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(HEARINGS)

STATEMENT
TECHNOLOGY & INNOVATION IN THE UNITED STATES
before the
SENATE COMMERCE COMMITTEE

by
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My name is Duane Pearsall. I am President of the Small Business Development Corporation, a small business consulting firm in Golden, Colorado.

It is a privilege for me to appear before this Committee on a subject critical to the future of our Country. I can only hope the following comments will reflect opinions representing the majority of the thousands of small businesses in the United States engaged in the creation and development of technology.

The attached biography reflects a history of over 25 years as a small businessman, the highlight of which was the development of Statitrol Corporation, manufacturer of commercial and home smoke detectors, which was sold to a multi-national company in 1977.

Having received the National Small Businessperson of the Year Award from the SBA in 1976, I have represented small business on several committees. Perhaps none was more important than the Advisory Committee to the Policy Review Committee on Technology and Industrial Innovation. Of the seven sub-committees made up of top-level executives from major industries, I was privileged to serve under Mr. John W. Hanley, Chairman and President, Monsanto Company. Our specific area of concern was "Industry Structure and Competition".

Because I believe dilutions to the original text have been made through reviews and transmittals of the Inter-Agency Review Committee and the Administration, I would like to submit the attached original "Draft Report on Regulation of Industry Structure and Competition" for the record.

Also for the record, in the event it has not already been submitted, attached is a report of the SBA Office of Advocacy Task Force "Small Business and Innovation". Appendix I is a report of six small business members, each of whom served on a sub-committee of the Advisory Committee on Industrial Innovation.

There was unanimous agreement among this group that each of the major sub-committees recognized the significantly large contribution to technology by small business in the United States. Therefore, this report is not a minority report, but rather a supplementary report in light of the few representatives of small business on the total committee. The specific recommendations of our Committee are incorporated in the Task Force legislative proposal "Small Business Innovation Act of 1979".

This report has now become the basis for Senate Bill 1860, authored by Senator Gaylord Nelson and the Senate Select Committee on Small Business as well as HR5607, entitled "Small Business Innovation Act of 1979", sponsored by Congressman Neal Smith and the House Small Business Committee.

In my view, the elements of these Bills represent the strongest statement to allow release of the creative talents of small business yet to come before our Congress!

The basic provisions of the Bill reflect the concern of the small business community for fiscal restraint. It does not impact the Treasury in a significant amount in the short term and holds promise for major tax income to the Treasury due to increased productivity over the long term. It incorporates specific recommendations for relief of regulatory burdens, which historically impact small business disproportionately, and, without diminishing the objectives of those regulations. It stimulates interest from the investment community toward creative developments through small business, which has heretofore been obscured by tax disincentives. It provides a means for inventors to realize the benefits of their creativity without being forced to give up ownership control in order to secure Seed Capital.

Most important, in my view, the recommendations of rollover investments in small businesses with tax deferral advantages - will redirect capital from non-productive uses into creative products and the development of new technology. This provision alone could stem the tide of capital which, for the past 20 years, has been forced away from the small business sector through the unintended effects of federal legislation.

From personal experience, reflecting on the past 15 years, from the beginning of our accidental discovery of the alterations of an ionization field in the presence of smoke particles, then suffering the repeated agonies in developing product reliability, the ulcer-making problems of under-capitalization, and finally, the taste of success; if we had to do it over, starting today - it would not happen!

Why?

First, our patent laws have continued to weaken with the result that inventors and small business persons are vulnerable to expensive and repeated challenges.

Second, the pressures applied by the presence of the new Consumer Product Safety Commission combined with the expensive (and sometimes unavailable) insurance coverage for product liability make the decision to develop a safety product far more negative.

Third, the so-called "public interest groups", feeding on public emotion for their popularity, and with inflammatory and inaccurate technical support, can kill a product using radioactive material, regardless of its safety characteristics.

Fourth, once the product has reached the point of sale, has met industry standards and has been certified by a reputable test laboratory, we are then faced with the uncertainties of government regulation. An example of this is the current efforts by the Federal Trade Commission to "governmentalize" our present consensus standards and certification system which has worked so well throughout our history.

Fifth, the cost of capital, particularly venture capital which in 1965 was thought to be embarrassingly high at 8%, would now cost 18% to 20%. In competition with big business (the principal manufacturers of smoke detectors), our choices would now be either sale of the company at a distressed price or folding the company altogether.

Sixth, the inability to use a qualified stock-option plan to attract capable management or creative design talent now acts as a further impediment to the development of a growth company.

Finally, the entrepreneur of a successful growth company finds constant personal pressures being exerted by his accountant and other advisors to liquefy part or all of his corporate interests. Because of current ERISA regulations regarding prudent decisions as well as the overly restrictive SEC regulations on public offerings, there is not a reasonable alternative than to sell to a major corporation on a tax-free exchange basis. The net result is a further concentration of big business and further erosion of capital invested in the small business sector of our economy.

In summary, the one most damaging impediment to innovation in our Country has been the impact of regulations, their cost of compliance, and the uncertainty of regulatory changes. Each of these characteristics adversely impact businesses of all sizes but, in particular, impact small business in a seriously disproportionate manner.

The second major area of government policy that impedes innovation is taxation. Increased productivity over the long term is directly the result of new technology together with investment in capital equipment in order to design and produce products in greater volumes and at lower costs. New legislation must focus on increased investment tax credits for big business and a method of capital cost recovery with simplified and accelerated depreciation for small business.

And finally, our government must recognize its role as a partner with industry in creative development and production. It must foster a

change in public attitude to that of providing incentives instead of penalties. It must recognize the need for financial rewards for financial risks.

With our Country running a poor fifth among the industrialized countries of the world in growth of productivity, now is the time to recognize the causes of our decline and develop a plan to reverse the present trend toward economic disaster.

Please give the original draft reports of the Advisory Committee on Technology and Innovation, and the specific recommendations of "The Small Business Innovation Act of 1979" your immediate attention. Together, they constitute an effective blueprint for action.

Thank you.