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The U.S. Needs Its Own Industrial Policy

By Jeremy Wiesen

The U.S. economy needs new fast growing businesses like Microsoft, Google and Home Depot that can grow from a few employees to tens of thousands. This should be a national priority but it is hardly discussed.

Success on this front will require a different mindset about government involvement in business and a higher regard for entrepreneurship and venture-capital investing. This has become especially important as our gains in productivity are often matched by countries with cheaper labor (China, Taiwan, Malaysia) that have also acquired the latest tech equipment.

The key is developing "value-added" products and services that sell for a lot more than the sum of their parts, including labor costs. Think of Sony's Walkman in the 1970s, Microsoft's Windows in the 1990s, and Apple's iPhone and iPad today.

Scientific innovation is the most likely source of valuable new products. As we wait for the next big tech jump from nanotechnology—biologist and entrepreneur Craig Venter's "synthetic life," for example—we can

reap immediate rewards from innovation in biotech, agritech and greentech.

The Reagan and Clinton administrations claimed success from tax and budget policies, but they benefited greatly from the new technological plateaus of the personal computer in the 1980s and the Internet and cellular communications in the 1990s.

China's government incubates business with capital and other incentives. So should America's.

Startup companies are generally funded by smaller "angel" investors and larger venture capital firms. Unfortunately, professional venture capital, which receives most of its funding from pension funds (permitted by a 1980 Labor Department ruling), tends to be quite conservative. And in today's economy, once-daring VC firms are increasingly focused on more mature companies—bad news for startups.

Thankfully, there is a new breed of "super-angels" who have been successful entrepreneurs and are able to attract

other angels to invest along with them in early-stage companies. They deserve the attention of pension funds and other institutional investors, new tax incentives, and a reinvigorated initial public offering (IPO) environment that can provide an important exit for their investments.

Government programs that make grants to new technology companies must be better publicized and easier to access. Funds allocated by Congress, such as those for new green initiatives, must be more rapidly deployed. Grants might be replaced with equity ownership for the government, such as the Health and Human Services-proposed Strategic Investment Firm, which will invest in small companies developing medical countermeasures to a WMD attack, such as from bioterrorism.

If the U.S. Small Business Administration were staffed by people with a deeper knowledge of entrepreneurship, then it could step up its small business investment corporation or even provide capital directly to worthwhile businesses rather than just guaranteeing their bank loans.

America is not going to become a state-capitalist society like China, but it should not duck

the priority-setting that goes with exploiting the best opportunities in a "hyper-tech" era.

Thirty years after President Ronald Reagan told us we were in "the age of the entrepreneur," we shouldn't need to implore the government to have at least as many officials focused on new business creation as are measuring GNP and GDP.

The term "industrial policy" should not be seen as a pejorative. It certainly isn't in China. Nor should it be anathema for the U.S. government to provide capital and other incentives to keep scientific and entrepreneurial talent at home, give aggressive trade assistance, and incubate new businesses—all of which is done in China.

Corporations cannot sit out this challenge either. They should be more active in raising and supplying venture capital and housing business incubators (sometimes in conjunction with local colleges and universities). We need to develop dynamic new businesses to prove American-style capitalism isn't second-rate.

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