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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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OFFICE OF THE CHAIRMAN

September 24, 1982

BY HAND

The Honorable James A. Baker
Chief of Staff and Assistant to
the President
The White House
Washington, D.C. 20500

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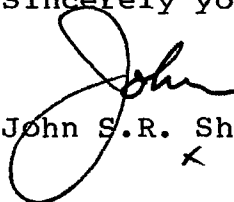
Dear Jim:

Small business is of course an active and important political constituency.

As evidence of concern and support of the small business community, the Administration may wish to cite the first Government-Business Forum on Small Business Capital Formation (and deregulatory initiatives) being conducted by the SEC.

A copy is attached of my brief keynote remarks at the opening session of the Forum, which was attended by about 200 leading small business representatives, investment and commercial bankers, lawyers and accountants. If you wish any additional information concerning the Forum, please call me or Mickey Beach, Esq., Director of the SEC's Office of Small Business Policy (272-2585).

Sincerely yours,


John S.R. Shad
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Attachment

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SEC Government-Business Forum
on Small Business Capital Formation

Keynote Remarks

John S.R. Shad
SEC Chairman

September 23, 1982

This is an historic occasion - the first Government-Business Forum on Small Business Capital Formation.

The purpose of this Forum is to illuminate small business capital formation problems and evolve practical solutions.

Small businesses are of major importance to the national economy. They represent 97% of all U.S. firms and produce 43% of the Gross National Product. They account for three-quarters of all new jobs - at a time when the nation is grappling with 9.8% unemployment and a high level of bankruptcies.

Post-World War II Trends

Since the end of World War II, many of the nation's regulatory, fiscal and monetary policies have actually been antithetical to capital formation:

- o Mounting regulatory burdens;
 - o Rising inflation, corporate and individual taxes;
 - o Inadequate depreciation allowances;
 - o Discriminatory taxation of interest and dividends;
 - o As well as double taxation of dividends;
 - o And one of the highest effective rates of capital gains taxation in the industrialized free world;
- have been distinct disincentives to save and invest.

These policies have contributed to the significant decline in our relative rate of capital formation, among industrialized nations - from one of the highest to among the lowest. The inevitable consequence has been a similar decline in our relative growth in productivity.* For example, based on the average annual

* - 1973-81 average annual increase in productivity:
1) Japan 3.1%; 2) Germany 2.6%; 3) France 2.5%; 4) Belgium 2.2%;
5) Netherlands 1.5%; 6) Italy 1.5%; 7) UK 1.3%; 8) U.S. 0.2%;
9) Canada 0.1%.

increase in productivity from 1973 through 1981, we rank behind Japan, Germany, France, Belgium, the Netherlands, the United Kingdom and even Italy. Our 0.2% average annual increase in productivity compares with Japan's 3.1%. Japan's productivity is increasing at 15 times the rate in the U.S.!

If the United States is to maintain its leadership in this keenly competitive global community, these adverse trends must be reversed - now.

We have a great labor force in America, but the only way we can materially improve workers' standard of living is by increasing their productivity - and that takes capital. For example, capital for bigger and better machine tools that quadruple the operators' productivity - and thereby justify substantial wage increases.

The World's Best Capital Markets

The United States has by far the best capital markets the world has ever known - the broadest, the most active and efficient, and the fairest. The SEC's job is to help keep them that way. By effectively enforcing the antifraud, disclosure and oversight laws, the Commission facilitates the formation and the mobility of capital. It is notable in this regard that the only reference in the federal securities laws to capital formation is in connection with small business.

SEC Small Business Programs

In 1979 the Commission established the Office of Small Business Policy in the Division of Corporation Finance. Its task is to address the capital formation problems of small businesses posed by the securities laws. Toward this end, earlier this year the Commission expanded the applications of the S-18 short-form registration statement for securities offerings up to \$5 million and adopted Regulation D, which exempts from registration certain offerings up to \$5 million. Reg D also simplifies the exemptions for larger private placements. Most states are expected to enact comparable exemptions - which will be the first joint, state and federal registration exemptions. These initial steps are important precedent, in terms of future state and federal deregulatory initiatives for the benefit of small businesses.

Other Important SEC Programs

Other important programs at the SEC, include:

- o The simplification and improvement of corporations' registration and reporting requirements, which telescope their time and expenses and afford them greater flexibility in scheduling and timing their financings;
- o The placing of greater reliance on the private-sector self-regulatory organizations;
- o The elimination of conflicts between regulatory authorities;
- o And legislative initiatives which are intended to simplify and rationalize the regulatory structures of the financial service industries.

Conclusion

This distinguished forum will be addressing these and other issues of major importance to small businesses and the nation.

Thank you.