

## YOUR RICH UNCLE GETTING REAL ABOUT HUMAN CAPITAL

BY ALEX HURST

After graduating from college last May, I asked my parents whether they thought my education was a good investment. Not an unreasonable question; four years of tuition alone at the University of Pennsylvania had cost well north of \$100,000. Tack on half that much again for room, books and beer, and even I could be convinced that my brain might have been overvalued. My mother's response was supportive: "We have never thought of you as *that kind of investment*." To which my father added, "Or else I would have put my money in something that would have yielded a return besides a 23-year-old headache."

But now treating education as an investment—in my father's sense of the word—is no longer just dinner-table chat. A company named Iempower is breaking a dam in the human-capital business, creating a market called MyRichUncle—[www.myrichuncle.com](http://www.myrichuncle.com)—that enables complete strangers to invest in students' education, while reaping a nicely quantifiable return.

What Iempower has put together isn't all that different than the relationship between a startup company and a

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venture capital firm, or a public company securitizing its future cash flows with pools of outside creditors. Iempower's model is, in fact, a beautiful synthesis of venture capital and securitization principles. Founded a year ago and based in New York City, MyRichUncle screens applicants, and agrees to pay some or all of their tuition costs. In return, students commit to paying back a percentage of their gross income, for a period ranging from 10 to 15 years. Depending on a set of variables—the type of degree being earned, for example—investors will earn from .09 percent to .3 percent of the student's annual gross income, for each thousand dollars raised. Already the company has selected 65 students, from more than a thousand applicants.

It doesn't take a quant jock to figure out that MyRichUncle is an interesting alternative to loans, which are literally drowning students and their families in debt. Too many of my friends are one-person Argentinas, with debt burdens that seriously compromise their ability to pursue high-risk, low-paying talents in fields such as writing, acting, even scientific research. Debt forces people to take jobs they'd rather have avoided. And as the cost of a college education continues to increase at a rate four times faster than the average increase in household income, the trend of heavily levered graduates will only grow.

But degrees really are good investments: according to the U.S. Census Bureau, the gap in lifetime earnings between a high school diploma and a B.A. is more than \$1,000,000. And from an investor standpoint, MyRichUncle produces an attractive bottom line. For example, at .25 percent of their gross income per thousand dollars, an undergraduate who receives \$25,000 in tuition will owe Iempower 6.25 percent of his or her earnings, for 15 years. From a \$50,000 salary, investors will get a gross return of approximately \$45,000—annualized, that's around an 11 percent return. Not too shabby, especially when you tack on the "feel-good factor," for investing in a socially useful cause.

MyRichUncle is targeting professional, low-risk students—typically in

fields such as law, medicine and banking—who can reasonably be expected to earn stable and steady incomes. "We're not primarily looking to find and fund the next Bill Gates," Iempower founder Raza Khan told me. (Although I'm sure they wouldn't mind if one fell through the cracks.)

Khan says MyRichUncle has piqued interest at the highest levels on Wall Street. Part of the pitch is for companies that hire those low-beta graduates to use MyRichUncle as a hedge against wage inflation. Longer-term plans include creating a secondary market to trade "bundles" of actuarially similar students, which could explode into a new Wall Street business like mortgages did in the 1980s.

But there are some possible catches. Any smart MBA or future corporate lawyer knows that equity—as opposed to debt—is the most expensive form of capital. This could expose MyRichUncle to the perils of adverse selection—students who are confident they will succeed may be leery of giving away their upside. This could leave MyRichUncle with a comparatively weak applicant pool—and potentially undermine its plans for future glory.

As always, time will tell. But why squander such an interesting model on "safe" professionals—most of whom can get cheaper funding through loans anyway? Arguably, the real power behind MyRichUncle lies in aggregating the earnings risk, not of future MBAs and lawyers, but of students trying to succeed in pursuits—sports, entertainment, writing, art—where initial payoffs are scant, but the sky's the limit.

But that's not MyRichUncle's way. As if to emphasize its focus on future cash cows—calves?—MyRichUncle's selection process is almost entirely automated. A computer algorithm evaluates the applications. Khan didn't want to get into the specifics of how the system works (it's being patented). But I'm willing to bet that it's blind, maybe even actively hostile to future Jackson Pollocks and Stephen Kings. So for now, I guess those types will still have to look around for an old-fashioned, risk-taking patron. Or wait tables (not the actuarial kind). 🐘

# CAPITALISM=PUNK ROCK

## NEVER MIND THE HAIRCUTS

BY TODD ANDERSON

**W**TO. NAFTA. The IMF. All these are objects of scorn for the punk press and a lot of other idealistic young people. And rightly so. The problem is that none of these organizations is remotely capitalist. In fact, the system we live with in America today is not capitalist.

Imagine this: You're 23, working in a grocery store for minimum wage and saving to start your own indie record shop. You finally get enough to open it, and though sales are slow, you have a dedicated customer base and loyal friends to work the store when you can't. One day, a Department of Labor investigator walks in and strikes up a conversation with one of your friends working the counter. The friend discloses that every week or two, you give him 20 bucks for working there. The investigator cites you for not paying minimum wage. You can't afford to pay your friend minimum wage so, the court shuts down your business.

Thanks, Ralph Nader. Thanks, Al Gore. Thank you, Communist Party U.S.A. (minimum wage was their idea, back in the '20s).

Imagine this: You decide to start a magazine. You've got 20 friends who are all willing to chip in enough money for a first issue. You launch. You sell your magazine in record shops and bookstores and start lining up advertisers. But now you're guilty of securities fraud—only 15 people can invest in a company without elaborate, expensive disclosure statements.

Sound free?

The problem with socialism and government regulations is that you empower only the rich and mainstream and injure only the independent and entrepreneurial. The more controls, the more mainstream. Who can afford to pay higher minimum wages? Nike, Intel, IBM. Who can start a business with only 15 investors? Bill Gates, Warren Buffet.

Punk rock is independent and entrepreneurial. How boldly do I have to make this point? Shouldn't this be obvious?

When I got into punk rock at 15 and 16, it was because I didn't fit into a clique. I was

not a part of the mainstream. Punk rock, despite the peer pressure to wear black T-shirts and cut and dye my hair all funny, offered an escape for me to be an individual. Sound familiar?

Entrepreneurial initiative is personified in the punk rock ethic of "DIY." Doing It Yourself is only possible in a capitalist system. Without individual ownership of the means of production, independent punk rockers couldn't record songs on a four-track, duplicate them at home and sell them at shows. Imagine trying to get an entire community to agree to let you use the communal recording studio.

Self-regulating. Initiative-taking. Free-exchange and free-association—the ability to associate and disassociate with whom you want. What is it? Free market capitalism.

Why then do punk rockers generally advocate socialism or at least left-liberalism? My gut feeling is that they've been presented today's version of socialist statism—giant corporations in cahoots with politicians running the market—and told: "This is capitalism." As punks, they react by doing the opposite of the mainstream (they think) by going socialist. The only problem is that they've been sold a lie. This isn't capitalism. The statists keep the socialist left happy by offering more and more outrageously wasteful and inefficient government social programs. They keep the rich-right happy by offering state-assisted advancement into the world of the super-rich. In short, they offer a pleasing, fat-and-happy mainstream.

Most punks try to buck this by agitating for social welfare programs. The government is only too happy to oblige, because it still controls everything.

No matter how you slice it, socialism and statism require forcing people to submit to the wishes of others. Your work is for the "common good," determined by the mainstream. And since when have punk rockers been mainstream? Why would we think our individual desires would be honored in this scheme?

In summation, those who cry that capitalism fails to keep us free, safe and healthy aren't looking at capitalism.

Take health care. National health care schemes would force doctors to work on everyone for set wages. Would this encourage people to become doctors? No more

free association. No choice. No more independence.


Not that there are those freedoms now. Fifty percent of money spent in health care is spent by the government. Costs continually go up, benefits go down and waiting rooms get more crowded. Is the solution to put the government in charge? No way. Why would anyone trust their health to the government?

Ask someone older about the rapid and massive developments in telecommunications after the government finally ended AT&T's (government-sanctioned) monopoly. That was only in the 1980s. Did you know that everyone once had to rent a phone for \$5 a month? What kind of robbery is that? When AT&T was finally split, everyone was amazed that they could walk into a store and buy a phone for \$20. Now it's even cheaper. And telephones are smaller, lighter, smarter. All because the free market took over.

How about wage and price controls? Can you imagine running your independent record label and suddenly having a government official telling you that you could not raise the prices to cover your costs? Wage and price controls were prevalent throughout the 1970s. Lawyers had to travel the country explaining to companies how to raise their own prices! And who could afford lawyers? Was it the small entrepreneur?

Punks break laws all the time that we don't even know about: stupid, regulatory laws regarding how we do business with others. But at the same time, punks ignorantly advocate a government that would mainstream everything and endorse politicians who only seek to empower themselves. I have news for you: The establishment isn't afraid of you at all. The suits are happy that you hate them, because they've fooled you into giving them more power.

You want freedom? Freedom to pursue your own means of living? Freedom to follow your own desires and initiatives? You want and you need free market capitalism.

True capitalism would smash the power structures more effectively, more fairly and more freely than any other alternative. It would empower effective, private solutions to social problems. And it would give you nothing to be punk about. So there is a tradeoff: angry and enslaved, or happy and free. Me? I love punk rock and all, but I'd like to be happy. 

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