

Capitalist Dilemma

[This is a *computer* ethics question since most of the computer and dotcom industry reaches evaluation through techniques somewhat similar to the extreme case which follows.]

In the United States, there are two institutions which can legally mint (that is, create) money. One is the Federal Treasury; the other is any corporation.

When a start-up is formed, it is given the right to issue stock. That stock (which can be created with almost any cash value) can be sold on the open market. Should the national stock exchanges grant the new corporation an Initial Public Offering (IPO), the stock becomes very easy to sell since it can be traded through the stock exchange to anyone willing to pay for it.

Naturally, these processes are regulated, but the basic idea is that corporations can essentially print their own money. This is one of the two major mechanisms through which the supply of money in our economy grows (the other way is for the Federal Reserve to increase the national debt by printing more money). Contrary to popular belief, incorporation is a “free lunch”.

The British Vancouver stock exchange is not as tightly regulated as the US exchanges. It is known as a “highly speculative” exchange. This means that there is no strict requirement to have any actual value for a corporation to reach IPO.

Here is a strategy for making money:

1. File for incorporation (cost is around \$3000) as BogusCorp.
2. Issue junk stock with no value. Claim that the *potential* of BogusCorp gives it a value of, say, \$1 per share. Issue 20 million shares.
3. Take the company to IPO on a speculative exchange. In reality, you usually take the company to a venture capitalist (VC) who provides the illusion of value by infusing the new company with temporary funds. The VC then takes the company to IPO for around 80% of the profits.
4. There are always gambling and speculative investors. Assume that a few buy shares in BogusCorp, and \$1M is raised.
5. Buy a company with actual value using the \$1M as a deposit.
6. Now claim that BogusCorp has increased in value, the stock has actual value, and the company is succeeding. Tell your investors that their investment has increased in value, and watch the stock prices rise.
7. Cash out your own stock (which you give to yourself at incorporation for, say, 1 cent per share) as quickly as possible.

Question

Is there an ethical problem with the way our economy works?