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RAHN: Financial fascism

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The "Dodd financial reform" bill being considered by the Senate will make it illegal for 99.6 percent of the population to invest in needed new and promising start-up companies while at the same time ensuring that the 33 largest banks, which control 92 percent of all bank assets, will be required to purchase more federal government debt before giving loans to businesses and individuals. Quite simply, the government is continuing to practice financial fascism.

The new health care bill will require us to buy specified health insurance, whether it is appropriate for us or not. Government-run ads encourage people to buy tickets in government-run lotteries, where the expected value can be less than one-sixth of the ticket price. Yet the new financial reform bill will make it illegal to invest in a new venture or start-up company for anyone who does not have a liquid net worth of $2.2 million or an annual income of roughly $450,000 if single or $675,000 if married - which rules out all but fewer than 1 percent of the population. If this passes and is signed into law, Congress and the president will be saying to the American people, "Ninety-nine-plus percent of you are too stupid to know how to invest your own money." (They think the rest of us are as irresponsible as they are.)

A major reason the American economy has prospered is that traditionally it has been easy to start a new business, and new businesses account for much of the innovation and job growth in the American economy. Inventors, from Thomas Edison (who started GE, among other companies) to the modern-day whizzes behind Apple, Google and all the rest, have relied on their ability to get "angel" investors to begin their companies. An angel investor is one who is willing to invest in a new and untried business with the hope of a very large return.

It is well known that there is a very high rate of failure among new businesses. For instance, more than 90 percent of all new restaurants fail within three years - but many of the ones that don't fail become very profitable. For every new Apple, there are hundreds of failures. In the name of "investor protection," the Securities and Exchange Commission (SEC) makes it almost mandatory that entrepreneurs approach only "accredited investors" when seeking investment capital. Currently, an accredited investor is a person who has a net worth of $1 million or an income of $200,000 per year. The SEC will argue that such a rule protects "widows and orphans" from unscrupulous promoters. This is the same SEC that failed to see the Madoff Ponzi scheme when it was dumped in its lap.

In fact, the rule makes little sense and strongly discriminates against knowledgeable people who are not yet wealthy but are quite capable of making good investment decisions while doing nothing to protect the medical doctor or professional basketball player who easily might meet the definition of an accredited investor but knows little about the risks of new ventures. Under the current rule, a young finance professor at a good university business school who makes $120,000 a year and has a net worth of just $500,000 would not be considered competent to invest in a promising new high-tech start-up, while a successful country-and-Western singer with an eighth-grade education and no experience in or knowledge of business or finance would be considered competent. The proposed rule in the financial reform bill will make this absurdity and loss of financial freedom far worse.

What right do the financial fascists in Washington, who created the world's biggest financial Ponzi schemes (i.e., Social Security and Medicare) and the largest unsustainable debt in history, have to tell more than 99 percent of the rest of us what we can and cannot invest in?

Those in the same political class are ardent proponents of state lotteries, which typically give a ticket buyer one chance in 15 million of winning, with a payout of less than 50 percent of the ticket price. If one does win and decides to take a lump sum rather than a 30-year payout, the normal payment is one-third of the face amount, upon which the recipient will have to pay full federal and state income tax. Given President Obama's new tax-increase proposals, a lottery winner in a high-tax state such as California would be paying about 50 percent of the winnings in tax. Thus, a person who buys a $1 ticket can expect to receive only about 7.5 cents in return. If this is not financial fraud, there is no such thing as financial fraud, but because it is practiced by government, it is deemed OK even though any private party doing the same thing would go jail.

At the same time the government class is doing its best to fleece the poor and math-challenged by promoting state lotteries, it is doing its best to prevent middle-class Americans from investing in new businesses that might become productive. Could this possibly have anything to do with who were the big financial givers to the Obama campaign and to the campaigns of the Democratic congressional committee chairmen?

The 1,300-page financial reform bill going through the Senate will, in essence, make the biggest banks (those considered too big to fail) wards of the state - which is classic financial fascism. The Obama Treasury, not the semi-independent Federal Reserve, will decide what these banks are allowed to invest in, in exchange for an unlimited U.S. government guarantee. Since September 2009, banks have been lending more to the government than to private industry. One does not have to be a rocket scientist to see where all this is headed.

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