How Many New Jobs Will Come From Crowd Funding? A Visit with Alon Hillel-Tuch, RocketHub

Last week I talked about the earliest market research on crowdfunding. Out of the responses to that column as well as to my initial column in Harvard Business Review, this caught my eye: RocketHub, one of the major crowdfunding platforms in the U.S. is working with the SEC in hopes of helping to guide the rules and criteria for lending-based and equity-based crowdfunding investing when it becomes legal in the U.S., as the result of the JOBS bill, next year.


Several aspects of the report interest me and I think they'll interest you, too. The first was the jobs data in the report’s introduction—Representative Patrick McHenry and the Kauffman Foundation are reported as stating that 65% of America’s jobs come from small business. The next statement stunned me: “A healthy crowdfunding marketplace will create a 10% increase in new businesses and 170,000 new jobs over the next five years.”

Can this really happen? What would it take? I spoke this week with RocketHub co-founder and CFO Alon Hilel-Tuch to learn more.

**Alan – Alon, will crowdfunding really create 170,000 new jobs? What will it take to make that happen?**

**Alon** – Note that Rep. McHenry is careful to state a healthy
crowdfunding marketplace. That is key. But if that can happen, absolutely this is possible—in fact, if we can open up the restrictions that are currently blocking or making it very difficult for new businesses to get funded and started, I personally believe the sum will be even more.

Alan – I noted that Bloomberg was fairly critical of the study that produced that prediction – Susan Antilla actually dug into it and said the 4-page summary predicted 100,000 jobs, not 170,000, over a period of 8 years, not 5 years. —but even so, this is a phenomenal opportunity. What led you to develop the whitepaper and to talk to the SEC?

Alon – It is critical that the SEC implement crowdfunding with the right kinds of criteria to allow the program to work. Our hopes are that most of our recommendations will get assimilated into legislation because it will help us get the JOBS Act out there in a way that can actually be used.

Alan – What major issues are a concern to you?

Alon – We have to provide updates to the SEC that reflect the realities of the world we now live and work in. The current SEC rules were implemented in 1933-34. Google didn’t exist at the time. Actually, modern computers didn’t exist at the time. We need to update the rules around what kind of information can be shared, and from what kind of sources prior to an investment decision. For example, it’s only natural that the most successful fundraisers in crowdfunding will be the entrepreneurs who engage their personal networks through social media, such as Facebook. How can you effectively restrict idea-stage entrepreneurs from communicating and sharing information that way? It would be impossible to prevent it from happening, and it would create a big roadblock to helping them get off the ground.

Alan – The social nature of crowdfunding is actually one of the elements opponents are worried about most — that “group think” causes crowds of people to make more foolish decisions than they would in a traditional investment setting, such as investing in Facebook.

Alon – Actually, since you mention Facebook— that situation is a good case in point. An investor could put everything they own into an investment like Facebook, and look what’s happened following that IPO. You could lose everything.

And you can’t call up a company like Apple or Facebook and get the kind of candid and full information that would help you make a better investment choice for yourself. That’s actually a good argument in favor of the more open communication we expect and hope the SEC rules will allow for in crowdfunding investments.

Also, the inherent limits in how much you can invest in a crowdfunding offering creates a scenario that limits the amount of money an investor could potentially lose, and in some respects that actually makes it a safer environment than a traditional investment in a public company stock.

Alan – What other big issues do you foresee?

Alon – The stability of the systems used is going to be key, as well as the reporting the SEC requires. Right now the forms and paperwork are so
difficult and expensive they create a big barrier to getting new businesses underway. For example, we don’t think it should be expensive or difficult to conduct a background check. Current technology allows for increased transparency and oversight that far surpasses many of the traditional regulatory requirements. The outcome is critical—but we think there are easier and less expensive means to get at those ends.

The traditional paperwork requirement just to get enrolled as a new company is daunting. We need it to be more accessible. We need it to be as accessible to the coffee shop down the street as it is to a startup tech entrepreneur.

**Alan – How are your recommendations being received?**

**Alon**—Very well! We’re engaged in talks with the SEC and they seem to be very receptive. They are hosting our white paper on their site, currently. Other private organizations are responding positively as well, and everybody is starting to focus on the right kind of questions.

Right now our focus is on education. We jumped immediately into our work with the SEC because that goal is vital—but now we’re speaking, blogging, writing about what all of these issues mean for the typical entrepreneur. As one of the largest and most successful platforms in the U.S. we have the advantage of experience, and we’re trying to put that to use. I personally believe that if we can execute well, the U.S. can even exceed the forecast of 170,000 new jobs.

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