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There's No Good Reason to Regulate Venture Capital

In answering the question "[Is Silicon Valley a Systemic Risk?](#)" (op-ed, April 9), James Freeman demonstrates that venture capital (VC) provides an essential engine of value-added innovation, invention and job creation without posing any systemic risk. So why would President Barack Obama and Treasury Secretary Timothy Geithner want to regulate venture capital firms? Some suggest that it may be an end run in the undeclared war on wealth because venture capital can create enormous fortunes outside of taxable income. But there are several other plausible answers.

The first answer is that the Obama administration's faux pas resulted from a lack of understanding the intricacies of the free market and it conflates venture capital with banks and hedge funds. Surely we are in trouble if an understanding of job-creating venture capital eludes current political leaders. How then can we trust their judgment about an ambitious restructuring of the national economy, which next targets the 15% of U.S. gross domestic product in health care?

A second possibility is that venture capital needs constraint, lest its reliance on the free market to pick winners and losers highlights the deficiencies of central planning and the socialized sectors of the economy. As the administration attempts to regulate decision-making in every industry in which it gets involved, price distortions and misallocation of resources will become glaring. Venture capital needs no help from the government, except relief from bad laws like Section 404 of Sarbanes-Oxley -- a regulation that disproportionately hurts VC-backed start-ups that can't go public without huge operating-cost increases. In remaining silent about this, the administration tacitly favors big business while neglecting small business capital formation.

The third and most plausible answer is the administration may not trust venture capitalists to direct enough funding to politically favored sectors after recent disappointments in clean tech investments in fuel cells and ethanol. Regulating VCs may be an indirect but real means of forcing alignment with the political objectives of the administration.

In any case, U.S. recovery and progress is surely jeopardized if venture capitalists and entrepreneurs are diverted from economic to political calculation. Perhaps it is time for Silicon Valley, which delivered a disproportionately large Obama vote, to speak up and demand some candor about all this.

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James Freeman rightly questions why the Obama administration thinks it is smart to regulate venture capital firms to prevent risks. Such a move would be the latest attack by Washington on risk-taking and innovation. The Sarbanes-Oxley act, stock option accounting, and so-called "patent reform" legislation currently under consideration are all hindrances to the young companies that drive economic growth. As the CEO of a technology company in Silicon Valley and a former CEO of several other companies, I'm particularly concerned about the patent legislation pending in Congress. If passed, the legislation has the

potential to greatly harm innovation by making it more costly for small innovators such as us to protect our inventions and, as a result, diminish the incentives for investing in developing new technologies.

Big technology companies are pushing the legislation because, for the most part, it makes it less expensive for them to acquire or use the inventions of their smaller, more nimble competitors. They say they're under attack from frivolous patent lawsuits, but the numbers don't back them up.

Washington should be focusing on patent reform that strengthens the U.S. Patent and Trademark Office to ensure better quality patents, not reform that weakens a patent system that has and continues to encourage innovation and economic growth.

This is a matter of deep concern to American innovators. As manufacturing keeps moving to low-cost markets abroad, intellectual property increasingly becomes our major strategic reserve. Washington needs to help us protect our inventions, not reduce their value through misguided reform.

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