H12: Hearing before the Subcommittee on Telecommunications, Consumer Protection, and Finance

U.S. Government
ACCESS TO CAPITAL BY SMALL BUSINESS

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BEFORE THE
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CONSUMER PROTECTION, AND FINANCE
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(III)
ACCESS TO CAPITAL BY SMALL BUSINESS

FRIDAY, JULY 17, 1981

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TELECOMMUNICATIONS,
CONSUMER PROTECTION, AND FINANCE,
COMMITTEE ON ENERGY AND COMMERCE,
Denver, Colo.

The subcommittee met, pursuant to notice, at 10:30 a.m., in room 204, Denver University Law School, 200 West 14th Street, Denver, Colo., Hon. Timothy E. Wirth (chairman) presiding.

Mr. Wirth. Let us all come to order and get going as we have a long morning ahead of us. We have a number of very distinguished witnesses and a lot of very fascinating substance related to the future of the country ahead of us.

Let me start, if I might, by trying to put this in the context of the subcommittee and our responsibilities which are going to overlap with the current discussion of tax use. The subcommittee is a subcommittee of the Energy and Commerce Committee. The Energy and Commerce Committee of the House has jurisdiction over interstate and foreign commerce, which means anything that crosses the State line falls under the jurisdiction of the Commerce Committee. This includes health care, motor transportation, most energy issues, and most health care issues.

This is one of six subcommittees—this one that I chair is called the Subcommittee on Telecommunications, Consumer Protection, and Finance. Only the U.S. Congress could conglomerate telecommunications, consumer protection, and finance into one ball of wax.

We have responsibility for the rewriting of the Communications Act of 1934. That is the legislation that governs the common carrier industry, the telephone industry, satellites, satellite communications, radio, television, direct broadcast satellite, cable television, and so on.

Consumer protection is pretty much what it says. That focuses particularly on, for example, such issues as highway safety and higher standards and all those issues that we do not like to think about so much. They are very complicated issues themselves.

The third area, which is the area of our focus this morning, is the finance side. We have responsibility for oversight and legislative direction of the Securities and Exchange Commission for the vast part of the capital markets of the country. As all of us know, the capital markets are changing very dramatically. The old line that once existed, defined by the Glass-Steagall Act, clearly separated financial institutions, banks, and savings and loan associations from the securities industry. That line is breaking down very
quickly, just as in the communications world through electronics, the line between cable and broadcasting or computers and telephones are breaking down very dramatically.

Somehow the technology does not conform to what the U.S Congress says in law it ought to conform to. Our responsibility is to look at the long-term future of the securities and capital accumulation markets in this country and to rethink and redo the legislation that currently governs the securities industry. This industry overlaps into the banks and the savings and loan associations, the insurance companies, the retirement funds, and so on.

The Banking Committee has jurisdiction over banks. We have jurisdiction over securities, which is a very large undertaking ahead of us.

The special concerns that we have this morning and the purpose of the hearing is to hear from a variety of small business concerns about their direction, their concerns, their needs, and what they would like to see happen short-term and long-term in our capital markets in the United States.

Clearly, small business has always had a problem gaining access to capital markets. That problem is increasing, with very large entities being able to move into those capital markets with greater advantage than small entities. General Motors, the most recent participants in the takeover of Conoco, or the U.S. Government clearly has access to those capital markets in a way that can and does crowd out many, many small businesses. This is happening at a time when small business growth in this country is increasing as it has not in a long time.

Ten years ago there was a net gain in the United States of approximately 100,000 small businesses. Last year there was an increase of close to half a million small businesses in the United States. The trend is precisely the opposite of what a lot of people in the country are saying, that everything is going toward bigness and there are no small businesses. Small business is growing faster than it ever has before.

Moreover, if we look at the direction of most of the innovation and creativity in the United States, it is coming out of the small business area. More new jobs are created there, more new ideas are created there, more exciting new companies are developing there, more new products are developing there.

Therefore, it would seem logical that we as a country ought to focus greater attention, greater priority and greater preference for small business than we have in the past. How to do that is a question that we face.

The means that we have are twofold. One is the tax policy and in reading over much of the testimony that we had in advance from many of our witnesses, it is clear that we are going to get something of a tutorial on tax policy today and what the prospective of small business is toward the tax bills that are currently being debated. Over the next 2 weeks, this debate will heighten and increase very dramatically and our current projections are that we will soon have a major vote on the competing tax plans in the House. That is the short-term means to look at the problem we'll be discussing today and our timing is very fortuitous on that.
Mr. Pearsall. Thank you, Mr. Chairman. I am Duane Pearsall. I am speaking today for the Colorado Small Business Council. The chairman of that council is Roy Romer, Treasurer of the State of Colorado, and he expresses his regrets at not being able to be here.

Mr. Chairman, we are grateful for your concern for the small businesses of this country and the vital role they can play in our country's economic future. This hearing process could not be more timely, as you said earlier, because at this moment, perhaps the most critical issue affecting small business ever to come before the Congress and the administration is being discussed in Washington today. That, of course, is the administration's proposed tax cut bill and the alternate House Ways and Means package. In my opinion, nothing is more important to the subject of access to capital for small business than that current debate. Perhaps our question and answer period can get into that a little bit more.

When talking about access to capital for small business, I am assuming you are really concerned with the national perspective. You will be getting a report later in this hearing from Belden Daniels who is doing a study on access to capital, particularly in Colorado and the five States in the Four Corners Regional Committee.

Central to capital access is capital formation on the basis that through internal generation of profits you get external access to capital far more easily. Perhaps the biggest impediment to access to capital through lack of capital formation is Government tax policy.

The current Government tax policy seriously discriminates against small business. If no other point is made today as a foundation for all of these discussions, that has to be understood; and I find that it is America's best-kept secret.

I have, in the prepared testimony, page and paragraph why that is true. And it gets down to relationships relative to net worth of the taxes paid by small business and different levels of growth revenues as compared to big business. It is further compounded by the tax credits available relative to gradient sizes of business.

Just as an example, there are 40 or 50 tax credits available to business today. A tax credit is something the Government gives you for a specific purpose. Unfortunately, small business can only take advantage of a very few of those tax credits so, the net effect, if you had a business in the neighborhood of $500,000 gross revenues, tax credits are available, and that is a deduction from net taxable revenue, for only about 6 percent on $500,000 gross revenue. If you get over $1 billion (in gross revenues), 60 percent of the taxable income is relieved through tax credits of one form or another.

This is a seriously regressive tax policy, both relative to the basic tax rate, tax credits, and then there are a number of ancillary issues such as industrial revenue bonds, an estimated $30 to $50 billion of those a year and less than 4 percent going to small business. Obviously small business is not the most credit-worthy institution for a local community or State to support without risking their bond rating.
Add a correction to my prepared testimony, if you would. There is a mistake on page 3, the end of the fourth paragraph. It refers to a bank control act and it was meant to refer to the Regulatory Flexibility Act of 1980. That act was one of the two significant issues that got through the last Congress for small business. The other significant issue was access to justice.

External sources of capital take the form of either equity or debt, as we have been talking about. If you look at a prospectus, just to amplify what John Livingston said earlier, you want to invest in a major corporation, it is a very simple thing to pick up the phone and call your broker. You know when you invest in that company you are taking a reasonable risk and the chances of total loss are almost nil.

On the other hand, when you invest in small business, you must recognize that you are not investing in it on a short-term basis. Your investment will be usually not for less than 10 years. It is an illiquid investment. Your opportunity to get out is only if that company is highly successful; there is a special circumstance that allows you to sell to another individual, it becomes a public company or something like that. All during that time the risk is extremely high and the chances for total loss are always present.

But, if you made a capital gain from your public corporation through the sale of that stock with same the simple process as in buying, it is treated exactly the same as a capital gain of a small business with its higher risk and illiquidity.

Two issues have been mentioned earlier: One is a small business participating debenture, a means of investing in small business with tax benefits to the investor, protectionist rights, if you will, on ownership in the business to the individual entrepreneur. The other was the rollover bill. The rollover bill that John mentioned a little while ago. It is a good example of how our Congress works.

The rollover bill was really the brainchild of Bill Casey. He may not be as famous today but Bill Casey was former chairman of the SEC and it was his idea that if capital has left the small business community in our country, the way to get it back would be to set up a tax incentive for investors that would be a deferred-income type of program just as you described. That has been in not one bill but a half a dozen bills since 1977 and has yet to survive the Congress.

Talking about banks, it is fundamental that large banks make large loans and small banks make small loans. Let us not argue with that. That is a fact of life and that is the way it should be. As an example, if you were to loan money to an individual, say a $500 amount, you know the individual and you get a reasonable interest rate, that is not too bad. Let us say you were considering loaning him $500. That is an acceptable circumstance. But would you loan 100 people $5 each at 100 percent interest? And the answer to that is obviously no.

That is exactly the analogy of institutional lenders to small business. It cannot be done. Transactional costs are prohibitive. So, the pools that Meg Hannson alluded to earlier is a mechanism that is currently being investigated and hopefully will result in some innovative ideas.
What is going to exacerbate that problem is the 1980 Financial Institutions Deregulatory and Monetary Control Act. Man, that is a mouthful. In the opinion of the American Bankers Association in a seminar they had in February of this year, they were predicting that the present 14,000 banks would be reduced to something around 3,500. Bank concentration means big banks, less access to capital for the small business.

I have a Colorado perspective that I think we ought to look at here that addresses a regional basis because it really affects an eight-State area. There is going to be an infusion of capital into this eight-State area, and Colorado is central to this whole issue, that exceeds the capital invested in any economic and geographic area this size in the history of man.

This is a quote from the director of the Western Governors' Policy Office, Mr. Phil Burgess:

The last major capital development in the United States was the Interstate Highway System. That was $78 billion, extended over 30 years and involved 50 States. We are talking at a minimum, in this combination of energy, minerals, possibly MX, and oil, which is part of energy, as being well in excess of $80 billion in just a seven-year period and involving only eight States. Truly a characteristic we need to address.

Roy Romer has been very concerned about this. You look at that scenario and say, "What is going to happen?" We are looking at an in-migration of some 3 million people in this 7-year period in this geographic area.

What is going to happen? The people come in and they make bank deposits, but their deposits do not begin to match the demand on those banks for infrastructure developments—the streets, the schools, the hospitals, et cetera. So Colorado is already a capital "import" State and it is getting worse.

What happens when capital gets short? It goes to the bigger lenders. What happens to the existing small businesses in Colorado? They are going to be hard pressed to find capital, particularly in those areas where energy development is at its critical point.

In addition to that, there is going to be a competition for labor. The price of labor will soar in those areas. So we have in Colorado, more than in the rest of the country, a problem facing us that we are making conjectures about. The more we study it, the more realistic it gets.

When we look at this perspective of small businesses and where we are in the United States today, we have to say it is not the responsibility of the Government, it is not big business that is creating this, it is not big financial institutions, it is the lack of an adequate voice for small business in Washington.

In my study of the small business community since 1976, I keep coming back to the fact that small business is not at the tax negotiating table, the regulatory negotiating table, and it is being overlooked.

Let me conclude by quoting from the Wall Street Journal of 1975, and it has not changed since then. This is Irving Kristol in his book, "The New Forgotten Man." He says, and I quote:

It is astonishing and dismaying how little interest there seems to be in the condition of small business in the United States today.

He goes on to say,
If small business is going to survive in this country, it is going to have to organize itself more effectively so that its interests are respected. Just why it has failed to do this I do not know. But I do know that unless it does, it will perish from neglect. And much that is precious to the American way of life will perish with it.

I think that is the sense of this hearing.
[Mr. Pearsall’s prepared statement follows:]
STATEMENT
on
ACCESS TO CAPITAL FOR SMALL BUSINESS
BEFORE THE
SUB-COMMITTEE ON TELECOMMUNICATIONS, CONSUMER PROTECTION
AND FINANCE
of the
COMMITTEE ON ENERGY AND COMMERCE
U.S. HOUSE OF REPRESENTATIVES
by
DUANE D. PEARSALL, VICE CHAIRMAN
COLORADO SMALL BUSINESS COUNCIL
Date: July 17, 1981

Mr. Chairman, my name is Duane D. Pearsall, President of Small Business Development Company, Inc., of Golden, Colorado, and Vice Chairman of the Colorado Small Business Council, a 32-member Advisory Committee to the Governor of Colorado.

I have been a small businessman for over 25 years, have started four companies, three of which were successful down to the last of which was responsible for the development of the home smoke detector. My present company, Small Business Development Corporation is a one-man counseling and investing company which was designed not to make a profit and, from that standpoint, it is a howling success.

My other small business activities involve national organizations including the Small Business Council of the U. S. Chamber of Commerce, and as a Director of the Small Business Foundation of America. I was Co-Chairman of the Colorado delegation to the White House Conference on Small Business and currently serve as a member of the National Unity Committee.

On a regional level, I am currently Chairman of the Mountain States Association, an 8-state affiliation of trade associations and chambers of commerce for small business advocacy. Our current membership is approximately 35 organizations which represent in excess of 30,000 small businesses. Within the next five years, and are now just one year old, we expect to represent 200,000 small businesses in this eight-state area.

The Chairman of the Colorado Small Business Council is the Honorable Roy Romer, State Treasurer. He has asked that I express his regrets that, due to a prior commitment, he could not attend this hearing.

Mr. Chairman, we are grateful for your concern for the small businesses of this country and the vital role they play in our country's economic future. This hearing process could not be more timely, because at this moment, perhaps the most critical issue affecting small business ever to come before Congress and the Administration is being discussed in Washington. That issue of course, is the Administration's proposed tax cut bill known as the Economic Recovery Tax Act, HR3849, and an alternative bill now being prepared by the House Ways and Means Committee.
In my opinion, nothing is more important to the subject of access to capital for small business than the current debate.

I have assumed that this hearing is concerned with access to capital as it relates to national policies for small business. I would therefore like to address the subject from a national perspective and conclude with the special characteristics of the Colorado economy that deserve special attention.

First, the term access to capital is inter-dependent with the term capital formation. In other words, if a business is successful at creating capital through its ability to generate after-tax profits, then access to external sources of capital is reasonably assured.

However, the number of sources of capital to small business is seriously limited due to economies of scale. For instance, you might be willing to loan a friend $500 at a reasonable interest rate because you know of his ability to repay the loan, integrity, etc. However, you would be very reluctant to loan 100 different people $5 each - even if the interest rate were 100%. By the same token, a very large financial institution, or large bank, is reluctant to loan its capital to small borrowers. The cost management of these transactions becomes prohibitive to the large lending institutions.

Central to the issue, therefore, is capital formation through the internal generation of profits as the key to external access to capital.

Perhaps the greatest single impediment to capital formation for small business is government policy, that is, government tax policy.

For instance, current tax policy seriously discriminates against small business. There was no change in the basic tax rate on business from 1934 until the 1978 Tax Reform Act which included for the first time a graduated income tax for business. Individual returns have been graduated since 1913. On the other hand, businesses with taxable income of $100 million or more are not that interested in the first $25,000 or even the first $100,000 of taxable income. What are the proportionate taxes paid by businesses of various sizes? Let me quote Milt Stewart, former Chief Counsel for Advocacy of the SBA in a speech made in Denver, September 1979. "Consider business according to the size of its receipts, its gross sales, and look at all of the taxes that a business pays - federal, state and local, Social Security, Unemployment Insurance, and income. For manufacturing firms alone (and this factors out the argument that small business is labor intensive), a manufacturing firm with $50,000 to $100,000 in gross receipts - taxes, as a percentage of their total taxes to net worth, in 1974 were 30%. From there, the larger the business got the smaller the percent. For manufacturers of various sizes, it broke down this way: $100,000 to $500,000 - 23.5%; $500,000 to $1 million 21.9%; $1 million to $5 million - 19.9%; $10 million to $50 million -16.9%; $50 million to $100 million - 13.6%; and over $1 billion - 11.5%.

That's like saying that a thousand dollars of net worth invested in a billion dollar corporation is taxed on a current basis of all levels of government at the rate of 11.5%. That same thousand dollars invested in a business that grosses under $100,000 is taxed at 30%.
Let's look at tax credits. A tax credit is something the government gives you as an incentive to do something and we now have forty or fifty tax credits.

Taking them through the same kind of progression as with total taxes against receipts, measure the percentage that the total credit is to the federal income tax before any credit, and you wind up with the same regressive pattern. Under $100,000 in gross receipts, the total credit is 5.8%. For one to five million dollars - 6.5%, and on up to gross receipts of over a billion dollars and you'll find 61.1% of the taxes due are covered by credits! Twelve times as much tax credits are given to business taxpayers who gross over $1 billion a year as to those who gross under $100,000.

These figures seem to shout loud and clear that we have a regressive tax impact on small business and, what's worse, almost no one in this country knows that these figures exist nor what they mean. Because no one in the small business community has bothered to make these comparisons until only recently, this has been one of America's best-kept secrets. You cannot continue to pass out the benefits of government reggressively and not expect big business to outgrow small business."

In addition to tax policy, government has further disproportionately burdened small business by regulations and paperwork. Arthur Levitt, Chairman of the American Stock Exchange, reported on a study of the burden of regulations to small business in 1979. His study showed the average cost per hundred thousand dollars of sales for a company whose gross sales exceeded a billion dollars was $4.00. The comparable cost burden of regulations (costs of compliance) for a business with gross revenues of only $500,000 was $134 per $100,000 of sales - or over 33 times as much. Hopefully, some relief on paperwork will be realized through the efforts of OMB and implementation of the new Financial Institutions Deregulatory and Monetary Control Act of 1980.

Internal generation of capital by small business is therefore seriously impaired by government policies.

External sources of capital take the form of either equity or ownership in the business or debt.

From the perspective of an investor, it is difficult to justify any investment in small business. For example, if you, as an investor, want to purchase ownership in a major public traded company, you simply call your broker and purchase the stock whose price is set by a public market. Selling is just as easy. Only a commission is involved. During the process, the risk is somewhat predictable, but certainly does not include the possibility of a total loss.

On the other hand, should you want to buy ownership in a small company, you must first recognize that the investment will not be liquid. You will be an owner of that company and your money will be tied up for perhaps 10 years. Earnings will be zero because small business typically cannot pay dividends. The risks are much higher and the potential for a total loss is always present.
If you happen to be fortunate in your small business investment and the company becomes successful, and you have somehow found an opportunity to sell your investment at a profit, you will then find that tax policy on capital gains, whether from a major "blue chip" company or a small business, is treated exactly the same. There is no tax incentive for investing in small business to compensate for higher risks or illiquidity.

Legislation has been proposed in the form of a "roll-over" investment in small business, similar to deferral of capital gains on a home mortgage. It has appeared in several bills since 1977, but has never survived the Congressional process. It was also one of the priority recommendations of the White House Conference on Small Business, January, 1980.

Another legislative proposal, also a recommendation of the White House Conference on Small Business, was the use of a Small Business Participating Debenture. This debenture, or note, provides a unique tax incentive to the investor as well as allowing the small businessperson to preserve business ownership, although it has little impact on the Treasury, no legislation has been forthcoming nor is this proposal included in either the Administration's tax cut proposal nor the present "alternative" proposal of the House Ways and Means Committee.

Access to institutional funds, the largest capital pool in the country, estimated in excess of $500 billion, is literally foreclosed from the small business community through fiduciary constraints imposed by ERISA regulations and simple economies of scale. As discussed earlier in this statement, management and transaction costs of $50 to $100,000 investments are just not practical from multi-million dollar pools.

The remaining external source of capital is debt. There are obviously many thousands of small businesses which are limited growth type businesses that can meet their objectives without debt. However, any business with an expanding product or market, given the constraints of restricted internal capital accumulation as described earlier, will find it virtually impossible to grow without going outside of its organization for additional debt capital. As a national perspective, the fact that small business consistently has a higher debt-to-equity ratio than big business, needs no documentation. The effect, then, of Federal Reserve policy to control the money supply, letting interest rates soar, has made the small business community the "sacrificial lamb" of the economy. Lacking management or accounting abilities, small business does not react to inflationary pressures as well as major corporations. Add to that the unreasonably high interest rates, exacerbated by the false "New York Prime", and we have now devised a formula to destroy American entrepreneurial incentive.

Normal sources of debt capital for business include long-term bond issues, commercial mortgages, borrowing from other corporations, and bank borrowing. Small business, however, is limited in its ability to gain access to most sources of long-term capital and have limited capital access to banks outside of their immediate area. Therefore, small business becomes overly dependent upon trade debt, short-term bank loans, and retained earnings. In most cases, when the local bank turns down a request, there is virtually nowhere for the small company to turn.
It is fundamental that large banks make large loans and small banks make small loans. A report to the American Bankers Association seminar in February, 1981, predicted a further concentration in the banking system due to the Financial Institutions Deregulatory & Monetary Control Act of 1980. It was anticipated that our present banks, now totaling over 14,000 in the United States, would be reduced to something in the neighborhood of 3,500 within seven years. It was also predicted that this would be a more efficient system. Nevertheless, it suggests an urgent need to develop innovative mechanisms to allow large banking institutions to service small business entities efficiently and profitably.

**Colorado Perspective**

The above conditions applying to small businesses nationally also apply to Colorado small businesses. There are some characteristic concerning Colorado and the other mountain states that should be noted. The Western Governors Policy Office reported that 69% of all employed people in this region are employed by small business. That is compared, of course, with the national average of 55%. In addition, 99% of all businesses in this region are small as compared to the national average of 97%. As a result, it follows that, to a large extent, our Mountain States are each more directly dependent on a healthy small business economy.

Colorado and the Mountain States are in the early stages of an energy boom. The cumulative impact of the three major areas of development, minerals, energy, and the MX missile pose monumental economic adjustment challenges.

Oil production is estimated at 2.5 million barrels per day by 1990, gas production is estimated to reach 10% of the total U.S. production, coal production is estimated to reach 452 million tons or 50% of the U.S. requirements, and added to that, 33 planned synfuels plants by 1990. Energy development alone represents a potential explosion in growth. Add to energy the simultaneous development of minerals, oil shale, and finally, the MX, and it is estimated that it will create an in-migration in excess of 3 million people by 1990. A conservative estimate of the cumulative effects of all of these elements, represents the largest potential infusion of capital in any geographic area in the history of man. The last major development in the United States was $78 billion for the interstate highway system over a period of 30 years involving 50 states. This total program is estimated in excess of $80 billion in just eight states and in only a 10-year period.

Recognizing the possible impacts of such a massive development on the small business community of this region, a study was commissioned by the Four Corners Regional Commission and coordinated by Roy Romer, Colorado State Treasurer. This study has been in process for the past six months, and an interim report, "Strategies for Increasing Capital Availability for Small Businesses in Colorado", dated June 30, 1981, may be available on request. We would suggest, however, that the final report, due August 15 could be most helpful to your committee.

As a final comment, the future of our country's small business sector is in great trouble. In trying to understand how the present condition developed, no one factor can be blamed; neither big government, the Congress, big business, nor big financial institutions.
The cause of the problem is clearly adequate representation of the small business sector of our nation in Washington and its visibility in the Halls of Congress. A hundred million people in our country depend upon small business for their standard of living and their economic welfare. They represent the creative strength that made America. At this time, they neither have a consensus nor even an agenda to correct the present circumstance.

To quote from the Wall Street Journal, November 13, 1975, "The New Forgotten Man," by Irving Kristol, "It is astonishing and dismaying how little interest there seems to be in the condition of small business in the United States today. Big business is in the spotlight to such a degree, and is focused with such passionate concern (pro and con), that the smaller businessman is an invisible figure, off-stage somewhere.

If small business is going to survive in this country, it is going to have to organize itself more effectively so that its interests are respected. Just why it has failed to do this I do not know. But I do know that unless it does, it will perish from neglect. And much that is precious to the American way of life will perish with it."

Mr. WIRTH. Thank you very much, Duane. That circles us back around to the closing comments of our first witness, Mr. Titsch. Let me, if I can, move on to the long-range issues that the two of you were talking about.

I said at the start of this that we are facing two issues on the subcommittee. Congressman Tauke and I have to vote on a tax bill some time in the next 2 or 3 weeks. That is a very short-term issue and all of you have alluded to that.

Let us leave that aside for a minute and go to the very long-term issue which is our jurisdiction, which we have got to sort out and think through the institutional arrangements by which we in this country are going to raise the necessary capital.

To quote you, Duane, you said, "The large banks make large loans; the small banks make small loans." You were talking about your great respect for bankers' ability to understand small business. You look at what is going on. You cited 14,000 banks down to 3,400 banks. We see very large financial institutions really moving across State lines, de facto. The law says they cannot but, de facto, that is going on and capital is, therefore, being deposited in Denver and moving to Chicago or Dallas or Los Angeles or New York.

We are seeing various financial instruments being developed by securities houses. We are seeing the banks wanting to get into the securities business and, de facto, an extraordinary breakdown of all of the old pigeonholes that are familiar to us in the past. This is what Merrill Lynch did to us in the past, this is what banks did in the past, this is what the savings and loan did in the past, this is what the pension fund did in the past. All of those lines are getting fuzzy. They are changing very rapidly.

One of the key issues is, as they change, the tendency is that those lines get fuzzy and larger, larger, larger conglomerations of financial power develop. We are seeing that in the securities industry, financial industry—it is happening everywhere. Mergers of S. & L's—financial problems and mergers with other S. & L's, and getting bigger and bigger and bigger among those financial institutions.

We have the responsibility to try and think, you know, what public policy should we be following? How do we change the Glass-