

**How and Why of Promoting Entrepreneurship Abroad
Hoover Institution
Stanford University**

Carl Schramm: Expanding Entrepreneurship to Expand Human Welfare

My task is to sort of sum up what happened today. That's quite a task because the enormous amount of – enormous numbers of ideas have been traded. I think at conferences like this, it's more often the unspoken synapses in the air, where people have put together something someone has just said in the hall with something someone said on the panel with a question that's just been asked. Nevertheless, I think there are several themes that have come through here. I wanted to summarize just a few of these before I make two final points.

One is that immigrants are central to the growth of the American economy, and I'll speak to the importance of the American economy in a minute. The second is we're not sure what the Silicon Valley is. What a surprise. How many of you have been to conferences where there are thousands of theories about what the Silicon Valley is. We're enthusiastic about the Silicon Valley even though we don't know what it is. It's sort of like a religion. We've heard a wide range of views about this in terms of the Silicon Valley's salad days are behind it, and the Silicon Valley is still the hope of the world. Who knows? I'll explain why we don't know this in just a minute.

Third point I want to make is this. Bob Litan raised this. In some regards, if you were to just have dropped in and hovered over this conversation all day at ten thousand feet, there's something about government that sounds somewhat antique to this discussion. Some would try to say government would be critical to what we do, and government certainly has a role to play with the reform of education and what not. But, it also sounds to me like government may in fact be subjected to the pressures of entrepreneurs, who in fact could push challenges as to the functionary or ministerial roles of government such as the creation of firms, the administration of law and wholly new private areas as Bob alluded to.

So, there's much that's changing in the environment out there. What I'd like to talk about are two bigger themes. Our enthusiasm for entrepreneurship really stems from its sense of being able to A) solve problems, and B) unify across nations. One reason I think we've invested a day in understanding this is because we'd like to see foreign policy in the United States emerge that recognizes a unique capacity in the United States to advance a business model that has worked phenomenally well in the United States to propel us into the world's leading position in terms of innovation and with it the generation of growth. Our sense, suggested to us by a huge amount of research literature, that if other countries could enjoy our level of economic competence, we would in fact see a diminution of the tensions in the world that often lead to violence and combat.

In a sense, the magic of entrepreneurship in the context of democracy really relates to the most profound of issues in the international sphere. So, I would suggest that part of what we're trying to work with today is the formation of a public policy message, but more importantly, a

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substance in our public policy that relates what we do in Silicon Valley and what we do in other venues in the United States in igniting democratic capitalism by the creation of new firms, by entrepreneurs with the support of venture capitalists and convert that into a coherent outbound message for the United States government. In an outbound message that has a cohesiveness and an attractiveness, an attractiveness one of the fundamental tenets of soft power a tool kit, an attractiveness that brings others to it. Now, this already exists.

I would submit that one of the reasons that even in a situation that has not gone well, it could have gone much more badly. What I'm speaking about is the invasion of Iraq and the tension in Afghanistan, but particularly in Iraq where in many instances, the United States was given the benefit of the doubt by an indigenous population that saw perhaps on the other side of this armed intrusion that there might be an American economy with orderly entrepreneurial capitalism following in its wake. That is to say, I think we've already benefited and benefit continuously by an unconscious aspect of the American experience, economic experience, that we in the United States are the slowest to recognize.

Now, if this in fact is part of our power, if this is in fact part of our experience, it can be a new tool, an enthusiastic new tool in foreign relations. I would suggest that we actually have to now subject it to two different perspectives. The first is - the one we've paid more attention to today. Today's conference has been much more, if you will, about technique. What do we say, what is this, how can the Silicon Valley be reproduced elsewhere, and very little about the fundamental matter of what entrepreneurship is, I would suggest listening to the conference all day. Entrepreneurship still has a very evanescent quality. We can't get our hands about it. It keeps slipping through our fingers. We don't know fundamentally what it is. This can't continue. Particularly it can't continue if this is going to be a mainstay or indeed the mainstay of the outbound diplomatic message of the United States. But differently, if we're going to export our economic thesis, we had best understand the operation, at least of our economic thesis. I would submit, we don't.

But here are a few things that will be useful in understanding where we go by way of propelling our own understanding of what we are to ourselves, such that we can feel more secure as we project this message based on yet more successful experience at rebuilding our own economy. The first thing I'd say is, as I've said before, fundamentally we do not understand the changing nature of capitalism. Now, let me be illustrative on this and suggest that if we were to transport ourselves to Washington today, and I asked the following question, most economists in Washington wouldn't have the right answer, but rather to build us a Q&A and sort of a theocratic colloquy. Let me just tell you what the answer is. One third of today's GDP in the United States is created in firms that did not exist in 1980.

Now, that is not a statistic that fits conveniently into the Keynesian playbook. The Keynesian playbook, articulated by John Galbraith, says there are three great forces in the economy: big government, big labor, and big business. It does not contemplate entrepreneurs, and I'll tell you why in a second. To underscore exactly what I'm speaking of, the playbook, as written by Keynesian, and it was almost shut until we had the recession. Larry Summers, now our chief Keynesians, only a few years ago was our chief Schumpeterian. He was quoted widely as saying

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the economists of the day is Joseph Schumpeter.

Now, why is all this important and where does it point? It points to an understanding of the evolution of this economy where a third of our GDP has been made in new companies that didn't exist. The playbook, the doctrine if you will, was absolutely secure. The big company, big unions, big government thesis, the countervailing power thesis. In 1984, John Kenneth Galbraith writes that the age of the entrepreneur is over. He writes this. He says that all innovation will happen in large firm laboratories. That's where innovation will happen. There's no more utility for entrepreneurs.

Now, what happened since 1980 was we had a different form of capitalism break out. It's been referred to today as entrepreneurial capitalism. The world knows it. The Kauffman Foundation sits in the middle of America. We've never sought to engage the world. The world engages us. A different way to say what Kauffman is, is in the United States we are the Kauffman Foundation, the Foundation of Entrepreneurship. In the world, we are the Kauffman Foundation, these are not our words, they're imposed upon us, because in the United States we're the foundation of entrepreneurship, in the world, we're the foundation of growth. People come to us to understand growth through entrepreneurship, put differently, they, on the outside, have in some ways a more cohesive workable understanding of our economy than we do on the inside. Now, so we don't understand this at one level.

We have at moments like this a tendency to turn to government to solve this. This is a very dangerous moment for entrepreneurs, precisely and quickly because with so much money around, it is an inducement to so many people to become rent seekers. People who would become entrepreneurs turn their entrepreneurial activity into seeking government funding for any idea. It's a very, very dicey moment, notwithstanding the fact that to us entrepreneurs, we see these new infusions of money particularly in areas like green tech, which are just ripe with opportunity for all types of innovation to spring forth and resuscitate the economy. The trick, the whole trick is who makes the decisions? Can government, pick leaders? Or can government put in place the structure by which the market and entrepreneurs can try and fail, try and fail, quickly get out, quickly get in and resolve themselves into new gigantic companies.

Last point but the most important point. If fundamentally we are to articulate our outbound message as entrepreneurial capitalism, we actually have to have something that eventually could emerge as doctrine. Who are entrepreneurs? How do we farm entrepreneurs? How do we fund entrepreneurs? How do we exit entrepreneurs? How do we compile the big firm, small firm capitalism as Bob Litan, Will Baumol and I have talked of in our book, "Good Capitalism, Bad Capitalism." At this moment, it's rather speculative.

Now, when I say we don't have doctrine, this is very important to understand what the risk of not having doctrine is. Recently I read the brand new [Army Field Manual for stabilization. It's just out; published by the University of Michigan](#). In this 240 page document, there is all told not more than two pages. Really it's about one page that deals with anything related to economics. This is a stabilization, post conflict stabilization guide for our Armed Forces, and also by the way, guidance for the State Department. In one third of the one page is devoted to establishing

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new economies with wage and price controls.

Now, why does that happen? Here is the mystery of what entrepreneurial capitalism is about. Particularly at moments like this, it's human nature, and economics after all is one of the revelatory sciences of human nature. When there's chaos, when we are disappointed with the economic results, we seek order. In economics, order comes in the form of central planning. We've heard one of our panelists talk about the urge to go in the 1980s to the MITI-type of systems because it appeared as if Japan was eating our lunch. The alternative seems riskier. The alternative is actually to invest in, to bank in, to articulate the message of entrepreneurial capitalism.

The reason we hold back at moments like this when we have to restart the economy, and we want people to tell us what the next steps are. The reason we hold back is entrepreneurial capitalism is messy. You guys make it messy. Silicon Valley makes it messy, and the tension in the United States is tens of thousands of messy people doing business, messy businesses in a very messy style with very messy plans and business plans that don't work and what not, this messy turbulence underneath. That Schumpeter saw as disturbing the established interests of big firms, as antithetical to what we really want: to establish order, to get things back in place and to go forward as we were maybe twenty-four months ago.

Now, the fact is as economic teaches us, there is never any going back. We are only going forward. We are going to a period of the new normal. The new normal, if the folks in this room I suspect were to vote for it, would vote for entrepreneurial capitalism resoundingly, and on our side would be much of the rest of the world. So, the trick is to make consistent what the world wants us to talk about in our diplomatic discourse, mainly entrepreneurial capitalism, to share these secrets, to share our universities, to share our money, to interlink because one of the marvelous lessons of every meeting that comes like this. And, you saw it in the questionnaires, and you saw it in the people in their physical presence, the countries they came from, the religions they articulate and believe in. You see these cross cultural bonds and linkages facilitated now almost in a free information space called the internet where people in the Silicon Valley are working in Bulgaria, are working in Buenos Aires, are working in Auburn, New York, are working in Chile, and working in Africa, and working in Israel. This is the enthusiasm we hold for this worldview in America. America made it happen. The world knows that, and the trick for America is to make it happen again in a new way and at the same time to export the message that is consistent with what the world expects and what we have delivered in the past.

It seems to me every time I hear the phrase that we're going to use soft, smart power, which is now being challenged by Les Gelb and others whose people say that power is power and it could be hard and dumb or soft and smart. It doesn't largely make a lot of difference. I trust that the new Administration, chock full of smart people, is struggling to have a message that will be widely adopted and a consistent message with what the reality is of our economy at home. This is the trick because the world looks to us as the home of entrepreneurial capitalism, and at this moment we can't put that at risk with the expectations we hope for in reestablishing the domestic economy by making too ordered a solution.

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