The Washington Times

How the politicos keep you poor

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September 21, 1993

SECTION: A, Page: A19

So you wanna get rich, without the heavy lifting of hard work or taking the time to patiently invest in the stock market. You have two choices: Play the lottery or invest in a new venture.

If you play the state lottery, you will almost certainly lose all of your money. Some of the "games" have odds like one in 54 million, and average payouts of less than 50 percent. If you win, they spread the payments out for as long as 30 years, without interest, and your tax burden on those winnings could be more than 50 percent if you live in places like New York. The money you spend to play the lottery goes to feed bloated government - which leads to slower economic growth, which translates into lower income growth and higher unemployment. (The politicians always say the proceeds go to things like education. In practice, this just relieves the government of any funding responsibilities from traditional revenue sources.)

If you invest in a typical new venture, you may have a one-third chance of losing all of your money, a one-third chance of a moderate return, and a one-third chance of making a killing. The money you invest in the new venture goes for such things as hiring people to do productive things, doing research and development, adding to productive capacity - all of which in turn leads to faster economic growth and lower unemployment with higher real incomes.

The lottery is a scam, while legitimate risk-taking new business ventures are what made America rich. So, as you might expect from them, our elected politicians use our tax dollars to encourage us to participate in the scam and pass laws to make being a risk-taking capitalist really tough. And it was already tough enough. If you have the unmitigated gall to make your business profitable, you will be subject to high profits and capital gains taxes often on imaginary income (because you are not allowed to offset the phony numbers created by government-induced inflation). The taxes can exceed 100 percent of your real profits.

Unfortunately for some politicians who can't stand other people's success, despite all the barriers, too many clever people were figuring out how to create real goods and services, real jobs and a real improvement in the standard of living, while having the nerve to get moderately rich in the process. The politicians fought back against these people by toughening up the securities laws. Toughening up the securities laws means making it harder and more expensive to raise capital for new ventures. This is done under the guise of protecting the public from those who would take the money and run.

No doubt, if the securities laws were not in place, there would be more scams. But there would also be many more new jobs, many new innovations, higher productivity, and a higher standard of living for most Americans. Many people have made a ton of money by investing in new ventures, often through private placements. Under the law, if you are trying to avoid the very costly and time-consuming process of having a public offering approved by the Securities and Exchange Commission (one of the many ways government has of enriching lawyers at the expense of the people), you may sell a private placement. Yet the rules that govern a private placement in effect say that you can only offer your investment to millionaires you happen to know or perhaps your friends. You are not allowed to advertise these investments to middle-class folks, because they are not deemed smart enough to make investment decisions without the aid of mother government. (Note to any SEC lawyer who may be reading this: It is not an advertisement; it is a public policy article.) The actual effect is to make many of the best investment opportunities only available to people who are already rich.

Specifically, the rules sharply limit the number of potential investors you can approach, but they are somewhat more lenient if they are accredited investors. An "accredited investor" is a person with more than a million dollars, substantial income, and appropriate education and experience for making investment decisions. In addition, some states, such as New York, have used their authority to permit private placements as a revenue source - by charging very high fees. It's clearly a penny- wise and pound-foolish policy.

As an example, a year and a half ago, we established the Novecon Companies. Our goal was quite simple: to create a series of productive joint ventures with newly privatized or new enterprises in Eastern Europe and the former Soviet Union. Our thesis is that as these countries go through the economic transition, they are likely to experience very high rates of economic growth and rapid asset appreciation. By necessity, as explained above, we had to find investors who for the most part were already wealthy, because they were deemed to understand that investing in Russia and Bulgaria might be risky - whereas the less wealthy might somehow have missed the obvious. Like all entrepreneurs, I of course believe that my investors are all going to do well, because we have established operating companies with good products and acquired some important and unique technology from the Russians. (In order to anticipate my lawyer's as well as the government's objection, I put in the disclaimer that there is absolutely no evidence for the above statement, given the fact that I am an economist who has the quaint and silly notion that I might be able to run a successful business in a former communist country.)

My dilemma, like that of thousands of other entrepreneurs, is that I believed I had more very high return investment possibilities than I had capital. But I was not allowed to approach people of modest wealth who would like to get rich. If I were a government, I could run a lottery, which would assist many non-rich people in getting poorer. Do you suppose in the future the government would let me advertise for investors if I said: "Invest in Novecon - our odds are better than the government-run lottery?"

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