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The Conversation

### Looking for Jobs in All the Wrong Places: Memo to the President

6:04 PM Wednesday January 26, 2011

by Henry R. Nothhaft with David Kline | [Comments \( 30 \)](#)

Dear Mr. President,

Your State of the Union address last night offered hope to a nation made weary by an economy stubbornly resistant to job growth. But I must take issue with your claim that "None of us can predict with any certainty...where the new jobs will come from."

Actually, we can. Brand new research conducted just last year by multiple teams of economists confirmed what many entrepreneurs such as myself had long suspected: startup businesses are responsible for *all* of America's new job growth.

Until now, the conventional wisdom has always been that small businesses create most jobs. But thanks to a new Census Bureau database called Business Dynamics Statistics (BDS) that correlates job creation with the annual number of new business starts, we now know that it's actually *new* businesses that do so (although most are obviously also small).

According to a recent [study](#) by the Kauffman Foundation, for example, all net job growth in the U.S. since 1977 has been due to start-ups. The data show that if you took start-ups out of the picture and looked only at large established firms, job growth in the U.S. over the last 34 years would actually be negative.

"When it comes to U.S. job growth," said Kauffman Foundation economist Tim Kane in his report, "start-up companies aren't everything. They're the only thing."

In your address last night, Mr. President, you correctly noted that, "The first step in winning the future is encouraging American innovation." Here, too, start-ups are the driving engine of our nation's global innovation leadership.

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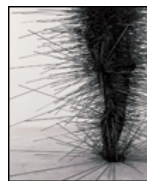
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It is startups who have generated virtually all of our nation's major technological breakthroughs in the last hundred years — from cars and planes to semiconductors, PCs, software, and the Internet — and in the process sparked the creation of whole new industries and millions of new jobs. And as economists have demonstrated, this kind of start-up-led innovation is the source of virtually all economic growth and increases in living standards in the U.S.

In other words, Mr. President, everything depends upon start-ups: Job creation. Our standard of living. Our prosperity as a nation. The American Dream itself.

So if the target of national policy is job creation, then the bullseye of that policy must be centered on startups. Yet policy makers in both parties continue to aim at the wrong target.

Last month, Mr. President, you held a summit meeting with 20 of the nation's top CEOs to look for ways to spur job creation. But Fortune 100 CEOs are exactly the wrong people to talk to about jobs. Big Business is not a major job creator. Indeed, as one [commentator](#) put it, the guest list at this summit meeting represented "a who's who of outsourcing American jobs."

Then, this past Monday, you appointed General Electric CEO Jeffrey Immelt to chair your new council on jobs and competitiveness. Jeff Immelt is by all accounts an excellent CEO and a strong advocate of American competitiveness. But again, Mr. President, he is exactly the wrong person to talk to.

Given URL is not allowed by the Application. You are competing with the one group of people in America who actually creates jobs: entrepreneurs. Last night you spoke so compellingly about the "small business owner who dreams of turning a good idea into a thriving enterprise." But unfortunately, entrepreneurs are still largely invisible to policy makers. Everyone else has a voice in Washington — Big Business, retailers, insurers, doctors, bankers, and every other interest grouping you can think of. Only entrepreneurs lack a voice.

Mr. President, I have been a high-tech serial entrepreneur and CEO for more than 35 years. And in that time, I've created more than 6,000 jobs and returned \$8 billion to investors. So please trust me when I say that one of the biggest roadblocks to job creation is the huge logjam at the patent office that prevents entrepreneurs from getting the patents they need to obtain venture funding. Without those patents and the funding they attract, few start-ups can afford to hire the people they need to develop their new products, services and medical treatments for the public.

Consider the case of Silicon Valley start-up Innate Immune, founded by world-renowned Stanford immunologist Sam Strober. It developed a new treatment for lupus, but has waited more than 7 years for a patent to be issued by an overburdened, underfunded USPTO groaning under a backlog of 1.2 million patent applications waiting for review.

"Hundreds of thousands of groundbreaking innovations are sitting on the shelf literally waiting to be examined," conceded your own patent office chief, [David Kappos](#). And how many jobs are left un-created along with them?

"Millions," said Kappos. "Millions of jobs."

My own analysis — conducted with retired Chief Judge Paul Michel of the nation's main court for patent appeals and reported in our [New York Times op-ed](#) last year — found that the U.S. could create as many as to 2.25 million new jobs just by clearing the patent backlog. A mere \$1 billion spent on such an effort would create the most cost-effective jobs program in history.

To be sure, the patent backlog is not the only barrier to job creation. Start-ups today are also burdened by tax rates that are 50 percent higher than the average in Europe, belying your promise to "make America the best place on earth to do business."

And as for regulation, I applaud your promise to "reduce barriers to growth and investment." But if you could accomplish just one thing here, Mr. President, I hope it will be to end this nation's mindless one-size-fits-all approach to regulatory policy.

Who ever said that it was either smart or fair to impose on start-ups the same burdensome regulations meant to keep Big Business from sinking the whole economy again?

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Perhaps the biggest job killer — and it's the greatest threat to the survival of America's once-vibrant middle class — is the systematic offshoring of our high-tech manufacturing capacity.

For 30 years now, we have all been fed the carefully-cultivated myth that so long as America did the creative work, the inventing, then we could let other nations like China do the so-called "grunt work," the manufacturing.

But in our arrogance and naiveté, we failed to realize that a nation that no longer makes things will eventually forget how to invent them.

Sincerely,  
Henry R. Nothhaft

*Manufacturing will be the subject of Mr. Nothhaft's next "Memo to the President."*

*Henry R. Nothhaft is the chairman and CEO of technology miniaturization firm Tessera and the author, with David Kline, of the upcoming book*

**Great Again: Revitalizing America's Entrepreneurial Leadership** forthcoming June 2011 from Harvard Business Review Press.

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**bp2104** 4 days ago

I agree with some parts of your letter (although the patent process is inefficient, I don't believe in patents, but that's a different story), but think the underlying unemployment problem, along with the fundamental problems with the economy, runs a lot deeper. The government is surely stifling job creation and innovation in more ways than one. Examples include minimum wage law, taxes and regulations that make businesses less efficient and drive the cost of employment higher, unemployment insurance that subsidizes unemployment and discourages individuals from seeking employment, bailing out inefficient companies at the expense of smaller competitors and other industries, and subsidizing industries that are simply not competitive. Job growth should be a priority for the government, and they should act on that priority by getting out of the way so that all businesses, not just start-ups, or small businesses, or large corporations, can create jobs.

The problem is that we've gotten to the point as a country where we keep looking to Washington to help create jobs. People seem to think that we can create jobs by passing legislation, but this is a far cry from reality. Very few stop and think about where jobs really come from. They certainly don't come from government. We have to remember that the government doesn't have any resources. It only has resources that it takes from the private sector. It's easy for the government to point to jobs that were created as a result of legislation being passed (i.e. stimulus bills, job bills), but what they don't take credit for is the better jobs that such legislation destroyed, or that it prevented from coming into existence, because the government had to divert investment capital away from other, more efficient sectors of the economy and give it to another.

Ultimately, job creation is dependent upon capital, and capital formation is a function of savings and

