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## 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 \( 32 \)](#)

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

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American innovation." Here, too, start-ups are the driving engine of our nation's global innovation leadership.



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.

Instead, you should be meeting 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.

Given that 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."

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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?

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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[Study: All net job growth in the U.S. since 1977 has come from startups](#) from Sully Syed:

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**bp2104** 1 month 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 investment. With zero-percent interest rates, quantitative easing, large fiscal deficits as far as the eye can see, a swelling national debt that's already mathematically impossible to repay, a low savings rate, and large private sector debt levels, it's not surprising that unemployment continues to worsen. We simply do not have the savings necessary to create jobs (on another note, we don't simply need jobs. We need productive jobs). It's a long road ahead. It will be painful, but the longer the government waits to reverse course, the worse it will be.

I do disagree with you that the President's speech gave the nation hope (if it did, it's a false hope). I was disgusted with it, and couldn't believe he said some of the things he did. He continues to be dishonest, condescending, and arrogant. Perhaps the most appalling part of his speech was the following comment: "Our free enterprise system is what drives innovation. But because it's not always profitable for companies to invest in basic research, throughout history our government has provided cutting-edge scientists and inventors with the support that they need. That's what planted the seeds for the Internet. That's what helped make possible things like computer chips and GPS." In essence, the President feels that technological advancements such as the internet, computer chips, and GPS were only made possible because of the wise stewardship of our government and the keen ability of politicians to identify such beneficial investment opportunities on our behalf. If I'm not mistaken, this is the same government that improved our lives by making scientific grants to study the effects of cocaine on monkeys. To counter the President's statement, the internet, computer chips, and GPS were made possible by individuals despite of government! The one theme that was absent from the President's speech, per usual, was individual liberty, without which innovation, job creation, and economic growth are impossible.

3 people liked this.

Like

Reply



**Mcpage44** 1 month ago in reply to bp2104

I tried to pay for my college education with individual liberty, but the school insisted I get one of those oppressive government-backed student loans instead. I would have asked my parents for help, but they selfishly wanted to roll around on the piles of lucrative unemployment money. Finally, I turned to my young cousin, who's flush with cash from her minimum wage mall job. Success is mine!

Seriously, we get it. Government bad, not government good. In the meantime, the Internet WAS a DARPA project (Dept. of Defense), so I'm not sure how you can take issue with that statement. But good on you for not doing research first and just going with your gut, true believer.

5 people liked this.

Like

Reply



**Izzy Iz** 1 month ago in reply to Mcpage44

Didn't you know? Al Gore invented the Internet while he was the National Information Infrastructure Czar under Clinton.

Like

Reply



**Dkline** 1 month ago in reply to Mcpage44

Boy, talk about jumping to conclusions!

In our book, Hank and I interviewed the DARPA researchert who led the project that invented the Internet. And we totally agree with him that government can be a force for good, especially in fundinhg basic research which no prtivate enterprise will. We advocated returning to the high levels of federal research support that prevailed in DARPA's golden days.

Our beef was with the president relying on Big Business CEOs for guidance, when the only real net job creators in the country are startup entrepreneurs.

I wish you hadn't been so put off by the mild criticism of Obama that you failed to even hear what we were saying.

Like

Reply



**Mcpage44** 1 month ago in reply to Dkline

I don't call "dishonest, condescending, and arrogant" a form of "mild criticism" (leaving aside the monkeys on cocaine dig). I also have a problem with pointing to minimum wage (a complaint before Barry O came to office) and regulations (same) as "government stifling job creation". I'm amused that the critics of minimum wage are often individuals who never had the occasion to earn minimum wage (in high school or otherwise). Your comment says you "advocated returning to the high levels of federal research support," while bp2104 says "government...should get out of the way". Which one is it?

I don't profess to have all the answers. Far wiser than me have tackled these issues with different success, and in far better forums than the comment board to a random blog post. But believe me, I hear what you, the President, the media (liberal, conservative, and otherwise) are saying.

Like

Reply



**Dkline** 1 month ago in reply to Mcpage44

Now you've got me confused with someone else. I am the co-author of the article on this page that you're reading. My name is David Kline. We never said a word about the minmum wage, and our comments about reducing regulation only echoed President Obama's statement in signing his executive ordfer calling for a reduction in business-stifling regulations. But like we said, our citizens need Big Business to be regulated or they'll wreck the whole economy again. Startups, on the other hand, need to be liberated, as any entrepreneur in heavily-liberal Silicon Valley will tell you.

Like

Reply



**Bama Lama Ding Dong** 1 month ago in reply to Dkline

What a load of BS. You have nothing to substantiate that eliminating the patent backlog will create jobs. Nothing that is but your own vivid imagination. China has a fake patent system, where patents are virtually meaningless. They are meanwhile kicking the USA's rear every day.

Like

Reply



**Mcpage44** 1 month ago in reply to Dkline

I was responding to the first poster, not you. Looks like we got our comments crossed up.

Like

Reply



**Dkline** 1 month ago in reply to Mcpage44

Yeah. Confusing. Sorry about that.

I don't get why for some people it's either or--Big Government or no government, China's patent factory or no patents at all. Strange.

Like Reply




**IntegratedFraming** 1 month ago

I too was baffled by the President's selection of big CEO's to lead his efforts at job creation. At least Immelt @ GE recently went fishing for some innovative ideas in clean tech with their Ecomagination Challenge. But most large companies are downright hostile to outside ideas.

I can testify first-hand that the patent backlog is costing us progress and jobs. I applied for patents almost ten years ago for my building system (an industry that desperately needs innovation). My patent came through first, and fully intact- 2 years ago- in China. While I don't have the resources to defend it as vigorously as I would like there, it has served to get the attention of the most promising partners in that country. I am still waiting here, and in the EU and Canada. I have at least gotten preliminary reviews, but until I have a definitive answer I cannot determine my ongoing development strategy. Finding investors is even more challenging.

A system such as mine which doesn't involve a particular photovoltaic chemistry, but instead tries to make a unified framework for the best of several new technologies, doesn't fit into funding criteria for much-needed grant funds. (Not to mention that some government agencies wary of "wasting" taxpayer dollars end up being even more protective of existing "proven" technologies than businesses are). And while I can understand that a larger manufacturing partner would like the protection of an issued patent before shelling out any funds, we're losing time and money here. And, we're wasting energy and momentum that we just can't afford anymore.

It's not just about competition with China. All products are commodities. Services are commodities. Innovation is the last means to differentiate a company or a nation. We already know that individuals and small businesses are our best source of innovation. While entrepreneurs can survive under less than ideal circumstances, it wouldn't take much of an investment to bring forward a wealth of new ideas for consideration. Maybe even a "patent lite" system for the small entities for whom the original system was designed could create the outpouring of new companies such as we saw at the turn of the last century.

 Mark Montgomery liked this Like Reply



**bp2104** 1 month ago

Mcpage44: I guess you missed my point with regards to the President's statement. I was taking issue with his implication that were it not for government funding, scientific and technological advancement would be stagnant. Certainly, there have been breakthroughs that have been funded by the government, but, would you really like to argue the overall efficiency and benefit of the process? And of course, what would have been the alternative had the government not been consuming all of these resources from the private sector? The basic problem with government "investment" is that, quite simply, it's not investment. When private citizens invest their own capital, those who invest wisely are rewarded with profits, while those who do not are punished with losses. Bad investments are therefore abandoned, with capital reallocated to more successful ventures. Conversely, when the government invests money, these checks and balances do not exist. There is nothing to correct bad investments, as losses are endlessly subsidized by taxpayers. In fact, the more a government plan fails, the more it tends to be funded in the hope that additional resources will finally achieve success.

With regards to minimum wage and regulations not stifling job creation, how do you figure? If the cost of employment rises above the return for labor, you don't think that prevents hiring? This is basic economics. Moreover, do you not think that employment terms should be agreed to by employers and employees? And, if you do agree that the government should set the minimum price of labor, why not have the government set the price of all labor?

With respect to regulations, the impact on businesses has been much greater due to the scope of the costs. Regulations, far from being beneficial, act to make businesses, and the economy as a whole, less competitive. The burden is borne by smaller businesses or start-ups that are unable to absorb the costly impact of the regulations, as well as consumers who are left with fewer choices. Why do you think large corporations often support regulatory efforts on their industry? It's precisely because it will help to limit competition and create more barriers for firms wishing to enter the market. After all, it's not a coincidence that the most heavily regulated industries are often dominated by just a few large players.

1 person liked this. Like Reply



**Mcpage44** 1 month ago in reply to bp2104

Talk about reading in to things. The President did NOT say "were it not for government funding..." The President DID say "because it's not always profitable for companies to invest in basic research, throughout our history, our government has provided cutting-edge scientists and inventors with the support that they need." He also started by praising our free enterprise system. Is every government-funded project a winner? I don't know, I'm not in the business of studying that. But with the way you speak in generalities, I'm supposing you don't actually know either.

Furthermore, thank you for the 9th-grade economics lesson. In the real world, though, if people earn, say, \$3/hour for a job, that allows them to do what, exactly? Only be somewhat behind on rent? Eat every other day? I suspect that in many parts of the US, 40 hours at \$3/hour means most people couldn't afford to even commute to their jobs. How is that a win for society? My hunch is people would prefer to turn to crime to get by...which means the government (taxpayers) get to buy new shiny prisons to give this new criminal population 3 squares and a room. Hey, look - that (new prisons) WOULD create new jobs!

I'm not really going into the regulations argument. Are there some bad regulations? Sure. But there are also regulations that save lives, protect people + property, and prevent us from repeating past mistakes (I sure would have liked to see some of the Glass-Steagall regulations in place over the last few years). If regulations create a barrier, is the wiser move to get rid of regulations, or is it to build in levels/timeframes for adoption based on business size? Presumably the regulations could set thresholds that factor in regulatory costs.

Your issue seems to boil down to the fact that while the private sector is profit-based (focus on bottom line and therefore economically "efficient"), government is mission-based (protect/serve all citizens). While you might prefer to let private industry do its thing (consequences-be-damned), I'm going to continue to support a government that does what it can to protect and support its citizens. I don't expect it to bat 1.000 along the way, even if that means dealing with some inefficiency.

1 person liked this.

Like

Reply



**Dkline** 1 month ago in reply to bp2104

Government has always funded basic research because, quite simply, no one else will.

This is because the timelines involved in turning basic science research into useful products can be decades -- as was the case with turning basic laser research into commercializable technological advances.

Private companies, meanwhile, have a responsibility to their shareholders and must therefore focus their research on specific product developments of basic research that promise to yield near-term returns.

No other country has done as well as the United States in combining government funding of basic research with entrepreneurial development of that research into products and services.

The U.S. funded research into semiconductors in the 1950s and 60s, for example, and then through procurement policies gave preference to a variety of small startups (like Fairchild Semiconductor) to take the football and run with it.

There's a reason the U.S. led the way in developing every major industry of the post-war era: the pluck and initiative of startups in developing the fruits of government-funded research.

We'd be wise to keep that model healthy and fully funded.

Like

Reply

**Kyield** **Mark Montgomery** 1 month ago

Henry and David -- Good focus and well done. I was thinking along the same track-- not just in the latest speech, but trending back long before the financial crisis.

I founded a software company -- the creative part of the industry is increasingly so frustrated with the backlog and incompetency in the patent system that even the leading investors are abandoning it. I have a patent application that is very important in resolving many of these systemic problems-- took five years for initial review, and then at every stage since the examiner is doing everything within his power to influence applicants to pull out. He holds all the cards-- it's working, leaving primarily the over-funded and creatively challenged to move forward.

Fortunately in software we can encrypt and employ other methods to protect our investments. No question at all, however, that society as a whole is paying a severe price for our broken IP system-- to include cost not only of engaging, but defending. As it stands now the trajectory is clearly towards placing all of the power in institutions that have no incentive to see increased efficiencies, less systemic risk, and more jobs in the U.S. It should be well beyond troubling.

Thanks for speaking out -- look forward to reading your book.

Mark Montgomery

1 person liked this.

Like

Reply



**Dale B. Halling** 1 month ago

Henry,

Excellent points. As a patent attorney, I know of at least 3-4 clients that could get funding and create jobs if they could just get their patents issued.

The only point I would add is that Sarbanes Oxley has made it much more difficult to raise capital even after the company receives a patent.

I discuss these points in my book "The Decline and Fall of the American Entrepreneur."

1 person liked this.

Like

Reply



**Wrosswilliams** 1 month ago

By the way, if we can use renewables and efficiency of systems to keep our raw materials and finished goods as low as possible, I think we can bring jobs back to the US. Also, power generation does not create sustainable jobs, low cost commodities like electricity, affordable clean water and quality of life create jobs

Like

Reply



**Hed Uppass** 1 month ago

We Obviously Need MORE Government. It works great for CHINA. Why not the USA.

Like

Reply



**Spider Man** 1 month ago in reply to Hed Uppass

They have virtually no decent patents (its a scam) in China and they are kicking our ass right and left.

Like

Reply



**William Elmore** 1 month ago

We need federal, state and local policy and resource allocation that reinforces and accelerates self employed job creation by citizens. As a federal policy maker, I am trying to carry this message, and implement programs to support this with the limited resources I am responsible for. I thank you for this posting. Bill Elmore

Like

Reply



**Borisfowler** 1 month ago

Could not agree more. Entrepreneurs are consistently the backbone of our economy and job creation is something this country needs a lot of. We need to figure out how we can encourage entrepreneurs and how we can help them achieve their goals.

More successful people means more people who are doing well financially.

Resources alone are not enough to help entrepreneurs.

Like Reply



**Danmcdaniels** 1 month ago

Exactly. The start of a nations progress is based on how small businesses in the nation run or operate. For me, as a business man, I thank the president for recognizing us and also <http://jewelsnistico.com> for providing inspirational statements for running a small business. Thanks

Like Reply



**Dr. Mohammed Ahmed** 1 month ago

You are taking an issue with the president on his claim "None of us can predict with any certainty...where the new jobs will come from," and your explanation is conventional wisdom, economist opinion, and database. Wisdom, opinions, and database do not provide data or information with certainty. Basically, it looks like you are agreeing with the President's statement. Most people in business know that there is no such thing like certainty, everything is based on uncertainty and risk. My question is - can you predict with certainty what will be the stock price of your company by the end of the year? Thanks.

Like Reply



**Jeff Judge** 1 month ago

I'd love to read your analysis on the patent backlog and jobs correlation. Could you reply to this comment with the link?

Like Reply



**Dkline** 1 month ago in reply to Jeff Judge

Sure, Jeff. It's actually embedded above in the article, but here's the link:

<http://www.nytimes.com/2010/08...>

Like Reply



**Born Yesterday** 1 month ago in reply to Dkline

There is nothing empirical in your "opinion" piece in the NYT. In fact, you have not established causation in any way, shape or form. Saying that patents lead to small business jobs is like saying being in bed is dangerous, because facts show that 95% of people die in bed. Stupid conclusion because there is no causation.

Like Reply



**Jeff Judge** 1 month ago in reply to Dkline

Thanks David, I read the post on my phone initially and didn't see the link - appreciate it.

Like Reply



**notmd** 1 month ago in reply to Jeff Judge

following up on jeff's request, what can we do as citizens to influence the president to release those patents?

Like Reply



**Ronald Grey** 1 month ago

Fascinating article!

Thinking as a Peter Drucker disciple, I'm also interested in your views concerning the decline of manufacturing activity in the United States, relative to needs for supplying a growing knowledge economy in our information age.

Sincerely,  
Ronald Grey

<http://ronaldgrey.wordpress.co...>

Competence & Character: #Grey2012

Like

Reply



**Mhamilton** 1 month ago

Well done. Couldn't agree more with your assertions and suggestions about who the President and policy makers should really be listening to. One thing I would add to your list of hurdles for entrepreneurs and start ups are the commercial banks and their general lack of understanding or willingness to lend when your primary assets are all human capital and intellectual property not plant, property and equipment.

Like

Reply



**Jane Chelliah** 1 month ago

A tipping point will be reached when start ups become a saturated market. Innovation and invention are limitless in themselves but the engines of growth for both aren't limitless.

Like

Reply



**Litle & Co.** 1 month ago

Thank you gentlemen. Based in a home town of our industrial revolution, at the original site of Wang Computers, Lowell's Litle & Co., during the Great Recession (which for these purposes I count from late 2007 to now) has grown from 70 employees to 180 employees. Our payment processing platform has been built here and is served from here.

Like

Reply



**Christian Sarkar** 1 month ago

Wow. The USPTO patent backlog bottleneck is an interesting take on why this economy is stumbling along... very interesting indeed! I hope someone in the administration hears you!

Like

Reply

Real-time updating is **enabled**. (Pause)

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