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Entrepreneurs Can Lead Us Out of the Crisis

It's time for the Obama administration to provide incentives for the creation of real jobs.

By TOM HAYES and MICHAEL S. MALONE

The passage of the \$787 billion stimulus bill has so far failed to stimulate anything but greater market pessimism. This suggests to us that the strategy behind the American Reinvestment and Recovery Act is wrong -- and worse, that the weapons it is using to fight the recession are obsolete.

Just as generals are notorious for fighting the last war, Congress and the White House seem intent on fixing an economy of hidebound and obsolete companies and industries, while ignoring the innovative ones rising before us and those waiting to be born.

Missing from this legislation is anything more than token support for the long-proven source of most new jobs and new growth in America: *entrepreneurs*. These are the people who gave us everything -- from Wal-Mart to iPhones, from microprocessors to Twitter -- that is still strong in our economy. Without entrepreneurs, we will never get out of our current predicament.

This recession is more than a business-as-usual downturn caused by bad lending practices, government incompetence and Wall Street avarice. A greater, underlying dynamic is at work, a fundamental change taking place in the global marketplace. The U.S. economy isn't built for this new world (indeed, neither is any other nation) which is why our problems are racing out of control, while our solutions are proving both slow and inadequate. The danger now is that by merely fixing the old economy we will leave ourselves even more unprepared for the new one.

Only entrepreneurs have the flexibility, the freedom and the risk-everything ambition to find the path back to prosperity in a rapidly changing, technology-driven global economy. Here's how to help them:

- The biggest problem for new start-ups is the lack of capital. Here in Silicon Valley, investors are paralyzed by a lack of faith in the future. Solutions? First, kill Sarbanes-Oxley or make it voluntary. Right now.

When brilliant young companies can once again go public without the prospect of being stuck with a massive, expensive reporting infrastructure, they will do so -- creating new wealth, important new corporations, and reigniting venture capital investment.

- Nontraditional means of capital formation need support to let the brave risk takers of today build the future. So allow entrepreneurs to more easily tap tax-free retirement accounts -- or better yet, let them create tax-free accounts specifically to fund themselves.

- Eliminate payroll taxes, which unnecessarily burden young companies. Many small companies don't hire full-time employees because of the payroll tax burden, and this inhibits the creation of new jobs.
- The marquee venture capitalists have little time nor inclination anymore to invest seed capital in early stage companies. The real heroes these days are the nonprofessional investors -- the "Angels." These folks aren't always the high net worth people we imagine, and often they aren't as sophisticated as we think. So make the tax system more forgiving for them -- or allow the creation of tax-free investment vehicles similar to what we now see with nonprofit foundations or 529 college savings funds.
- Business blogger Sramana Mitra has suggested a novel "tiered" tax structure to promote a return to risk-taking. VCs would pay lower capital gains taxes on investments in early stage companies and higher taxes on later stage deals. This would be the venture-capitalist equivalent of long-term versus short-term capital gains rates, supporting both strategies, but giving a bigger break for the greater risk.
- Help big business think small. The stimulus legislation is packed with incentives for large companies, but not one incentive is designed to encourage companies to create *new* jobs rather than merely preserving the ones they already have. To restore lost jobs, big business is going to have to take risks again -- and that means investing in both internal, "intrapreneurial" ventures, and, in a venture mode, also investing in external new start-ups.
- Convene a presidential summit on entrepreneurship and small business. The last president to do so was Ronald Reagan in 1982, and the chief topic was the impact of the fax machine. We are long overdue. There is no better time for President Obama to listen to the folks who hold the fate of this economy in their hands.

At its best, the stimulus legislation is an immensely expensive attempt to restore what the U.S. economy has lost in the last few months. But the world is already moving on. The only way the American economy is going to regain its lost health and vitality is to lead the world into the future. Entrepreneurs are the only people who can get us there.

Mr. Hayes, a long-time Silicon Valley executive, is the author of "Jump Point: How Network Culture is Revolutionizing Business" (McGraw-Hill, 2008). Mr. Malone, a columnist for ABCNews.com, is the author of "The Future Arrived Yesterday," forthcoming from Crown Business.

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