HBR.ORG
Harvard Business Review
JUNE 2012
REPRINT F1206E

COLUMN

Think of Start-ups As Shots on Goal

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With concern running high about the prospects for continued economic growth, two recent e-books show where the debate is centered now: on the question of whether we can, through sheer inventiveness, keep driving the productivity gains that lead to higher incomes. George Mason's Tyler Cowen is pessimistic, seeing a "great stagnation" setting in. A counterargument comes from MIT's Erik Brynjolfsson and Andrew McAfee, who find in the rapidly advancing technology of robotics and other productivity enhancers every reason to be optimistic. These opposing conclusions suggest once again why economists as a group are not all that good at predicting the future.

We'll know who was right when the productivity numbers finally come in. But let me point out a number we can look at now to learn whether we're on track or in trouble: the number of business starts.

That's a number we know how to move. The key is to understand that innovation is not just invention. Even more, it's a matter of commercialization. And the truly disruptive technologies that have advanced living standards most over the long run have usually been commercialized by entrepreneurs rather than established companies. Think of the telegraph, the telephone, the car, the airplane, computers (mainframe, personal, and mini), most software, internet search engines, air-conditioning—innovations that define modernity. All were brought to market by entrepreneurs.

To be sure, most start-ups don't get very far, and only a tiny fraction grow to have the impact of Ford, GM, IBM, Microsoft, Intel, Apple, or Google. But the number of start-ups launched can at least tell us what the odds are that companies like those will be generated. Other things being equal, the more business starts there are, the more "shots on goal" an economy has to produce great results.

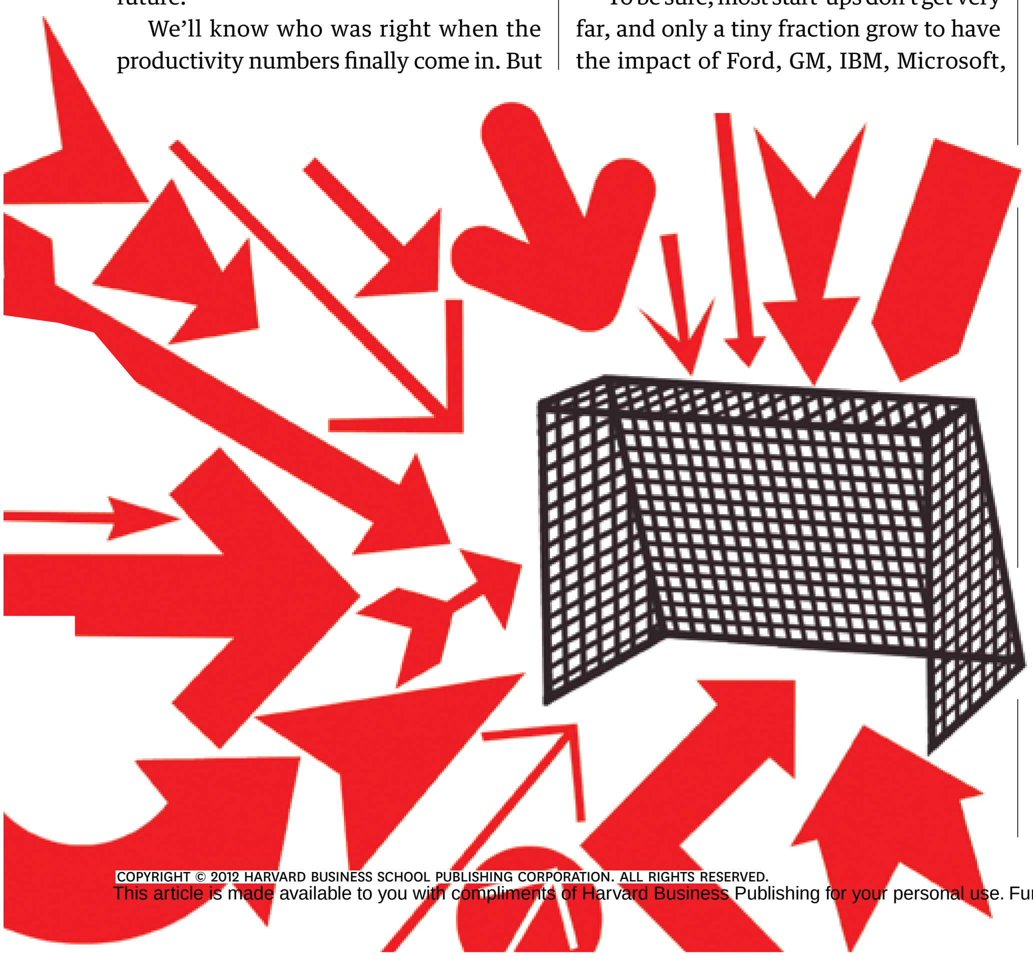
Unfortunately, things don't look good at the moment in the United States. In the dozen years preceding the recession, somewhere between 500,000 and 600,000 new firms were launched annually, seemingly impervious to the business cycle. The crisis-induced recession of 2008–2009 changed that. In 2009 (the most recent year for which we have reliable data) new starts plunged to 400,000.

No doubt this depressing statistic helped to rally the bipartisan support we saw last spring for the JOBS (Jumpstart Our Business Startups) Act—legislation designed to promote new and growing businesses, especially those that want to go public, by reducing their cost of capital.

But more-comprehensive legislation is needed, to go beyond entrepreneurs' capital requirements and also to facilitate their access to talent and opportunity. We need immigration reform to attract and retain high-skilled immigrants, particularly those who hope to start new businesses right away. We need reform of the technology-licensing practices at research universities that are heavily funded by the federal government. We need regulatory reform to update, modify, or eliminate excessively costly existing rules and to require cost/benefit justification for new rules.

Proposals to do all this have been introduced in the Senate. Given the impending presidential election, it will be a (welcome) surprise if Congress seriously considers them this year, although they have broad-based and growing support. But start-up legislation should become a congressional priority for 2013.

We can argue over the details, but we'll make progress if we begin by agreeing on what drives economic growth and what must be encouraged: start-ups.



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