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Grants don't fill credit gap

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The grand hope today seems to be that venture capital and entrepreneurship can be salvaged by blue-ribbon panels, government initiatives and grand central plans. The buzzword of choice, "clustering," is a notion that has been around a long time in business supply chain circles, but is fairly recent to the venture capital realm.

In the United States, clustering came about spontaneously as VC activity coalesced into geographic focal points for businesses and their financiers with specialized expertise -- think medical technologies in Boston, and IT and semiconductors in Silicon Valley.

The generally accepted premise is new clusters can sprout up from grand plans involving flashy incentives such a new government-funded business centres and targeted grant money. Governments are pouring tens of millions of dollars into these nascent clusters in the hope they catch on. This hope is not based on reality.

Most initiatives in the United States and elsewhere are undertaken around existing, well-established clusters, or offshoots of them. There was never grand planning around U.S. clusters -- Silicon Valley got its start when, in a budget pinch, Stanford University got creative in luring tech firms, mostly corporations with big research and development labs, to soak up its excess real estate. The rest, as they say, is history.

At the individual level, entrepreneurial startups are barely forward looking, never mind centrally planned. Their focus is on fighting fires and surviving to fight another day, figuring stuff out on the fly. These ventures start up in kitchens, basements and garages, or with friends and colleagues who met at school, not replanted cross-country under promises of a utopia of government support and ample shared resources.

And developments such as cloud computing, virtualized operating models and new communication technologies may make physical clusters even less important.

The good news is at least resources are flowing to small businesses, even if in the wrong way. It is high time governments let the entrepreneurial segment of the economy configure itself and grow unfettered, and instead focus on enforcing business and competition laws and regulations to keep a level playing field from the sidelines. Grant monies and tax credits should be sector-and geography-agnostic -- and simple.

There are no modern day J.P. Morgans to make the case for privately owned businesses. Too bad for us all.

Am I the only one who shivers when I hear of a new Office of Innovation and Entrepreneurship being created within the U.S. Commerce Department? Ditto for the "blue ribbon" National Advisory Council on Innovation and Entrepreneurship.

The boundary between the private and public sectors is becoming blurred to a point beyond which a private property-based capitalist society will not be able to function. The result of all this government intervention is a worsening credit crunch and dearth of real risk capital for so many companies, and in particular for smaller businesses.

The role of governments at all levels must be to create the conditions to get the economy moving -- low tax rates; regulation with teeth, but not too many; minimal red tape; and maintenance of their fiscal house -- while letting private capital flow where it wants within the bounds of the law.

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