

How and Why of Promoting Entrepreneurship Abroad
Hoover Institution
Stanford University

Panel I: Entrepreneurship and Economic Growth

Richard Boly: Well thank you Mr. Shultz. You nailed the issue and we hope we can achieve today what we set out to. But again keeping with the spirit of change, unfortunately, Peter Henry had a family emergency and at the last minute was forced to leave and it is our very good fortune to have Ward Hanson come in and pinch-hit for him at the last minute. If you haven't read his recent Recovery.gov report "[Using the Internet to Accelerate and Improve Fiscal Stimulus](#)," I recommend that you go to the SIEPR website to look at that. SIEPR is the Stanford Institute for Economic Policy Research, and Ward is a fellow there and head of the SIEPR Policy Forum. Also, his book on the principles of internet marketing, which actually was published before the dot com bust, although not responsible for the dot com bust, has become the standard for anyone teaching internet marketing in the United States. So I will turn it over to Ward who will introduce his panelists and we'll be ready to go.

Ward Hanson: Good morning everyone. As Richard said, I am pinch-hitting for Peter and we wish him the best with his family emergency. It is my pleasure to serve as moderator. As Richard said, I have looked professionally at the role of information technology and the impact on business and society as well as energy technologies and there is nothing more important to that than entrepreneurship and nothing more important these days than entrepreneurship abroad as well as here in the U.S. We have seen the biggest internet user base in places like China. We have seen rapid growth in innovative technology in other countries, so I'm certainly drawn to this conference and happy to help out.

And we have a great panel to address the issues, so let me introduce them first, my main role is traffic cop and to introduce people and to call on people to take advantage of your expertise, so the sequence of events is I will introduce the panelists, they will make some opening remarks, and then we will open it up to questions. So our first panelist is Robert Litan, Vice President of Policy and Research at the Kauffman Foundation, in Kansas City. He is also distinguished policy history with senior fellow Economic Studies at the Brookings Institute, Associate Director of the Office of Management and Budget, Deputy Assistant Attorney General and President's Council of Economic Advisors. He holds a B.S. in Economics from Penn, a J.D. from Yale Law School and a PHD in Economics from Yale as well. Our second panelist is Vivek Wadhwa, who I have been fortunate to have on a panel previously. He is senior research associate with the Labor and Work Life Program at Harvard Law School, an executive in residence and adjunct professor at the Pratt School of Engineering at Duke, a visiting scholar at UC Berkeley. He is also a prolific writer on the issue of entrepreneurship and immigration and talent he is a business person, founded two companies and is also closely associated with [TiE, the Indus entrepreneurs](#). B.A. in computer studies from Cambera University in Australia and MBA from NYU. So let me turn it over to Bob Litan.

Bob Litan: I thought you were going to ask me a question.

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Ward Hanson: So, we have seen so many discussions questioning the foundations of capitalism, with the economic crisis really challenging the model. Does the U.S.-caused global recession rob us of the ability to persuade other countries to adopt the entrepreneurial capitalist model?

Bob Litan: Well, the reason we started with this question, is that the premise of the conference today is that the U.S. has this magic that it is capable of exporting to the rest of the world; this entrepreneurial spirit that we have in Silicon Valley and elsewhere. And needless to say, I do not need to tell you the so called U.S. model is being questioned around the world and so the natural question is how can we even presume to tell the rest of the world what to do given that we triggered this mess and its appropriate that we are meeting today with the Wall Street Journal reporting record quarterly declines in GDP growth in many parts of the world. My short answer to this question, and I will get to my other remarks, is what has been discredited in many parts of the world is U.S. *financial capitalism* and in particular our loose lending standards that led to the sub-prime crisis and too much leverage. In a nutshell, that explains the crisis and it turns out we weren't alone.

As it turns out, Europe massively overleveraged their banks too. And I would note that they all did this, U.S. and European banks following an internationally negotiated bank capital accord, the Basel Capital Accord, which should give us all pause and caution when people tell us that we should have some global financial regulator and some global financial system to replace all this, because it took us ten years to get Basel II and Basel II helped send us into the tank. That's my view. But that is what has been discredited. What has not been discredited is entrepreneurial capitalism. In fact if anything, the countries around the world which have copied the United States, the Indias the Chinas, Taiwan, Israel, etc., they are still very much entrepreneurial and the rest of the world is now looking to the U.S. to recover its own magic and entrepreneurial capitalism (which is the rest of this conference) to figure a way out of this recession. My colleague Carl Schramm is going to discuss this later. So that part has not been discredited.

So one thing I want to end with is just a few observations on what can we do in the U.S. to promote entrepreneurial capitalism elsewhere around the world. I have three points:

Number one: we cannot simply export the U.S. model. Things are different in every country. You all know that.

Number two: notwithstanding that we know from the [Doing Business reports from the World Bank](#) that, and this has been proven statistically, that there is a correlation between economic growth and low barriers to entry into new businesses. And the World Bank rankings on the costs of doing business are taken very seriously by countries around the world. I have been to a number of conferences and ministers have come up to me and said "we pay a lot of attention to those rankings because foreign investors view those rankings as proxies for the legal environment". And you have countries all over the world that are racing to try to get up those rankings and I would argue those rankings have done more good around the world in the last ten years than all the World Bank lending combined. That is my personal view. So we do know that getting the legal system right is part of it.

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Number three: Nonetheless, one problem I think that we have in the world I think is that too many societies are characterized by what Carl and I and Obama have called oligarchic capitalism. In our book "[Good Capitalism, Bad Capitalism](#)" we identify four types of capitalism: entrepreneurial, managerial, oligarchic and state-guided. We identify oligarchic as the worst form of capitalism and these are societies which are dominated by elites, and the power and the money is all concentrated in the hands of few. And if you look at our U.S. foreign aid program, you will find a high correlation that most of our aid goes to oligarchic countries. It goes to Africa, it goes to parts of Latin America. We do not send aid money to the oil-rich Middle East but that is clearly oligarchic. And so the question that you have to ask yourself is, "how do you get countries that are fundamentally oligarchic to change and be more entrepreneurial?" That to me is one of the great challenges of the 21st century. You can take a horse to water but you cannot make him drink. That is true with these societies.

And I'll just give you a couple answers and then I will quit. Number one: you can pray for low oil prices because there is, as Tom Friedman pointed out, a perverse effect between high oil prices and countries not promoting entrepreneurship. Look if you can just dig it out the ground and get a lot of money, why be entrepreneurial, and you see the most positive changes in the Venezuelas and Saudi Arabias and oil rich countries when oil prices are low. The problem with this solution is that oil prices are not going to stay low forever. They are going to go back up. We all know that, so this is not going to work, praying for low oil prices. Second point: and I think it is appropriate that you are chairing this, being an expert on the internet, is that the internet holds the greatest prospect for changing these societies in two respects. I'm a big fan of the work of Clay Shirky, I don't know how many of you have heard of Clay Shirky, but he's written a book called "[Here Comes Everybody](#)", and if you have not read it you should. The thesis of the book very simply is that the internet has become a supply shock, a positive supply shock, for the rest of the world and for the rest of us, in terms of being able to organize much more cheaply than ever before. So all the social networking sites that allow us to organize and dramatically reduce the cost of organization that not only helps business, but has allowed, as Clay points out in his book, for peaceful protest around the world. And he talks about how in the former Soviet Union, people on the internet, not knowing each other, and then meeting up, has led to major change.

And so a thought I will leave you with, is could we imagine a world in the future where entrepreneurs are using the Doing Business Reports or whatever to peacefully protest and get change in their own countries that are oligarchic? So the internet might be able to change societies. That is point one and the last point I will raise, and this may be fantasy stuff, but I have had a lot of conversations through our work with Kauffman and the people at the [Berkman Center at Harvard](#), and some very innovative people there, and they raised the possibility that we could in effect get an internet or cyber law that could replace physical law. You can imagine eBay. When we do business on eBay, eBay has its own legal system. And people work through the trust system at eBay and don't go through the court. And so can you imagine a world where increasingly people in cloud computing are using the net and they are not resolving their disputes and they are not even relying on physical law, the law of Nigeria, which happens to be screwed up or the law of, pick your country. Increasingly transactions and commerce takes place on the internet and eventually they obsolesce so they work around the system that we are stuck with on the ground. So I leave you with two points of hope as a way to attack the oligarchic capitalism

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problem.

Ward Hanson: Vivek, I know that you have thought a lot between entrepreneurship here and abroad, and I'm wondering if you could talk about if there are benefits to the U.S. from developing entrepreneurship abroad, and if there are benefits from linking those ecosystems to the ones here in the U.S..

Vivek Wadhwa: It was not too long ago that when you mentioned Silicon Valley, you had Rt. 128 in the same breath. They were basically head to head, not too long ago in our lifetime, and then what happened is Silicon Valley zoomed way ahead. [AnnaLee Saxenian](#), who is the dean of Information Systems at UC-Berkeley, researched this in the 90s and what she observed was, the missing ingredient in Silicon Valley was immigrants, from places like India, China and Taiwan, and they were fueling the growth of the valley. In fact in 1998, she documented that twenty-five percent of the startups in Silicon Valley had Indian or Chinese CEO's. In that year they generated fourteen billion dollars in revenue and employed 58,000 workers. That was absolutely amazing, and she mapped that to Boston and what she found was you did not have the same rate of immigrant entrepreneurship. Very interesting findings.

Now I started researching this topic in 2006, updating her research, because I suspected something was happening, having been an Indian myself, having started several tech companies. I know that Indians and Chinese were very commonly found at the helms of leading tech companies. So I got together with her and decided to [do an update of her research](#) and we were absolutely astonished at what we found. We found that Silicon Valley had gone from 25% to 52%. Fifty-two percent of the startups in Silicon Valley between 1995 and 2005 were founded by people not born in the US. Now in the original study, Chinese founders outnumbered Indians two to one. In fact it was 2.5 to be exact. What my study found was that Indians outnumbered the next four groups by a landslide; it was almost two or three to one of any other group. So you had the Indians founding companies and then British, Chinese, Taiwanese, Japanese, etc. So something really interesting was happening in Silicon Valley.

Now interestingly, when you look at the U.S., we found that 25.3 % of the tech start ups in the U.S. were started by immigrants. So what started in Silicon Valley had become a nationwide phenomenon and it coincided with the entry of immigrant entrepreneurs to this country. I have also been researching globalization and the rise of India and China on the engineering profession and my team has made several trips to India and China to see what is going on over there. The image of India right now is of an IT superpower, but we saw that every sector we looked at, from aerospace to pharmaceuticals, cell phones, semiconductors, India was racing ahead and becoming an R&D hub for Western companies. And we weren't talking about thousands of people, we were talking about tens of thousands or hundreds of thousands of people in these advanced industries.

So, we came back to the United States to see what is going on in the United States in the same industries over here. First of all, what we found is that American companies were relying on Indian R&D to fuel a lot of their innovation, a lot of the R&D is happening in India right now. Now you don't hear about this in the media because companies are worried about backlash when they talk about R&D outsourcing. Companies don't even publish stats on how much R&D they

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do abroad, but what we saw anecdotally is that it is huge and it has been increasing quite a bit. And so what we basically see is that as the U.S. started working increasingly with India and to a lesser extent China in R&D, those countries started blossoming, started blooming and rising in their ability to innovate, and this was in turn benefiting the United States.

Now just think about all the startups in Silicon Valley, where we are right now. If immigrants did not come here, we wouldn't have half as many startups most likely. There is not a direct correlation, but the fact that half of them were started by immigrants, they probably wouldn't have been started by natives and we wouldn't have had the tech boom, and we wouldn't have had the big boost to the United States economy. So there has been a major benefit to this. Now let me switch to India once again. In the year 2000, the Indian prime minister came here, and Kanwal Rekhi and I were with the PM and he thanked us for being so successful in the United States. He said "you have served as the model for us. We have opened up our economy. I have had the courage to go and make all these changes because of the example I have seen in you. The fact that you have been so successful in America tells us our people can win, our people can succeed. So we are doing the best we can to be like you." These were more or less his words to about thirty of us who were in a meeting with him.

So what you saw was the success of Indians in Silicon Valley, made the Indian government change its policies from deep dark socialism to a more capitalistic model. Democracy has been strengthened, the entire country has become a lot more pro-U.S.A. because of the flow of people back and forth, because of the successful Indians here, because of the dependence the two countries are building. So the answer to your question, yes, it is a win-win for both sides.

Now my research has shown that there is a time bomb. There is a big problem brewing here. We have allowed so many people here on temporary work visas, that we have about a million skilled immigrants and their families waiting for green cards, waiting for permanent residence. These people are trapped in limbo. The fifty-two percent I talked about in Silicon Valley, twenty-five percent nationwide, they are permanent residents or American citizens. With a temporary visa, an H-1B visa, you cannot start a company. Right now, the majority of Indian tech workers are not immigrants; they are stuck in immigration limbo. And what is happening is that there is a reverse brain drain of talent from here back to India, China, Morocco, you name it.

They are going back because there are not enough immigrant visas here and the declining economy. The problem is that when Americans get laid off, they get depressed for a while, and the really bright, smart tech workers get together and start founding companies, and that is what drives the American economy. Kauffman has been funding my research and they have done extensive research on this phenomenon and Bob has written a lot on this as well. The trouble is when these H-1B workers get laid off, they have to go right back home, they cannot start companies. And AnnaLee Saxenian has written a book on the [New Argonauts](#), and what she basically talks about is this brain circulation and this back and forth flow.

What I am saying now is that this brain circulation has become brain hemorrhage. We are bleeding critical talent and they are going back in droves to other countries, and entrepreneurship will happen, but it won't be in the United States. And there will be much less entrepreneurship because places like India and China are not as fertile for entrepreneurship as the United States.

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And so we lose and the world loses and that is the situation right now.

Ward Hanson: These are some great themes, I am sure there are questions. And I want to hear from the audience if there are any questions after opening comments.

David Nordfors: Thanks, very interesting, I'm David Nordfors over at the [VINNOVA Stanford Research Center of Innovation Journalism](#) and we started a national innovation incubator in Sweden once, heavily inspired by the Israeli ones where you had a special quota for new immigrants. However, when it came to decision, it turns out that social and labor policies are a completely different bag than industrial and research policy. So they said immigrants, that is kind of the social labor stuff, so let us have an incubator system without immigrants. So the question is do you perceive there is a problem, the split between labor and social policies on one hand and the science, industrial and technological policies on the other and how you see one bridge these?

Vivek Wadhwa: Let me talk about immigrants. You know I met the Belgian consul at the TiE event a couple of days ago. We were talking about entrepreneurship in Belgium in general. They have regions where they have brought in a lot of Indians and Chinese and so on, and what they found is that there was zero entrepreneurship happening there. They did not understand why that was happening, in this little town, I forgot the name of it. There were hundreds of startups coming from the university but zero immigrant entrepreneurship, and I think there are two reasons for that.

Getting to the heart of what you were saying, the environment is not fertile for entrepreneurship; you don't have the encouragement and the support that you would get in Silicon Valley. It is not part of the culture and the upbringing of people over there. And immigrants do not want to rock the boat anyway, they are in a new land and they are hesitant to risk anything that would affect their status there. But the second thing is the social networks. This is what I'm researching right now, because even if you take out all the other factors, you don't know why Indians are so successful. In a decade, that they went from the Chinese outnumbering them two to one to outnumbering the Chinese and every other immigrant group is just mind blowing. In fact if you look at the statistics, the foreign-born Indian nationals in the U.S. are .sixty-seven percent of the U.S. population, two million out of a population of three hundred million. The percentage of startups they have created is 6.7%, in Silicon Valley it is 17.5%, which is way out of line with their population.

What my hypothesis right now, which I am going to prove, is that The Indus Entrepreneurs is one of the key factors behind it. I know from my own experience, when I wanted to start my second company, even though I had been very successful as a tech CTO, local venture capitalists in the Research Triangle Park would not return my phone calls. In the RTP, you weren't a white guy and you were discriminated against. That's basically how it worked there. There were very few immigrant startups in RTP. Now what I did to get started was I called [Vinod Khosla](#) from Sun Microsystems, he mentored me. He spoke for a couple hours on the phone with me, introduced me to other people, and that basically gave me the encouragement to start. And I went and other immigrants who had been successful were my role models. Kanwal Rekhi for example, I read everything I could about him because he was one of my role models. So that's

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the phenomenon that is happening here in Silicon Valley and the U.S. that needs to be replicated in different countries. So that is the key here.

Peter Laanen: Good morning, my name is Peter Laanen from the Netherlands Business Support Office, and because it is about Belgium I have to react of course. I actually wrote a [blog yesterday](#) at our NBSO website, www.nbso-california.com as a barometer that we are heating up again. At this time we have six market scans going on for Dutch companies over here, we have seven companies coming next month for incubators as well, but the point is for the one hundred companies that we will take care of for Northern California, twenty-five percent of the CEO's are from Lebanon, Persia, Iran so to speak, Morocco or Indians from Surinam when they came over here, and I wanted to make that point. Thank you.

Wasiq Bokhari: My name is Wasiq Bokhari, and I am the founder of an investment company that takes innovations from Silicon Valley and some parts of Europe and takes them to emerging areas and basically encouraging entrepreneurship in those areas. One of the points that was made before by the keynote speaker as well as by the panel was for us to be very cognizant of the cultural requirements, we cannot just implant entrepreneurship, and our model is to bring operational excellence from Silicon Valley coupled with innovation to the local areas. So could the panel comment on the best practices you think, or good policies to follow in order to adapt our entrepreneurship to local cultures.

Ward Hanson: That is such a good question we should probably just go right down the row and maybe add to it this idea of institutions like joint ventures vs. the individuals or really creating that impetus.

Bob Litan: So I will start and if you recall in my introductory remarks I mentioned that the World Bank's Doing Business indices highlight the cost of starting a business, bankruptcy laws, whether there are any. And by the way, there is a high correlation between being able to be entrepreneurial and having an effective bankruptcy law, and it is not just the law as we know of course, if the culture treats bankruptcies as pariahs, you can forget about entrepreneurship, regardless of what the law says. Labor laws, you have to have the ability to hire and fire workers, too many places have protections that inhibit that, I think, and obviously contract and property rights. So that's what the World Bank ranks. It is basic stuff. It is core infrastructure.

We know it is important. We know it from [Doug North](#). He won a Nobel Prize, basically showing how the rise of the west was accomplished through that. The challenge is how to accelerate and speed all this up. You know, do we want to wait two hundred years for Africa, Latin American to catch up, no, obviously we don't. But we know that societies like India and China have been able to change in thirty years or less, I mean unbelievable. So the challenge is to figure out how to move these structures. Now I don't want to put too much emphasis on legal structures because a lot of what is informal can be just as important.

So we know for example in China, the law is not great, formal law is not great, the courts are corrupt, and its hard to use them, but a lot of writers on Chinese economic growth have pointed out the sort of informal ways of adjudicating disputes and so forth, are very, very important. I am sure that is true in India, and it may be that the direction of causation is you have got

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informal rules or whatever that allow you to have a burst of growth, and then you get a taste for more formal rules. I think this is sort of Shleifer and Vishny's work. I think that the more formal stuff comes later, and then that sort of reinforces it. It is sort of like Silicon Valley. You start with a few accidents, and then you have a virtuous cycle, and that's why we know it has been so hard to replicate Silicon Valley. What we do know that at least to sustain growth and keep it going you have to have these core elements of legal infrastructure.

My final point is that the internet and I really do believe this, I think the internet will develop a parallel system of law and institutions that will basically circumvent physical law, and the more people that have cell phones, and we know cell phones around the world are at what? A billion cell phones, if not more, two billion? There will probably be a cell phone for everyone in the world in five years. And more people that do stuff on cell phones and over the cyber infrastructure, I think a lot of stuff will happen that will not even touch physical law. If you have a dispute in cyber law, you are not going to go to a Nigerian court and solve it, it'll take you forever and you have to pay off the judge. You will immediately either be shunned on the internet, no one will want to do business with you, or you will resolve it. There will be mechanisms for arbitration or whatever all on the internet, and that is one of the great hopes of the internet for me, that it circumvents all the cludge of physical law.

Ward Hanson: Let's jump to Vivek, because it's a natural connection to what you're thinking about. And Vivek, your emphasis is on people

Vivek Wadhwa: First of all my perspective started differently here. I don't think there is a role for good government in entrepreneurship or innovation. It just does not happen when the government gets involved. So what the government should do is just provide good basic education, infrastructure, IP (intellectual property), laws and so on. And my perspective is based on India and China. In China everything is top down. What has been achieved is amazing and the government does everything. Except there is almost no innovation going on. There is a lot of activity, a lot of venture investment, but there is almost no innovation, except venture investment in copying American technologies, which they know they can do in China without fear of being sued. But it is not real innovation happening in China. In India you do have amazing innovation. It is all ground up with private industry like you have in the United States. So my conclusion is that if you leave an industry alone and just facilitate what is needed like the IP and so on, things will happen on their own. But you do have a role for entrepreneurs to help each other, for corporations, foundations like Kauffman, helping and teaching entrepreneurship and so on, but it is not going to happen if the government gets involved.

Jorge Zavala: My name is Jorge Zavala, I run TECHBA that is a Mexican government supported business accelerator. We look at how to bring entrepreneurs into Silicon Valley, and we have offices in six cities in the U.S., Canada and Europe. And really the point that you have been selling and the Richard Boly principle of how you can export the knowledge of entrepreneurship is quite interesting but in your comments, there is a very important factor that we are seeking. How do you suggest the creation of venture capital support, because the rules here in venture capital are changing very much and when you are bringing capital into another country and all these problems of rule of law to which you refer, is really that venture capital is very much required to create the new entrepreneurs, but we need to work in a new fashion, in a

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new way that is multinational in some way.

But the position that it is taking today is not in the same one that was taken five years ago, that venture capital now is in very stacked position, that they are very risk averse right now because they do not know where to go, and the areas of opportunity are switching from computers, web 2.0 to energy, biotech that has completely different rules. How do you see it or what do you suggest we do, because that is one of the things lacking, in any of the countries about which we are learning, to take entrepreneurs, well there is tremendous work done by you or other people and that is very feasible, some would say, we have learned that, but the next step is to really success that entrepreneurs, and you just said in India you get the stock because you have the great ideas, and what do you do?

Vivek Wadhwa: Well it is something I feel very strongly about. First of all, this notion that venture capital leads innovation, it is absolutely false. It does not, it follows innovation, I know the venture capital association would not want me to say that, but the fact is that the regions are wrong, the countries that are following the American model are wrong, absolutely dead wrong. What you need to do is foster entrepreneurship and once you have entrepreneurship, the venture capitalists will follow. These people smell money and go where the money is. They do not say “we are going to do good for the world, so we’re going to innovate, we’re going to contribute to mankind, and therefore we’re going to invest. So you have to do things completely in reverse. You have to now figure out how do you get more startups there? How do you provide seed capital to the right people? How do you teach these entrepreneurs to go from thinking small to thinking about big businesses? This is something that Kauffman is doing extensive work on. In fact they have this concept of Kauffman labs, in which they are trying to perfect the recipe for that. That is the solution for that, and once you do that and provide the social networks, the venture capitalists will flock there faster than you can imagine.

Ward Hanson: Causation in a virtuous circle is tough to establish, why don’t you comment on that.

Bob Litan: Well actually he said it in a much more blunt way. What you are going to see if you go to our website Kauffman.org, you are going to see a lot of controversial stuff about venture capital. That is a heretical view, I know, in Silicon Valley, but we have published a lot of studies and just to give a promotional ad, there is going to be another [study that is going to come out by Paul Kedrosky](#) on our website, on June 10 about VC in the United States, and its going to dispel the myth that VC is responsible for growth in the United States. Sure it has, we’re not going to dispute that. It has clearly been important. But the lion’s share of growth companies are not supported by venture capital. And it’s a big myth around the world that people believe that you need venture capital to grow. You don’t.

Elena Panaritis: I am an institutional economist and I used to work at the World Bank as a staff member, initiated myself into Doing Business as a matter of fact, and it took about seven years for the World Bank to understand that processes matter, that transactional costs matter. And I think, as a matter of fact, right now I’m a social entrepreneur and I work in applying policy through private funding, which is indeed an innovation, and indeed venture capitalists don’t understand it yet. But by the time they do it will be a staple product in an investment bank. But

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my point is that I believe the challenge for promoting entrepreneurship abroad is formality. Because formality is something that is not a top-down, legal or regulatory framework.

I believe it is really a representation of a universal acceptance of contracts. Now if we are dealing with seventy percent of the world being informal, that means we have very high transaction costs and zero-sum games all the time and zero trust all the time. And it is really a dead weight loss to have immigrants or foreigners, adopted kids of the United States like myself, not being further able to develop their ideas, where ideas are really the definition of economic growth, in the incubator of ideas and world growth which is the U.S., and then go back to whatever respective country they come from, and deal with the high transaction costs, the zero-sum games, the oligarchy, informality and really be stuck in between. And so my interest would be to see if there is indeed an answer to all of that.

Ward Hanson: I'm sure that is something that really educates the whole day.

Bob Litan: I will just add a few things, I started my professional career when I went to Brookings in the early 80's as a consultant to Hernando De Soto, of course, who has become famous for publicizing the importance of getting from informal rules to formal rules and has validated everything that you have said. Hernando has now become, and I don't have to tell you, an international conglomerate. I mean, he is all over the place. He is in many different countries in the world, in Egypt, Russia, and the Philippines, or wherever. But notice the countries he is in, and it is something we point out in our book. There is a very high correlation between what we call oligarchic societies and informality. You do not see informality in societies like the U.S. or highly developed societies that are not oligarchies. The reason why we have a high informality in oligarchic societies that are dominated by very few people, is that they don't want the other ninety-eight percent of people at the bottom to start new businesses to challenge essentially their power structure. And so one of the frustrations, and I know Hernando has faced this when he goes to an Egypt, and then presents a result that says "Mr. Prime Minister, you have 245 processes that take 309 days to form a business" and the prime minister says, "Yes, we understand that," but he can't turn it off and can't change anything. And you know this having worked with at the World Bank. And this is a huge conundrum.

Elena Panaritis ... inaudible

Bob Litan: Yes exactly. And so this is what I said at the beginning, the conundrum I wrestle with is how do you get these societies that even the rulers of the country know it is screwed up, how do you get them to change. And so that is why I say if they are dependent on oil, pray for low oil prices that will get them to change. But like I said, that is not going to last forever. And revolution helps, but I do not think as U.S. foreign policy we are going to go and promote revolution around the world. We had peaceful revolution with the Eastern Europeans, we will take that. But the only other hope that I can draw on is peer pressure from the World Bank. Those rankings do have an effect on some countries.

So just as an example I'll conclude, because I've given my spiel on the internet, because I think the internet is a way to get around this. I think new zones are a way to get around this, if they are willing to do it, but on the peer pressure point, I will focus on Egypt again. Egypt has actually

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been somewhat of a miracle in the past ten years. I mean it has increased its economic growth, increased its FDI (foreign direct investment), and so forth. And I remember an article about a year ago in the Wall Street Journal that pointed out that Egypt and Saudi Arabia had dramatically increased their rankings in the Doing Business Reports of the World Bank, and they had these incredible statements from the foreign minister or the treasury minister or whatever from the country saying this is fantastic, it proves what a great country we are, and so forth. They were proud of the fact that they had changed. And so that shows you that disclosure, transparency, publicity can actually help pressure change and so I lauded the World Bank's project.

Marco Palombi: I am Marco Palombi, I am an entrepreneur. I actually created the largest blog platform in Italy and then sold it to one of the largest media companies in Italy, and one of the questions I had for Vivek because he is Indian, is a comparison between, and what you said about zero-sum games, I always thought about that, there are societies which are stuck in the zero-sum game and for instance Silicon Valley, which is a win-win situation, where people are happy if you are successful, where in other countries where they are not happy if you are successful. Even your peers, because they feel you are taking resources from others if you are rich and successful. And I feel very strongly that this is the case in Italy and Europe, and I guess this is because our countries are older and they went through deprivation and stagnation for a long time. So my question for you is, I guess India is even older than Europe as a society, how do you manage to instill this idea of a win-win situation, which is beneficial for society instead of the zero sum game where you feel as if you lose if others are successful?

Vivek Wadhwa: Well even in India there are two Indias. There is the new India which is entrepreneurial, aggressive and outgoing and you have the old India which is traditional, conservative and threatened and so on. You see in the political system, there you have seen the battles. In Italy, I've seen the same thing. In fact on my last trip to Italy I went to the Veneto region, and I saw all the entrepreneurs there, and a lot of the entrepreneurs there said, "You must be Italian, the way you are talking," and so on. So there is a lot in common between Italy and India in particular, which means the problems are the same, which means the solutions are probably the same also. I don't know what else to say to you.

Ward Hanson: Let me ask a moderator's question. With the news being so grim on some of the short-term economic conditions, what are some of the strongest arguments to tell governments that they should still be interested in entrepreneurship, still be focused on things that could be thought of medium and long term.

Bob Litan: Well, I think one of the strongest arguments is to look at what is going on in the U.S. Essentially, the entire economy has tilted to pouring money down rat holes. And the whole world is making fun of us. And I think by power of example we are demonstrating to the rest of the world that this is how not to run a country.

I just want to be very clear, I was being flip when I talked about a rat hole economy. I will be very clear, because I know this is being filmed. I would be the first not to oppose helping some of the financial firms to keep the system from falling apart, that was absolutely necessary, but I am telling you an unintended consequence of the massive amounts of money that we are pouring into this, has been the demonstration (effect) that this is not how you run a country and that the

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only way you are going to get out of this ultimately is starting over, having new firms. And I think the rest of the world understands this, because they understand the reverse. We do not want to live the reverse even though it was necessary at the time. It was necessary, but we don't want to live in this equilibrium.

George Shultz: I want to get into this debate. And say when you are confronted with a company that might go bankrupt, you have a choice as a policy maker. I have been there. You can say we are going to bail them out. What that does is that it leaves the people who got in trouble in the first place to somehow get out of it, and the generally do not. Or you can say not just let it go, you can say, "I am going to look carefully at what the consequences are, and then I'm going to spend my effort in dealing with the consequences," and I think, on the whole, that is what you are getting at. It is healthier that way once you can get to it. I might say one other point that I've gotten out of this discussion that I believe we should all take to heart. One of the things we really need to do in the United States, is get our immigration system straightened out. It is a mess and it needs a complete overhaul and the sooner we can do it the better off we're going to be.

Vinita Gupta: My name is Vinita Gupta and I am a technology entrepreneur, who has started a company thirty years back in the valley, and we made equipment that was a precursor of the routers, and I saw the growth of the internet before my eyes, and I am credited with being the first Indo-American woman to take a company public in the U.S. and with that introduction, and I also serve on the board of Palo Alto Medical Foundation for healthcare. One of the things we have not talked about in this forum so far is the role of government in the innovation of technology. The internet came about because of [DARPA](#). It happened in front of our eyes. It happened in universities, and it got commercialized. The support of R&D for private funding, the R&D tax credits were so essential for us. Bell Labs invented the transistor as we know it. Then in the medical industry, an orphan drug act got passed in Reagan's administration, I know, which made so many innovations, so these were the sparks which ignited the innovation and then the applications of these formed so many more companies, and what I have not heard is that continuing to happen and will it happen, and how do other countries handle that part of it, or do they reap the benefit of that?

Ward Hanson: Excellent question to end on, so let's hear from all of you.

Vivek Wadhwa: I agree but also note that we spent forty two billion dollars a year in research right now at universities and almost nothing comes out of it. We get \$1.8 billion in patent revenue. Rather than investing more and more, we just need to make the system smarter. We need to be able to tap that gold mine we already have of research and figure out how to create companies from it. There is a big, big problem over there. It is not a matter of throwing money at it; it is a matter of using it smartly.

Bob Litan: Brains, plus openness and if you go to the Kauffman website you will see more policy.

Ward Hanson: Let's thank our panelists.

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