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The Government's Most Important Job

How politicians can build an entrepreneurial economy.

By Larry Farrell

"Why are some countries richer than others?" *The Economist* called it the most important question in economics. In a now-classic May 1996 cover story, "The Mystery of Economic Growth," the magazine stated: "Understanding growth is surely the most urgent task in economics. Across the world, poverty remains the single greatest cause of misery; and the surest remedy for poverty is economic growth." Then, to underscore the crisis that plagues a majority of the world's population, the article lamented: "To its shame, economics neglected the study of growth for many years. . . . [T]he best brains in economics preferred not to focus on the most vital issue of all."

Fortunately, we don't need the best brains in economics to figure out what to do. We can follow the lead of people who have already done it, such as KT Li, the father of Taiwan's economic miracle—and the world's most successful architect of economic growth over the past hundred years. The Cambridge-educated physicist arrived on the barren, former Japanese colony of Taiwan in the late 1940s with Chiang Kai-shek and 1.6 million mainland Chinese following their bitter defeat at the hands of Mao's freedom marchers. Li helped run Taiwan's economy for nearly half a century, serving as both the minister of economic affairs and the minister of finance. Not long before his 2001 death, I had the honor of interviewing him in Taiwan, which was something akin to taking a crash course on the history of the twentieth century. His opening comment set the tone: "The greatest advantage I had as economic-affairs minister was I never had a course in economics. In the end, it only requires someone with common sense to make the judgments."

That common sense produced some staggering economic results: the highest GNP growth (8 percent per annum) of any country for the past fifty years. And defying all economic theory, Taiwan achieved these record-breaking results with very low inflation and one of the most even distributions of income in the industrialized world. Today, with $254 billion in foreign reserves (third-highest in the world after China and Japan) and not quite twenty-three million people, Taiwan is, by far, the wealthiest nation on a per-capita basis. Here, in Li's own words, are his proven principles for creating economic growth and prosperity:

The starting point has to be population control. *This is more important than any economic theory. Wherever you find too many people, you find poverty.*

Never print money you don't have. *Taiwan's annual inflation rate has averaged just 2.2 percent over the past fifty years. That's what happens if you never print money that you can't back up.*

The government's most important job is to help people become prosperous. *That includes all individuals: farmers, businessmen, professionals, and skilled labor.*

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Timing is more important than ideology in economic development. *The country's life cycle, or stage of development, should determine economic policy, not a particular ideology.*

Create and honor the entrepreneurs. *From the beginning, we believed that entrepreneurs are the backbone of any growing economy and that the government should do everything in its power to help them succeed. We knew that if we helped create entrepreneurs, they would create the jobs. Therefore, our primary economic tactic was to create entrepreneurs."*

There is no reason why the next Bill Gates can't come from your hometown.

Li's final point provides the essential "how to" of creating growth. His unabridged common sense says that creating an entrepreneurial economy is the only way to achieve sustainable prosperity. Many very smart governments around the world are beginning to do just that. A sampling of countries with government-funded, entrepreneur-development projects in which my company has been involved illustrates how widespread this phenomenon has become: Malaysia, Singapore, Estonia, Northern Ireland, Brazil, Uruguay, and Kentucky and New York City in the United States. In such projects, we always urge our government clients to "dumb down" their notions of what it takes to create entrepreneurs and an entrepreneurial economy. We've learned that what's really required is putting in place just a few key fundamentals—and then letting human nature take its course. Here's what it takes to create a more entrepreneurial economy:

An entrepreneur-friendly culture. There is no God-given reason why the next Sam Walton or Bill Gates can't come from your hometown. But there are factors that stack the deck in favor of some situations over others. They can range from macropolitical conditions (don't try this in North Korea) to family considerations (keep your day job as you start up). The good news is that the key factors are almost always man-made, which means that they can be designed as follows: pro-entrepreneur government policies; education systems—from trade schools to doctoral programs—that honor entrepreneurship and actually teach students how to make things the world needs; the availability of government and private start-up money; and, perhaps most important of all, the recognition of entrepreneurs as the community's cultural and economic heroes. These are factors that can cause vast differences in entrepreneurial activity between different areas.

A bit of money. First, underscore the word "bit." The average U.S. business start-up cost is only about $15,000. Many great companies have been started for a lot less: Apple Computer, $1,350; Nike, $1,000; Domino's Pizza, $900; and literally $0 for DHL, Virgin, and biotech superstar deCODE Genetics. Government economic-development officials must also become true believers that fostering entrepreneurship is a political and economic winner. As Charles Millard, president of New York City's Economic Development Corp. under Mayor Rudy Giuliani and the godfather of Silicon Alley, told me: "It's a great investment, especially when compared to other social costs of government. That's why we started the world's first city-financed venture-capital fund—to help make Silicon Alley competitive with Silicon Valley." When you think about it, it's really a no-brainer that investing $15,000 to help a citizen start a job-creating business is a better bet than such dead-end expenses as keeping a family on welfare at $20,000 a year or putting another young person in jail at $30,000 a year!

A bit of knowledge. While most entrepreneurial start-ups don't need a lot of money, they do all have one need that is absolutely essential: a product or service for which customers are willing to pay money. In fact, the No. 1 reason for start-up failures is not lack of money or lack of management know-how. It's simply that the business couldn't come up with a product or service that the world wanted to buy—or buy in enough quantity to make it profitable. It's called building a better mousetrap, and it's the single most important requirement every entrepreneur faces. And where can you learn this most essential, entrepreneurial knowledge? In university engineering schools, biology departments, computer-science classes, or vocational trade schools—or even by working a few years at a big company. Certainly not, as I've previously written, by simply getting an MBA.

The bottom line is that governments everywhere are using entrepreneurship as an economic development tool. They see creating a more entrepreneurial economy as the surest (and cheapest) way to create new jobs, raise prosperity, and, ultimately, win their fair share of the global economic pie. As Toomas Sildmäe, the young minister of economy in Estonia, told me: "After fifty-two years of Communist rule, we had to learn how to create real companies and real jobs. We discovered that if we could help create one entrepreneur, he would create another one hundred jobs. Estonia will never get a better return on investment than that." ♦