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## Recipe for outflow

By Richard W. Rahn

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Assume you are an agent for a country that is hostile to the United States, and you want to undermine the American economy by attacking a couple of key industries. Which ones would you go after?

You would learn that the computer, Internet and wireless industries, coupled with the world's most productive financial engineering, have provided much of the U.S. economic growth for the last quarter-century. Given that you, as an agent of a foreign government, could not possibly literally blow up these sectors, what would you do?

You might try to induce enough members of the U.S. political elite to push for destructive regulation and taxation of these crown jewels of the American economy in an attempt to make them noncompetitive. The fact is Congress, state and local governments, and the regulatory agencies have been attacking these most productive sectors of the American economy.

Information technology, computers and telecommunications now contribute more than 80 percent to U.S. labor productivity growth, as contrasted to only 42 percent in the European Union. The output per hour worked in the computer and electronic manufacturing industry alone has increased more than 200 percent in the last 10 years, more than fivefold the average rate for the rest of American industry. The price of the average cell phone call is now less than two-thirds what it was a decade ago. Long distance calls, particularly international calls, were often priced in many dollars per minute. Now, new voice-over-Internet technologies, such as Skype, are reducing the cost of calls over the globe to nearly zero.

In a rational and just world, the scientists, engineers, high-tech managers, venture capitalists and financial wizards, who made all this possible, would be acclaimed and treated with great respect. Instead, the leftist media and political class, filled with childish envy, berate them for becoming rich. This gives the powerful, greedy politicians an excuse to overregulate and overtax the most successful activities in our economy.

The U.S. was the traditional leader in technology innovation because we had an open system that allowed innovators to obtain capital to develop and market their ideas. The typical process went like this: An individual or a small group has a new idea. They go to family and friends to raise the initial capital. As the idea develops, they need more capital and go to venture capitalists for more money. Once the idea is shown to work and that

there is a sufficient market for it, the early investors and the venture capitalists exit by taking the company public (an initial public offering, or IPO) or by selling it to a public or private company. If early potential investors and venture capitalists cannot exit at a reasonable cost and within a reasonable time with the anticipation of a high profit to offset the high risk, they will not invest.

Despite this great American success story, the politicians and government bureaucrats (most of whom never had an innovative idea in their lives and are too timid to ever take the risk of investing in a new venture) are in the process of killing the golden goose. The IPO market in the U.S. is drying up and moving to other countries. Venture capital firms are shutting down or reducing their investments. Legislation, such as the Sarbanes-Oxley bill, has made it prohibitively expensive to take a company public.

Restrictions on stock options, regulations requiring their expensing, and excessive auditing costs required by the Securities and Exchange Commission have taken away the profit potential and driven up the expenses for any exit strategy. If you cannot exit, you will not enter.

Congress and state and local governments have saddled the wireless industry with equally destructive and stupid taxes. The average wireless tax burden is about 14 percent in the U.S. compared to the approximate 7 percent tax rate on other goods and services, not counting the income, property and all the other taxes paid by companies. Discriminatory taxation against a product that greatly adds to the productivity of business and makes all of our lives better by giving pleasure and greatly reducing the time response to medical and other emergencies is not the product of clear thinking minds.

In a rare show of good judgment, Congress passed a moratorium on Internet taxation a few years ago. But some in Congress now want to allow state and local governments to tax parts of Internet services, and have proposed weakening the Internet tax ban. They argue that state and local governments need money, even though those tax collections are at an all-time high as a percentage of gross domestic product (GDP), and much of what states and localities spend is wasted.

There is some hope. Republican Sens. John McCain of Arizona and Jim DeMint of South Carolina and Rep. Mary Bono of California have proposed a moratorium on any further cell phone tax discrimination, but so far, there has been little support from the Democrats.

The crown jewels of the American economy are being destroyed. You can bet, as the U.S. loses its competitive lead, those same ignorant and venal politicians who killed the golden goose will then scapegoat those who had a constructive hand in the great innovations.

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