"Why educate start-up whiz kids, only to kick them out of the country?"

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TIME WAS, China followed our lead on matters entrepreneurial. Now, there may be a few things we can learn from China—especially when it comes to the government's role in channeling aid to start-ups.

China doesn't go out of its way to nurture budding private enterprises. Its policy makers figured out that blanketing the market with fertilizer, in the form of subsidies and grants, encouraged some not-so-hot buds. Instead, China's government funds companies—often massively—only after they have established some traction on their own.

In the U.S., in contrast, we favor the let-100-flowers-bloom approach, so to speak, directing support to all sorts of small businesses, so long as they're small. Critics worry that our government's small-business policy makes little distinction between the dude renovating his car wash and the paradigm-changing tech upstart that could someday employ thousands.

"We have to make a careful distinction between small business and young businesses," says Charles Eesley, an assistant professor at Stanford University who studies tech entrepreneurship. In fact, it's the young companies, especially ones with disruptive new ideas, that are most likely to create jobs. John Haltiwanger

of the University of Maryland found that once a business becomes 10 years old, it's only half as likely to add employees as those less than two years old. So instead of spreading goodies among all the little guys, maybe the Small Business Administration should focus more of its $1 billion budget on younger ones. (Brian Head, economist with the SBA's office of advocacy, notes that many new businesses fail while still young, and some of this research glosses over that fact.)

When it comes to choosing industries and technology, Eesley argues, the government needs to let our markets work and stand out of the way. The problem with the current administration's Startup America initiative is that it offers huge amounts of capital to firms that would have little trouble attracting it without the government's help. Better to increase broad-based science funding and fix the ridiculous visa rules that prevent some of our brightest foreign-born, U.S.-educated entrepreneurs from starting their businesses here. It's wrongheaded to educate these incipient entrepreneurs and then kick them out of the country.

Here, too, China may be setting the bar higher. In 2006, China declared it would become a science-driven economy, and it's been ratcheting up research-and-development spending ever since. China's goal is to spend 2.2 percent of its GDP on R&D by 2015, according to its latest five-year plan. In the U.S., the National Science Foundation is requesting $7.4 billion for 2011, or 0.05 percent of our GDP. If you leave out the onetime, $3 billion jolt it received from the economic-stimulus law last year, the foundation's outlay when adjusted for inflation has fallen 22 percent since 2000.

Need more evidence that our lead has shrunk? Stanford Research Park, the world's first science park, was built in 1951. China built its first in 1988—a 37-year gap. MIT started the first business-plan competition in 1990. China had a competition by 1999—a nine-year lag.

On a hopeful note, most outside observers still believe the U.S. has a stronger university system than China. We also have a massive amount of R&D infused within our capitalistic system. So while we have a lot to learn about supporting entrepreneurs, concludes Eesley, we are not a total wreck.

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