't say, well, I sort of wish the judge said this, so we'll change the facts of the case he examined and we'll put these words into his or her mouth. It's a different reality that's described.

So what is it that we are beginning to find out, and where is it that we should go? Because what I want to talk about in the end is perhaps some tenets of where public policy, to the extent it's

relevant, and I think it's enormously relevant. You can't talk about economic growth without talking about public policy and you can't say the things I've already said in terms of people being ignorant as to how firms are started in the first place, and certainly ignorant of the bridge or the nexus between firm starts and the health of the entire economy, not to mention the formation of diplomatic and foreign policy in this country, which is of critical importance, if, as I believe observers are right, that the warfare we face in the future is economic warfare, not necessarily kinetic warfare, although the world will not be devoid of that, but that's a separate issue, and you can read some of the stuff I've done in foreign affairs to speak to those issues. We're speculating on these in the international context.

So what is it that we know that's useful? If we were to write a textbook, a textbook not a case study book, about firm formation and what it is the entrepreneur does in the macroeconomic state? And I think the first things we begin to know about firm formation, we would discover that much of what's taught is wrong. If you were to take a course in firm formation, and you even heard it here from a gentleman, I think, who had something less than an Atlanta accent but works at that Bank (laughter), John, he spoke about banks dealing with businesses and finding it hard to loan to them because they didn't have a business plan.

Now, that didn't come out of no place. That's actually MBAs and banks saying let's have a business plan, because most of the businesses in the United States that had bank loans that are more than 20 years old didn't have a business plan. The banker actually wrote out a statement for the loan file that said, this is what his vision of this business was from his encounter with the business person, who might not be adequate to write the business plan, even though he or she might have a doctorate degree, because business plan documents are not a long-standing tradition in American business, which is to say there ever was one for it. Apple, or General Motors, or Dupont, or General Electric. Business plans are rather a later-day event, which really were invented actually around the 1900s, excuse me, the 1990s, in part, I suspect, because of Kauffman funding.

The reason we teach entrepreneurship in the nation's business schools is because in its first wave of funding the Kauffman Foundation thought our partners should be universities and they ought to teach about this. So you can't find many courses on entrepreneurship prior to 1990, and when you have a brand-new discipline for me, and low and behold, horrors of horrors, academics being academics, there are at least three universities in the country that will grant a Ph.D. in entrepreneurship. That is to say, in a world where there is zero of credible canon. Okay, I suppose you can get a Ph.D. in leisure studies someplace, but it's the same type of lacunae in terms of what is certain about business formation. But if we were to examine the books and what's taught, the arch event of forming a business is the writing of a business plan.

Now, here's a little reality that intrudes, and one of the great glories of being in a foundation is we are a fully endowed foundation. We don't look for people to give us money, and the converse of that is, we have a great deal of freedom to ask uncomfortable questions, and one of the uncomfortable questions is, okay, how important is the business plan that business professors, who got stuck with teaching these courses, many times -- by the way, one of the first give-aways, when I went on one of these trips to the West Coast, I'm sitting with the dean of the business school, a recipient of Kauffman money, saying I'm about to visit the professor of entrepreneurship, can you tell me something about him? He couldn't tell me his name. He's an adjunct fellow who had an office in a hotel basement across the street. Clear give-away, this is who teaches in many places. In the business schools this is not among the five great disciplines of business schools.

Now, when it comes to the business plan, let's intrude with one of those uncomfortable questions which we're free to ask. We survey all the time the 500 fastest growing firms that Inc. keeps data on. These are 500 of the current fastest growing firms, and less than 40% of America's fastest growing firms, none of which are very old, ever wrote a business plan. Now, they might have had the business plan somewhere in the district of the Atlanta Fed to get a loan

but the reality is that the loans weren't all that important, and again, the intrusion of facts. So for example as I said before, if we came to Washington and said, new businesses, people say yes, the venture capital crowd has been up to talk with us. Critical. We have a venture capital firm in my congressional district. By the way, this is one of the perversions, I think, of the American outbound message. After they come through the Silicon Valley some small fraction stops in Kansas City. I ask always, what did your delegation learn out there? We have to go back to La Titinia, and create an indigenous venture capital fund and we're going to the World Bank because they're encouraging this and will help us start it. And I wring my head to the point blood comes out of my ears, that what creating a new economy means in your country is a venture capital fund? That, by the way, is a certainty that that's America's outbound message, and our executive departments are happy to take that abroad. I've heard it with my ears outside this country, from federal employees, who never started a business incidentally.

So, these firms never had business plans and venture capital, the point I'm speaking of. Critical. You can read actually a document that circulates in Washington that makes the case that all job growth in the United States of any consequence comes from firms that had venture backing, which is, of course, why our tax preference is critical, Mr. Senator, okay. Roll over gains from fund to fund; critical to American macroeconomic growth.

Of our 500 fastest growing firms, 14% ever had any relationship with a venture capital fund, a critical issue to a conference like this as to where does this happen? Where does the money come from? How do these firms get started, if our issue is having more of them, which I'll speak to in a minute.

And of course when we go to the universities where this is taught, who is our iconic entrepreneur? And you all know who it is. Charlie Rose had two of them on the other day -- they were at fancy schools, they dropped out, their ideas were so brilliant, oh my gosh, it's like solving Euler's theorems. If you don't have your mathematics under control, you haven't made your contribution by the time you're 21. It's lights out, it's over. Might as well start collecting intellectual Social Security, it's done for.

But the reality intrudes one more time, and our fastest growing firms in the United States are created by people who are 40. I just got back from Korea. The statistics as advanced by people who actually copy the way we're studying things, in Korea, which I think of as marvelous export of the dialogue going on around this critical question, is 44 years old in Korea. I was so delighted to hear a professor speak at a conference on this issue, because I thought, my gosh, one of the things we have achieved is a reality conversation about new firm formation outside the United States.

So, I'll stop there. We could go on and on with characteristics, but here are three anchor points that suggest that even the way we think about this in the academic theory world, to the extent theory can be spoken of honestly in this area, cause us to wonder if our conception of how the firm is born isn't based on more myth than reality.

Now, this is critical because I think indisputably the link between new firms and economic recovery, to speak at the moment, or economic growth to speak in all times, is now very well established, and it should be because thanks to the Kauffman Foundation we now know -- is this interesting or is this interesting, that you could not say these statistics ten years ago. You cannot find texts that suggest that new firm, net new firm job creation in the United States happens at firms fewer than five years old. This is an enormously, enormously important statistic that should pervade discussion in this city, and it might in fact, talk to us about macro policy in a completely different perspective than trying to save huge existing manufacturing firms or banks or anything else.

If the data seems to be correct, as I read the data, that the recovery in the last seven recessions happens because engineers and others are disemployed, often leaving companies with the permission and sanction of the new intellectual property at the edges, think of San Diego in its reformation in the 1970s from the aerospace industry into a bioscience innovation hub, if this has

been the course of the last recessions that's the new firms and the new innovation that has brought forth a restructuring and a reenergizing the economy, this should in fact be the first page we pull out of all the accumulated economic text and not the general theory of employment 1936.

Interestingly, for those of you who are interested in this, Professor Keynes ends that particular treatise with a thorough discrediting of entrepreneurs, by name, as speculative people, and when we write the economy, to use Galbraith version of Keynes, the great triangle of countervailing power, the high returns that entrepreneurs expect for their administrations will no longer be available. You see industrial policy looming through the entirety of Keynes? Of course you do.

Now, let us speak about why it's important and what the job of the entrepreneur is, and this should be self-evident, but many times it's just not present. First, of course, they birth the new. If Keynes, excuse me, if Galbraith had been right we'd still have Bell Labs around, and Pfizer, which still engage tens of thousands of people in white coats someplace in New Jersey. Those laboratories would be hugely productive, but as Bill Baumol, Bob Litan and I have written in *Good Capitalism, Bad Capitalism*, theorists have missed the turn. We became a big company, small company, not small business economy, and many times our innovation now is delegated out into a lower risk. This is a more efficient economy as the production of the '85 to '90 period that we call entrepreneurial capitalism in the United States, tells us - highly efficient as we delegate innovation and much higher risk taking into small firms.

So they bring forth the new, in hugely disproportionate ways if we count real innovation that sticks, not the aberrations of patent filing, which has become an obsession particularly of big firms. So we're watching right now, you know, in annual reports XYZ corporation reporting we are first, we are second, we are third. As an investor I don't look upon that as some proof that XYZ company will be robust and vibrant, and still a market leader ten years from now. It means their lawyers are astoundingly proficient at patenting even little graphics, like a vertical rectangle with rounded corners that may or may not have a white apple in the middle. An example brought to me by a Korean the other day in a critique of American intellectual property discussions here.

OK, so they bring forth the new. We need them for that, and all economists and all people understand, a phrase I would use in an audience where I was trying to be inspirational as opposed to analytic, I would say the following. They teach us needs in the human family we don't even know we need, and you can all fill in, you're all astoundingly intelligent, smart, and experienced, and some of you, on average age are actually older than America, you know you can fill in your own examples.

The second thing they do, of course, I've alluded to before, they make the new jobs. If I could have shown you this wonderful video, which I'm sure you'll all go to Kauffman.org to see, *Three Things Entrepreneurs Do*, I make the case that if you start a brand-new business you have nothing except people, okay. Productivity gains, which we expect in the economy are easy to figure out by non-economists for heaven's sakes. You take all output, you divide by all workers, you drive the number of workers down for the expanding level of output, you got improved productivity, generally higher stock prices, the capital value of a company has been increased. That they teach real good in business school. Simply, big business destroys jobs by commission.

And thirdly, of course, these new businesses have enormous contributions to the net wealth that's gained in the society, and of course we know that to be true as well in terms of the extraordinary expansion of the capital value of the accumulated new companies, less than five, less than ten, less than 15, less than 20 years old. Here's a stat that is often lost in Washington, if even people are curious enough to ask it. What percent of today's GDP comes from firms that did not exist in 1980? Roughly 40-plus per cent. Again, interesting fact. That if we walked into a recession tomorrow and had a couple of these facts at our fingertips, one would ask, would we proceed as we have proceeded and continue to proceed? Now, all this, if you take it as a given, I think I can make an empirical case that this is persuasive, it's factual, it's persuasive, it's dispositive, it should be controlling. What are we going to do about the three things that I think we need to do? Excuse me. Let me say, well, I'll talk about all three.

First, it seems to me, as a national priority, we ought to have more firms. More people ought to enter, again from Kauffman data the most curious thing in economics around this topic, at least to me, but this is totally idiosyncratic, is that regardless of the business cycle we have about the same number of starts every year, which should actually trigger an invitation to sociologists or psychologists to come into society and ask this type of question - how come? Where are these entrepreneurs? Who takes this risk? But my view is we probably ought to increase that number from somewhere around 700,000 new starts that employ people, to maybe a million.

But if you draw the question between how many of these firms are needed to, let's say, add a new point to GDP, we don't have an empirical answer to that and we don't know if it's scale, i.e., for every new firm we can expect an incremental increase, or if in fact it's diminishing, or, maybe it could be that with new firms, and we made the right milieu open for new firms we might, in fact, get more creative people in. So the first objective ought to be more new firm starts.

We're very close to the State Department so I can't go further because I think I may have an essay in a major newspaper in the next few days that points out that one branch of the State Department, when advising the military about Afghanistan and Iraq suggests, you never want to encourage entrepreneurship as the fundamentals of starting a new economy, because new firms sometimes fail, and the entrepreneurs will be much more easily recruited to careers as terrorists, okay. Washington really embraces the thrill and risk of entrepreneurship, at least in the neighborhood. It doesn't appear they do, that is of course meant to be a reverse observation. Okay, so we need more of them.

Second, and this is really critical and this is where we really ought to have a profound revolution inside business schools, where people might do research that's important to macroeconomic outcomes. What do we do to make new firms more successful? Now, if you were to read textbooks in this area, it will look very much like medical textbooks in 1960. There is declaration after declaration after declaration of how firms are successful, but the revolution that was called fact-based medicine in the 1970s was precisely an attempt to overthrow the prescriptions and put down fact-based empirical declarations of how new firms start.

So one observation that comes from Kauffman laboratories' free enterprise creation that we had to create, because we're on the trail of trying to actually get to empirical bottom on these questions, is, for example, the question of the multiple firm -- excuse me, the multiple entrepreneur firm and the dynamics of multiple founders, which is commented upon by way of storytelling, but there is essentially no fundamental empirical basis of even an hypothesis about what this profoundly important question is, and we know from the stories that in many, many instances of starts there is a failure because of the interdynamics of founders who come from different disciplines, who are essentially trying to abide by a business plan - the forecasted run of this business. And we know that business plans like war plans don't survive the first bullet.

In my own case I started a company that was supposed to sell directly to hospitals, I have an incredible amount of accounting data on all the hospitals in the country, first people to ever accumulate that data. And when hospitals, who I thought were competitive with each other, Reagan was president, we believed that hospitals were competing, wouldn't buy this dog food, thank God hospitals were selling revenue-backed loan instruments called bonds, and there was a huge demand in the capital markets to understand the creditworthiness of hospitals. Whew, got out of that company alive.

The story I tell there is, had we had a business plan, and I was only an economist who didn't go to business school so I didn't know what a business plan was. We didn't have one, okay? I would probably have never made the turn, particularly if I had venture capital because I would be committed to this particular static, or at least hardened, vision of where we were supposed to go.

So the question of what we do by way of advising new firms is how to become successful and remain new firms that are growing is unsettled, if not almost absent, and lastly, of course, the question is how do we induce scaled growth, where again huge amounts of case studies, but no

systematic hypothesis about how growth really scales. So we still have conversations, continuous questions at the moment in this particular milieu about the importance of financing through banks, at what time the financing happens, in terms of the growth story, is actually not well understood, to speak to one particular issue.

So in a sense that's where we stand on a whole mess of questions here, and I just wanted to finish with a few thoughts about maybe where public policy goes. And I think in a sense to be consistent with what I talked about, we have to see this phenomenon mostly as people out there in America doing this, and it is with reluctance I even talk about public policy, because it's only until recently that we had a government that didn't even have the word "entrepreneurship" in any of the bureaus and so forth. And now we find the Commerce Department has a group that has the word "entrepreneurship" in its title and the State Department has an entrepreneurship initiative, and both of these things cause me some concern, because entrepreneurship and government action don't go together well.

What should we do? Put differently -- let me say this differently. Recently I was with Irish Taoiseach, their head of state, on a panel who said, "we are going to create these jobs, we are going to create these jobs, we are going to create these jobs," a conversation you heard last night in Ohio about who was going to create jobs. It's always easy when you're outside the United States to be able to speak a little bit more forcefully and a little bit more frankly, and I said to the audience, I think that Taoiseach is actually misadvised. He can't create jobs. He can create the conditions that create jobs. The only jobs he can create are in the public sector and flash news from around the world, you can only go so far with making public employees, until sooner or later a reality called capital markets begins to suggest, this ain't going to work forever, okay.

So we can create the conditions that create jobs in the government. That ought to be the perspective, and what do we do? Well, here are a few thoughts. And I have to say that here I will behave just like a Washington economist. There's no magic here and that's all gone wrong, so there's nothing we could do tomorrow. But we could do a few things tomorrow.

The first thing we do tomorrow is to change the visa status. It is inconceivable, and I travel the world a great deal. Entrepreneurs will come to the United States before they go anywhere else, period. Talent, particularly talent, that has a Ph.D. or a bachelor's degree in a technical area, and it is estimated that well over half of our Ph.D.s in all STEM-related subjects -- it's not estimated, these are facts -- are foreign born. They're here studying as guests. It's my view that the day they walk across the platform the president of the university is empowered to give them not just a degree but entry status, if not outright citizenship. This is absolutely insane.

A few days, actually, tomorrow I'm having a chat with Mike Milken who joins me in this prayer, but Mike goes one start farther and I'm not quite sure I can go there. He says if we do this tomorrow we settle the housing problem. These folks will start businesses, they will bring wealth, they will start companies and make wealth and they will buy up all these expensive houses in southern California, okay. (laughter) Which I could care less about. I'd like them to buy up houses in, you know, Kansas City and Maryland because I'm not going to have this job forever, (laughter) anyway, so I think immigration is a central issue.

Now, the question about intellectual property is a very complex question, but it is one that ought to be settled one way or the other and in workable terms. There's an economist at the Times of London -- Anatole, Anatole's last name? Kaletski. Kaletski argues that we can no longer pursue an international regime of patents and intellectual protection, that we just have to work faster because the Chinese will never ever recognize it. There's some truth to that. But if there's truth to that we've got to start teaching people in business schools and elsewhere about high failure rates. We have to teach them whole new systems of how to accelerate the process of innovation and high throughput testing as we bring it over from the area of drugs, for all kinds of businesses. Is it the execution in manufacturing and first to market, and first to dominate market that is eventually what's going to count? And I think, by the way, this is a sister question to a theoretical issue, and that is, what, in fact, is the nature of the firm going forward?

To reference back to what I suggested in the beginning, we think of these firms as perpetual, like the law says they are in terms of the artificial person. But the reality is, as I suspect, we are going to watch the huge firm as a transitory artifact of capitalism. And as our human capital grows, and as innovation is encouraged, huge firms will become smaller through time and smaller through time, and smaller through time, and the very nature of the economy will change.

Another point that we have to think about is obviously how we finance these firms, and this is certainly an audience that has to think about this. To be bold in America, with advice I gave to the Irish, think about a declaration from the head of state that basically says, look, small firms in the beginning, it's just a giant crapshoot so what we're going to do in the United States is there will be no taxes on either the entrepreneur with the income he derives from it or she derives from the new business for three years, no corporate taxes four years. There will be no regulation. We will relax all kinds of regulation, particularly labor regulations on these firms, as a signal, a public and very vocal signal that entrepreneurs are so critical to recovery and to the growth of the economy -- I'm sorry I put somebody else's slide up here, (laughter) but I'll embrace the importance of a robust entrepreneurial ecosystem, that's what I'm trying to talk about.

And finally, perhaps, we begin to develop a national narrative that celebrates people other than sick super-boys in terms of who entrepreneurs are, if we're creating 700 new firms a year, and let's say maybe 150 are successful, that is to say, there is real significant growth in the first five years, interestingly again, we don't know that number, and so many academics, particularly in the business schools -- seems like I'm on a jihad on business schools -- I could care less, I am so passionate about this subject -- I look at the enormous social resources spent in business school and say, guys and women, where is the curiosity about empirical fact? Okay. How do we get these companies to become successful, sustaining and growing and the companies that displace -- the older companies.

Last observation, isn't this curious, this comes from a foundation, these questions. I already posited to you that one reason we can ask these questions is the freedom of having an endowment, but the other issue goes in this direction. All foundations under the federal law, tax law, are established nominally to expand human welfare. I like to believe that at the Kauffman Foundation we have a particular gift from our founder. He gave us a very easy connection of dots. If we start more firms, his words, we expand and strengthen the national economy, we know we contribute to the expansion of human welfare. Some foundations engage in very fad-ish type things that produce very fine emotive reactions as opposed to analytic reactions. That's fine, and so much of what they do does in fact, increase what we might call in economics spot increases of human welfare. The difficulty of dealing with a theoretical belief set, that all economists share, is that if we start these new firms, with all the lacunae addendum, it is a certainty over time, if we are successful in that endeavor we will have expanded human welfare for all. Thank you so much.