



## The Innovation Destroyers

by Richard W. Rahn

**MOST POLITICIANS PRAISE INNOVATION BUT THEY CREATE REGULATIONS, TAXES AND AGENCIES THAT KILL IT**

Which government agency has done the most to destroy innovation? The American Founders tried to create an environment to foster innovation, because they understood new inventions would increase the well-being of the citizens. And that is the reason the Constitution enabled Congress to create patents of limited duration.

Most politicians say they favor innovation, but at the same time they create regulations, taxes and government agencies that hobble or prohibit that same innovation. One of the most notorious innovation killing agencies is the Securities and Exchange Commission (SEC), whose mission is to “protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.”

In reality, it far too often denies investors the opportunity to invest in new and promising technologies and in new companies — all which undermine productive capital formation and economic growth.

Last week, according to The Wall Street Journal, the SEC “moved to restrain a hot new fundraising method involving sales of digital coins.” The method is known as ICOs, (initial coin offerings), and more than \$1 billion has been raised this year through ICOs. After

the announcement, Bitcoin lost 7 percent of its value and Ether (another digital coin) lost 12 percent of its value. So, here again, we have the SEC, in its lust for control and power, not protecting consumers, but destroying wealth for investors in the whole new field of digital coins.

The SEC, rather than protecting and promoting companies that offer their stock to the public through IPOs (initial public offerings), has been destroying them through overregulation. The number of IPOs has dropped by 65 percent from 2014. There has also been a dramatic decline (37 percent since 1997) in the number of publicly listed companies.

Companies are choosing to remain private rather than go public because of the costs and paperwork trying to comply with the SEC — which is far more interested in form rather than substance. The reduction in the number of listed companies is bad for savers and investors, and for capital formation, job creation, and economic growth.

The folks at the SEC rationalize their actions by claiming that some investor might lose money by investing in a company that does not do well — as if the bureaucrats, most of whom have never run a company, let alone worked in the private sector, have a clue about the potential success of any new or existing business. There are plenty of statutes on the books to deal with fraud or misrepresentation — so what the SEC does is redundant.

If the folks in government were serious about their statements that they want to protect people from bad investments, why do they promote state lotteries, which take advantage of the poor and uninformed? Over the long run, the stock market produces very nice, positive rates of return for most investors — while state lotteries result in 100 percent losses for most people. Please spare us the hypocrisy.

In addition, the SEC makes it almost impossible for people who do not have more than \$1 million in liquid net wealth and high incomes to invest in IPOs — all in the name of “consumer protection.” The real effect is to only allow those with some wealth to participate in investing in promising new companies — which, of course, leads to more income disparity — which, again, the hypocritical political class decries.

Because the SEC has made it so costly, time consuming, and restrictive for entrepreneurs to issue stock, they, of course, try to find other ways to raise capital. The rapid rise of ICOs is merely a market response to overregulation.

All of this leads to a fundamental question, as to why so many are trying to build digital alternatives to the U.S. dollar like Bitcoin and Ethereum. The answer is that the government, through the Federal Reserve, has destroyed much of the value of the dollar and is almost certain to continue with its destructive ways.

The Federal Reserve was created back in 1913, and, as part of its charter, it was supposed to preserve the value of the dollar. A 1913 dollar could buy almost the same amount as the dollar in 1792 — i.e. there had been almost no sustained inflation over that 120 year period.

The dollar is now worth about 1/24 of what it was in 1913, after the creation of the Fed. That is, the Fed has destroyed about 95 percent of the value of the dollar — which meets the definition of grand theft. Fed Chairman Yellen has been complaining that inflation is not high enough. She wants 2 percent per year or more — i.e. more theft. Again, the Fed was supposed to preserve the value of the currency, not steal more.

Many smart techies are trying to develop new private digital monies and payment systems to get around the government theft and tyranny. Ever-increasing regulatory costs for banks force them to increase fees on things like international money transfers. The result is that the techies are also developing global money transfer systems that go around the overregulated banks.

What need to be abolished are not ICOs, but the SEC and the Fed, which are unnecessary dead weights on both our economic well-being and liberty.

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<http://www.washingtontimes.com/news/2017/jul/31/innovation-killed-by-politicians/>