

# The Book Case

## The Entrepreneurial Solution

### **Business Plan for America: An Entrepreneur's Manifesto**

By Donald Gevirtz  
New York: Putnam's  
199 pp. \$15.95

Reviewed by Warren Brookes

Seasoned individualists understand that there is as great a danger to freedom and individuality, and therefore economic dynamism, from Corporate America as from Big Government. More often than not, it is Corporate America that has encouraged the expansion of government and the regulation of commerce—to its own advantage, but to the stagnation of innovative growth. The corporate income-tax system has quite literally been designed by corporate lobbyists. Not surprisingly, it promotes conglomeration and punishes the entrepreneurial spirit of small business.

This is why Donald Gevirtz's book, *Business Plan for America*, is such a welcome contribution to the economic debate now raging in America. It reminds us that the vitality of our economic system is rooted in individual freedom. At the same time, it reminds us that corporate giantism is on the same deadly road to Leviathan as the socialist planners, who love the corporation's socializing potential.

As William Schambra noted at the American Enterprise Institute's December 1983 annual policy conference, "The tremendous new corporations created by the combination of modern technology and scientific management held out great promise in the minds of many 'New Nationalist' progressives. Walter Lippmann argued that the new corporation was the 'welcome beginning of a collectivist organization' holding out the 'possibility of cooperation' in place of the 'wasteful, planless scramble of little profiteers.'"

Yet without that "wasteful, planless scramble" Donald Gevirtz wouldn't have a story to tell, and the American economy would have created virtually no new jobs over the last 15 years, instead of the nearly 27 million it has created. Indeed, as Gevirtz points out, the Fortune 500 companies actually lost nearly 2 million jobs between 1970 and 1983. Unlike so

many other participants in the industrial policy debate, Gevirtz does not interpret this decline as evidence of the need for government planning. Instead, he points out that "those Americans working in smaller-scale businesses with fewer than 250 employees climbed to nearly 70 percent of the total work force."

The plain truth, as Gevirtz's book makes abundantly clear, is that without the stunning revival of the small-business entrepreneur, this country would still be in the double-digit unemployment doldrums that have trapped Canada, the United Kingdom, and most of Europe. This revival actually began with the famous Steiger Amendment in 1978 that

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cut capital-gains tax rates from a high of 49 percent to 28 percent and was reinforced by the Reagan tax cuts of 1981.

Perhaps this focus on small businesses is not surprising coming from an individual who, as chairman of a commercial finance company, has helped capitalize over 15,000 small and medium-sized companies. But Gevirtz's approval of tax cuts and distaste for industrial planning is at least curious given his long-time close association with the Democratic Party. He was one of only two members of a high-level Democratic Party committee to oppose a 1984 recommendation that the federal government create a fund to help depressed industries.

Standing fast against a so-called industrial policy for America, Gevirtz urges instead that the country's entrepreneurial spirit be encouraged to flourish through less, not more, government economic planning. To support his case, Gevirtz notes that while "capitalism

in most countries, notably Great Britain, France, and Germany, has become increasingly dominated by a fixed industrial aristocracy, in America, the individual entrepreneur has continued to challenge the well-heeled, firmly entrenched economic hegemony." Since 1980, including the deep and paralyzing 1982 recession, the United States has witnessed the formation of 2.4 million new businesses (using statistics through July of 1984). This is 25 percent more than even the extraordinary 1977-80 period and is the primary reason why we have seen nearly 7 million new jobs created during the current recovery.

In fact, right through the 1980 and 1982 recessions, the Small Business Administration found that companies with less than 20 employees enjoyed a 9 percent growth in employment and companies with less than 500 employees a 4 percent growth, while companies with more than 500 employees suffered a nearly 2 percent employment drop.

All of which is to say, as Gevirtz does as well, that the strength of the American economy today is more than ever the result of our traditional entrepreneurial spirit. Like supply-side economics, which focuses on the relationship between policy and individual incentives, this focus on the entrepreneur is a refutation of the "macroeconomic" view that has dominated the American "liberal" left for so long.

Gervitz reminds us in *Business Plan for America* that the original economic dinosaur, John Kenneth Galbraith, wrote in 1952: "There is no more pleasant fiction than that technical change is the product of the matchless ingenuity of the small man forced to employ his wits to better his neighbor. Most of the cheap and simple inventions have, to put it bluntly, already been made.... A benign Providence has made the industry of a few large firms an almost perfect instrument for technical change." Another New Deal statist, David Lilienthal, warned that "as a nation we cannot live in the world of economic folk dancing and basket weaving and simultaneously in the world of the big productive machine.... Size is our greatest single asset."

As Gevirtz points out, these economic neanderthals were quite content to ignore warnings both from their right and from their left. On the right, economist

## THE BOOK CASE

Joseph Schumpeter predicted that the rise of the giant corporate bureaucracies would mean a "decline in the entrepreneurial function" and would dilute the normal process of "creative destruction" of old and inefficient plant. Austrian economist Friedrich Hayek noted that "technological progress in these last 80 years has occurred almost exclusively in the nonsocialist countries, and the former industrially advanced countries that have become socialistic have lost their technological leadership...."

On the left, Lenin noted early on that "the strength of capitalism lies in the strength of its small business enterprise...." Gevirtz infers that both Schumpeter and Lenin were far better predictors of the future than Galbraith or his Keynesian colleagues on the left.

Even as those industries dominated by "bigness" (autos, steel, plastics, etc.) began losing world market share at a dramatic rate in the 1970s, America's high-technology boom was being fed almost entirely by the individual entrepreneur. Under the influence of cuts in capital-gains taxes, America suddenly became again the venture-capital headquarters of the world.

Even that "industrial policy" guru, Paul Tsongas, formerly of the US Senate, was forced to admit recently in an astonishing discourse on the Senate floor, "that one bill, the Steiger Amendment, which I did not support, did more for the economy of my state of Massachusetts than all the things I voted for since I have been in Congress." It was a devastating admission that the incentivist and "micro" approach of the supply-siders was a far more potent means of producing real economic change than all the "fine-tuning" macroeconomic models of the Keynesians.

Unfortunately, Tsongas's recent Damascus-like conversion to entrepre-

neurial capitalism was not shared by his intellectual counterparts at Harvard, Robert Reich and Ezra Vogel, who have become the Galbraiths of the (fortunately) abortive "industrial-policy" movement of the 1980s. Vogel even suggested that "Japan with its group orientation, more recent emergence from feudalism, and government-led modernization has developed solutions for these problems [of economic stagnation] that America, with its more individualistic...history might never have invented." And Reich, in his industrial-policy manifesto, predicted miasmatically that "it is becoming clear that America's economic future depends less on lonely genius and backyard inventions than on versatile organizations."

Yet all around Vogel and Reich, the economy of their own home turf, Massachusetts, is proving how wrong these advocates of industrial policy really are. The Massachusetts economy has been totally transformed, not by organization or governmental programs, but by literally hundreds of "backyard" inventors, software geniuses, and technological mavericks who have created burgeoning companies with hundreds of millions in sales, none of which even existed five or ten years ago. And they were spurred on not by the growth of government but by an unprecedented 23 percent *decline* in the Massachusetts overall tax burden, the direct result of a major tax revolt that the high-tech industry itself had fostered!

Even as total state and local government payrolls plunged by 35,000, the Massachusetts employment ratio soared to its highest point in history (and in the free world) at 64 percent of adult population, 4 points higher than in Japan, with an unemployment rate of only 4 percent. The Massachusetts High Technology Council had become the most vigorous critic of the industrial-policy illusions of

the state's liberal establishment and the biggest thorn in Gov. Michael Dukakis's side.

Ironically, of course, the Japanese understand this. Not only does Japan have the lowest tax burden in the industrial world, with no capital gains tax, but one of its leading thinkers, Jiro Tokuyama, dean of the Nomura School of Advanced Management, told Gevirtz: "The entrepreneurial firms and the venture capital are the great advantages you have. If we cannot learn how to develop the Japanese entrepreneurial sector, Japan's companies will end up like the battleship Yamato at the end of the war, at the bottom of the Pacific."

One of the more interesting entrepreneurs to whom Gevirtz introduces us is Shunji Shinoda, who came here in 1972 as the management representative of one of Japan's biggest conglomerates and quickly found happiness in the American enterprise system, adopting the dangerous life of an American capitalist. He told Gevirtz, "In a word, Japanese society is one big bureaucracy, one big pyramid. Here it is different; there's risk, but it's not gloomy all the time. You can make your own future." Now, a growing number of observers are waking up to the fact that, largely as a result of the American entrepreneurial boom, America and Japan may be about to change competitive places, as more and more Japanese investors are pouring money into the US venture capital market where returns are high.

Through both anecdotes and crisply thoughtful analysis, Gevirtz spells out a "business plan" for the future of America that would refocus national policies away from state management or planning of technological expansion. Instead, national policy should focus on measures that release even more of America's

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# THE BOOK CASE

enterprising spirit. Such measures would include making tax, monetary, and regulatory policy more accommodating to small business and less conducive to conglomeration.

*A Business Plan for America* is a genuinely "supply-side" treatise in the sense that it demonstrates the importance of how policy affects the incentives of individuals in the marketplace. Centrally manipulated government policies designed to stimulate the overall economy fail to appreciate the importance of the individual entrepreneur in the US economy.

This is an optimistic book that is refreshing in the wake of all the "industrial policy" prescriptions that have besieged us over the past few years. On a hopeful note, Gevirtz concludes that "by reintroducing the human factor into economic life, the entrepreneur may save capitalism from over a century of giantism and even greater depersonalization. In the face of ever-increasing corporate giantism and even against the threat of mammoth government and labor bureaucracies the entrepreneur has stood against history and survived."

Warren Brookes is a syndicated columnist and the author of *The Economy in Mind*.

## Armament Anxiety

### Missile Envy: The Arms Race and Nuclear War

By Helen Caldicott, M.D.  
New York: William Morrow  
365 pp. \$15.95

Reviewed by Jane M. Orient

**D**r. Helen Caldicott is one of the most effective leaders of the antinuclear movement in the United States. Since she joined the ranks of a once-obscure group called Physicians for Social Responsibility and began lecturing in its behalf, the group has achieved national prominence. Now boasting over 30,000 members, PSR sponsors seminars, endorses marches, and provides lobbyists in Washington. Its members have prepared medical school courses that are now required in some universities. Its viewpoint pervades the editorial offices of respected medical journals.

Caldicott's profession is pediatric medicine, but that's not what she spends her time on anymore. After visiting the

Soviet Union as a guest of the Soviet Peace Committee in 1979, she relinquished her position at Harvard University to devote herself full-time to crusading against the imminent nuclear apocalypse. Why bother to save children with cystic fibrosis, she argued, if they will be incinerated within the next few years? *Missile Envy* is Caldicott's latest effort in that campaign.

Caldicott says reassuringly that she

**To heal the  
world requires  
a shift  
to feminine  
weapons—  
submissiveness  
and apparent  
weakness—  
says Caldicott.**

has a "hunger for concrete facts" in order to maintain her credibility and to "debate with any person who believes in deterrence." But this hunger does not prevent numerous errors.

Some errors seem to stem from a tenuous knowledge of physics. For example, she states that infrared sensors can penetrate buildings to observe manufacturing activities and that commercial power reactors are the equivalent of bomb factories.

Some errors are misquotations: A one-megaton missile striking a 1000-megawatt power station would allegedly "contaminate an area the size of West Germany," making it uninhabitable for years or even decades. She cites Steven Fetter and Kosta Tsipis, writing in *Scientific American* in April 1981, for this bit of information. But these scientists in fact conclude there that a ground burst that vaporized a reactor might render one-third of West Germany unfit for habitation for a month or so, under suitable weather conditions.

In other instances, Caldicott uses accurate quotations, but misleadingly fails to place them in perspective. Citing an all-out nuclear war scenario from *Ambio* (and a worst-case rather than a "conservative" analysis), she dwells on supposed

long-term cancer and genetic effects. But she never notes that fewer than 1 percent of the survivors would be afflicted, even with totally inadequate shelter.

Some other contentions made by Caldicott are simply false. If World War II were fought today, she maintains that all of Europe would become a radioactive wasteland because of missiles hitting its nuclear power plants. In the unlikely event that a conventional bombing raid could both breach the containment buildings and destroy the reactors, Fetter and Tsipis still contradict her dire prediction.

References are listed, sprinkled liberally with *Ibid.*, but the text contains no footnote numbers. So it is difficult to check the sources of implausible assertions—for example, that Israel now possesses 200 nuclear weapons. The bibliography is neither neutral nor balanced. The "physical examination" of world arsenals relies almost entirely on the Center for Defense Information, which has consistently opposed US weapons and underestimated Soviet ones.

The muddled and contradictory logic of *Missile Envy* is even more extraordinary than the factual distortions. In one discussion, Caldicott declares that most Soviet liquid-fueled intercontinental ballistic missiles (ICBMs) require such lengthy preparation that launch-on-warning would be infeasible. Later, she warns against US deployment of the MX missile on the basis that it might force the Soviets to adopt a launch-on-warning strategy that has purportedly been openly declared. It's difficult to conceive how a policy could at once be infeasible, currently practiced, and a potential future alternative.

In another show of inconsistency, Caldicott avers, on the one hand, that US submarine-launched ballistic missiles are first-strike weapons but elsewhere remarks that they are only good for retaliation. She claims that the B-1 bomber being produced by the US government is already obsolete because the Soviets have had 21 years to devise air defenses against bombers. But she ignores the B-1's utility as a launch platform for cruise missiles—weapons whose accuracy against Soviet targets she earlier acknowledges. She says that in the aftermath of nuclear war, disease-causing bacteria will proliferate wildly. In the ensuing pages, however, she proceeds to claim that an increase in ultraviolet radiation might destroy the pyramid of life by killing microorganisms. It's difficult to have it both ways, but Caldicott seems not to notice the in-