1-1-1976

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Capital formation is the lifeblood of our industrial and economic complex. Yet we hear increasing warnings of the problems ahead from undercapitalization of American business and the resulting constraints on production and employment.

Historical Background

For years, American business has been largely self-financing. Fifteen years ago, close to 90 per cent of corporate capital expenditure was supplied from internal cash flow—retained earnings and depreciation. This proportion has dropped significantly, although recently improved corporate earnings should help for the short term. We are all aware of the collapse in equity market financings in recent years. From a high point in 1972 of nearly $15 billion in equity offerings, there has been a dramatic decline in the last two years. The difficulty of raising equity capital on a reasonable basis has been accompanied by record levels of corporate indebtedness—an amount outstanding nearly as large as one year's GNP. Debt to equity ratios have risen sharply in the last decade. Of particular concern has been the marked increase in short-term indebtedness which requires continual refinancing.

One U.S. businessman has summarized his view of the basic capital problem:

> The shortage of equity capital has been especially worrisome. This has forced us to rely on short-term and long-term debt to finance innovation, modernization and expansion. Consequently, interest cost has become a significant added expense, depressing profits. Lower profits make it more difficult to generate retained earnings. Lower earnings and a high debt to equity ratio further depress the value of the company's shares, making equity financing even more difficult.

While a number of studies have been made of the potential capital shortage, there are, as you might expect, as many different answers as there are studies. The New York Stock Exchange, in its often-quoted study of capital needs, has estimated a frightening shortage of savings compared to capital needs—$650 billion over the next ten years. Their study was based on projections of desired levels of investment and available savings under basic assumptions of 3.5 percent real growth and 5 percent inflation annually. Several other studies, such as Chase and Business Roundtable, also reflect shortages. The Brookings study, based on lower levels of inflation and unemployment and larger government surpluses, shows about a breakeven over the period to 1980. It may be that these studies and the many comments provided in hearings have not yet fully convinced Congress, but the outpouring has certainly made a sizable impact on its members judging by the variety of proposals being seriously considered by Congressional task forces.

Quantifying the Problem

Whether or not it is possible to conclude on some quantification of capital needs for the next decade, there seems to be growing recognition that the social objectives pursued by government have created bias in the direction of consumption rather than savings and that it is time to assess and moderate the discentives affecting capital investment. We know that one and one-half million new workers will be moving into the job market over the next ten years at a minimum investment cost of $35,000 each. This will account for at least $50 billion a year of new investment. There also will be the replacement, modernization and environmental demands of the future—all to be considered in light of continuing inflation. If there is no staggering shortage of the magnitude shown by the NYSE study, it does seem reasonable to conclude there will be no surplus either.

Senators Javits and Humphrey, not particularly noted for their conservative banners, in jointly sponsoring certain legislation for employee stock ownership plans, have commented within the last month on their concerns with capital formation:

> (I)t is no secret that the United States is experiencing a substantial problem with respect to a shortage of capital investment. The U.S. Treasury estimates that from 1960 to 1973, investment as a percentage of real national output was 13.6 percent in the U.S. as compared to 29 percent in Japan, 20 percent for West Germany and 18.2 percent for France. What is needed to alleviate the capital shortage of the 1970's and 1980's are new approaches to equity investment. (Javits)
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> In recent years new stock issues have only contributed 2 to 5 percent to corporate financing needs. Last year, for example, just 568 companies used new stock issues to help raise capital. I believe that is an unhealthy situation for the U.S. economy and one that must begin to have some remedies applied if we are to meet the large capital needs of the coming decade. (Humphrey)

Cause and Effect

The effects from inability to raise the desired capital are not difficult to foresee. In a capital intensive country, the initial consequence will be evidenced by continuing unacceptable levels of unemployment. The reduction of investment must necessarily mean curtailment of plant expansion, modernization and research and development. There is no way that technological improvement can be sustained and new job opportunities created without the required investment input. There is no way productivity can be enhanced if industry cannot buy the equipment necessary to do the job. Moreover, the scramble by industry in capital scarce times produces the high interest rates that help close the cycle for stifling earnings and impeding economic growth—as we have been so painfully aware in the last two years.

World Interdependence

In assessing U.S. needs and objectives, clearly economic interdependence around the world is a reality. While the severity of cyclical swings may vary from country to country, there is direct linking of investment resources and demand. Inflation, currency exchange rates, and interest rates all involve worldwide consideration. Not too long ago in the U.S., we were pre-eminent with our abundant raw materials, cheap energy, super technology, high volume, and profitability. It doesn't take much reflection to recognize that those days may be gone forever. We are now faced with either scarcity in some resources or control over their supply held by other nations. The technology achievements and productive capability of some countries provide the keenest, if not superior, competition to our own industry. In fact, the emerging economic and political order in the world demands a larger sharing in production and revenues by less industrialized nations.

In preserving and building its capital base, business must continue to sharpen its own management technique to optimize return from new expenditure, to conserve its liquid resources and to take full advantage of tax and other opportunities to retain capital. For many companies, the LIFO inventory method has helped alleviate capital erosion. Despite the pain of reducing reported earnings, hundreds of companies made this move in the last few years to preserve capital that would otherwise have been paid out in income taxes. Although it seems business managers are carrying the struggle as well as possible, the resolution of capital shortage problems ultimately has to rest with motivation and government policy.

Taxation Policies

Of prime importance in stimulating capital investment is the taxation system. Our federal tax system is built substantially on the income tax—a tax inherently unfavorable to investment. In fiscal 1975 about 60 percent of federal revenue came from personal and corporate income taxes. As government has grown and tax rates increased, what the reformers choose to call "loopholes" are whittled here and there into the structure to permit some money to flow into investment. This kind of tax system means permanent conflict between government's revenue appetite and the nation's capital needs.

In effect, the U.S. has maintained a tilt in tax policies toward consumption and away from savings and capital formation. Our tax experts point out a number of shortcomings when the U.S. tax system is compared with other industrialized countries.

Capital cost recovery on fixed investment. The adoption of the ADR class life system in 1971, together with the restored investment credit, did improve capital cost recovery in the U.S. It is estimated that with regard to fixed investment since then, using double-declining balance, about 60 percent of the original cost can be allowed for tax depreciation in the first three years. Nevertheless, compared to other countries, the U.S. is still nearly at the foot of the class. For example, the U.K. allows 100 percent recovery in one year; Canada in two years; Sweden in three years.

Inflation adjustments. The U.S. has no provision in tax law for inflation recognition unless you count LIFO as basically a tax measure. Some countries allow special valuations, reserves and adjustments for inventories and other assets. The Task Force on Business Taxation estimated underdepreciation of $10 billion in industry overall for 1970 alone in considering inflationary effects up to that time. This condition has undoubtedly worsened with the high inflation level in subsequent years. Replacement cost depreciation for fixed assets is certainly a lively subject these days for financial reporting, but there is little reaction from the government for its acceptability for taxation purposes. The New York Stock Exchange study indicates that, after adjusting for inventory profits and underdepreciation based on historical costs, effective corporate tax rates on pre-tax profits for 1973 and 1974 were about 66 percent as contrasted with the statutory rate of 48 percent. In fact, the Exchange estimates on this inflation adjusted basis that in 1974 business actually paid a portion of its dividends out of capital.

Capital gains. No other major industrial country imposes a maximum long-term capital gain tax as high as the U.S. Only Canada and the U.K. have capital gains tax levels comparable to ours. Yet the reformers press for taxing capital gains as ordinary income despite the fact that the system is still another form of double tax on earnings, that the gain is often due to inflation and that unequal treatment would apply to losses. It is probable Congress will extend the required holding period to one year from the present six months' term. On the other hand, the Administration has proposed a sliding scale of exclusion after the one-year holding period—50 percent of the gain up to five years, increasing to 70 percent after twenty-five years.

Foreign subsidiary earnings. U.S. tax law has been constantly whittling away at the economic neutrality concept. Other countries for the most part exempt foreign based income or allow tax credits. No other country penalizes foreign earnings, as has been proposed in recent months, through the taxing of unremitted foreign earnings. Sound taxation concepts should preclude double taxation, allow foreign tax credits at the higher of U.S. or foreign tax rates, and provide for deferral of tax payments until such time as income is received through distribution. To impose taxes earlier would impose a penalty and a bias against foreign investment.

Incentives for investment and savings. The U.S. has no real incentives for direct investment, while other countries exempt certain types of income and grant special write-offs and allowances. A few years ago, the Administration called for new tax proposals to stimulate research and development of new industries and technologies. Such development can be best encouraged by additional tax credits for at least part of the cost. The rapid amortization program enacted for anti-pollution equipment has been made unnecessarily complex and limiting and in part contradicts the flexibility of the ADR capital cost recovery procedure. If our national policy is to ensure the highest quality and safety for our environment, why not make the expenditures required of business simply tax deductible as incurred?

Double Taxation of Corporate Income

As you know, we have a double taxation approach to corporate earnings while all other major countries have some form of relief from such impact. In the jargon of our tax experts, the U.S. system is known as the classical or separate method; i.e., tax is imposed at the corporate level without regard to dividend distributions. These distributions are then separately taxed to the recipient. The classical system, however, conflicts with stimulating equity investment and tends to give foreign competitors an advantage especially where consumption-type taxes (VAT) are a major source of tax revenue. Moreover, our system tends to discourage dividend distributions. For this reason, penalty taxes have had to be devised to deal with "unreasonable accumulation" of corporate earnings.

None of our major industrial competitors—Germany, Japan, the United Kingdom or France—use the classical system. These nations, along with Canada and a number of other industrial countries, utilize either a split-rate or an imputation system. Both methods tax business profits at lower overall rates than the classical system and thus make corporate stocks a more attractive investment.

Split-rate system. This system taxes retained profits at a higher rate than those which are distributed. In theory, the tax rate on distributed profits could be as low as zero. In practice, however, it is somewhat larger. The maximum rate in Japan, for example, is 40 percent for undistributed profits and 28 percent for distributed profits or an effective 34 percent rate assuming dividend distribution of one half of earnings. Advantages of split rate are the reduced taxation at the corporate level, its flexibility for modifying tax policy, and incentives for distribution of earnings.

Imputation system. Under this system, the shareholder receives a direct credit against personal tax liability for the taxes paid at the corporate level. Generally, the credit is the portion of the corporate taxes applicable to the distributed earnings, typically less than 100 percent of the corporate tax. The U.K., for instance, has enacted a basic corporate tax rate with a credit to the shareholder equal to about one half of dividend distributions. This means the shareholders, as a group, would get a credit of about 50 percent of the tax paid by the corporation if all after-tax profits were distributed. As in most imputation systems, the "dividend income" of the shareholder includes the tax credit allowed, in addition to the cash received. For example, if a cash dividend of $100 is received and a tax credit of $50 is allowed, the shareholder will gross-up the two amounts and report dividend income of $150.

Dividend deduction method. Another and differing system, the dividend deduction method, is considered by many as the best suited to the U.S. Under this method, dividends paid, or a percentage thereof, are deductible in computing the paying corporation's taxable income. Although closely related to the end result of the split-rate method (the overall effective tax rate is reduced by dividend distributions), the concept and technical aspects differ considerably. Even though it is not used by any of the major countries, it is the avenue through which many believe relief from double taxation may most likely be achieved in the U.S.

Assuming the same basic tax rate—50 percent, for example—all four of the systems impose the same tax burden on the funds retained. The split-rate, imputation, and dividend-deduction systems, however, pass to the shareholder a bigger after-tax share of dividends than the U.S. classical system.

Dividend Taxation Proposed for U.S.

The Administration has recommended to the House Ways and Means Committee a combination system of dividend deduction and stockholder credits. As proposed, the plan would be phased in over several years to lessen the impact of tax revenue reduction. In the ultimate application of the plan, a corporation would pay the normal tax on earnings less a deduction equal to 50 percent of dividends paid to stockholders. The stockholders would gross up their cash dividend received, by the amount of such 50 percent corporate deduction, and take a direct tax credit equal to such amount. The net effect would be an elimination of double tax.

The Administration's proposal arrives at the right solution. However, some experts believe the procedures involved in the combination of dividend deduction and tax credit would be extremely complex for the millions of shareholders involved. Their recommendation is for initiating only the dividend deduction system at the corporate level.

Regardless of the form of business organization, individuals' taxes would be levied on income received. The choice of corporate financing, whether debt or equity, would also be neutralized, thus removing the present bias from a tax viewpoint toward debt financing. Most important politically is the neutrality achieved among individual taxpayers. Dividends received would be fully taxable to recipients at their respective rates. This is not to say that the deduction system has no disadvantages. It does tend to penalize the developing corporation which needs to retain funds for expansion and would likely encourage a higher level of dividend payment for other corporations. However, it can be argued that such a system would increase the total supply of savings or capital for reinvestment by the individual. For those interested in reviewing the differing systems of eliminating double taxation on dividends, the AICPA's Statement No. 3 of Tax Policy contains a comprehensive discussion of the subject.

Tax Policy and Flow of Capital Funds

There are hopeful signs that both Congress and the Administration recognize the need for rethinking tax policies on a long-term basis if we are to increase sharply the flow of capital funds. The major areas to be considered, in addition to the basic tax rate and deductibility structure, should be capital recovery allowances, bearing in mind the escalating costs of replacement; elimination of double taxation on dividends; direct investment and savings incentives (such as initiated in a limited way with Employee Stock Ownership Plans) and modification of capital gains tax. Whatever the political realities at the moment, this country's taxation policies need to be redirected if we want to improve the availability and flow of capital investment.

Accounting and Disclosure Policies

Now to turn to comments on the impact of accounting policies on investment. Accounting wields an important influence in our country because of its significance, among other things, in determining corporate profits and taxation revenues—key factors in the economic climate. It seems clear that a fundamental goal both of the private sector and government is to achieve reasonable economic and social stability and smooth out, or at least minimize, those disruptive cyclical swings characteristic of our economy. This goal should be considered in the formulation of accounting objectives and policies and effort made to avoid unnecessary or unrealistic distortions in periodic income measurement. The credibility and utility of accounting policy will be largely tested not by reference to its theoretical niceties but by how well it reflects the substance of business planning and operation.

Anyone who doubts the influential role of accounting in our country need only be reminded of the imminent Congressional hearings by Senator Metcalf's subcommittee. These hearings are intended to probe into the activities and structure of the accounting profession as a whole, the Big Eight firms, the AICPA, the FASB, and several relevant government agencies. At stake may be whether accounting principles will continue to be set in the private sector.

The financial reporting system in the U.S. is generally regarded today as without equal in the world. The wealth and depth of financial information available for a publicly held company in the U.S. is simply tremendous. Much of this vast disclosure lode (some spell it one way, others differently) followed the Securities Acts legislation of the early thirties. Before that the profession and notably the New York Stock Exchange struggled hard to improve reporting, and there were improvements in those days—initiation of published quarterly earnings, increased incidence of annual audits, expanded disclosure of accounting policies and valuation bases. The Bulletin "Uniform Accounting" prepared by members of the accounting profession and banking industry and published by the Federal Reserve in 1917 was one milestone in those earlier days. The report, "Audits of Corporate Accounts," by the Committee on Cooperation with Stock Exchanges was another early effort by the private sector which contributed to strengthening the reporting and the auditing processes.

Nevertheless, the tidal waves resulting from the stock market crash and the great depression so completely overran confidence and credibility in financial reporting that there was little effective resistance to the new securities legislation and the new reach of government regulation. In fact, in many ways, this period was the foundation of the super-regulatory era we have today.

It would be easy and popular to put down the regulatory process in financial reporting. Some knowledgeable people have devoted a great deal of study and writing to advancing the hypothesis that the flood of disclosure dictated by the Securities Acts and by the SEC, for example, may not really have enhanced reliability or aided performance by investors. These views challenge the effectiveness of the regulator and assert the need for more careful analysis to underpin new proposals and to check on the efficacy of existing regulations.

I must say I cannot accept conclusions that indicate little or no benefit from the regulatory process. I include in this process both government and the private sector. I believe that while there have been setbacks and abuses, for the most part developments in financial reporting have been supportive of investor confidence and new capital formation. Beyond the continual refinement and expansion of legal and accounting disclosure following adoption of the Securities Acts, the regulatory aspects have generally created a heightened awareness and incentive on the part of the security issuer and the seller for a diligent and careful presentation of financial information.

We only need turn to the municipal securities market at the present time to note the clamor for prospectuses and disclosure along the lines we have become routinely accustomed to in corporate offerings. Recognizing that someone may be able to demonstrate twenty years from now that the investor was no better off with additional disclosure of a municipality's finances probably does not sound very convincing at the moment to those holding New York City bonds or notes.

Whether or not we believe this burgeoning disclosure process has helped the investor and capital formation, there are limits, nevertheless, beyond which additional disclosure requirements can be viewed as unreasonable and unnecessary. Those critics of the disclosure process are on target with this point. Extension of disclosure requires sound and tested justification rather than novel theories of the regulator. Much of today's problem with expanding disclosure stems from the duplicative effort and expense to present information calculated under alternative accounting bases—the "as if" type of accounting. Apart from the confusion of differing sets of data, it is frequently not feasible to place such alternative information on a fair and complete basis because earlier underlying business decisions might well have been different if the new assumptions or accounting requirements had been applied contemporaneously. It is a cardinal rule of pro forma presentations, caveats notwithstanding, that pro formas can be misleading if *all* conditions and assumptions are not taken into account.

Problems of European Companies

Based on recent discussions with officials of several large European companies, it seems some of them have lost interest in stock listing or public security issues in the U.S. Most commonly cited as impediments are the generally unilateral and inflexible positions of the relevant agency and the effort and expense to contend with elements of U.S. generally accepted accounting principles in addition to local principles for reporting. The new requirements, for example, relating to foreign currency translation, replacement cost accounting data and auditor review of interim statements are viewed as imposing unnecessarily costly conditions. It is somewhat ironic that at the time these companies were pointing out their disenchantment, the New York Stock Exchange had just released its more liberal requirements to encourage foreign issuers to list on the Exchange.

Multinational Company Problems

Certainly the multinationals, wherever located, are not ranking very high at the moment in the "favorite person" poll. Many government organizations, domestic and international, are crawling over each other to devise and mandate sanctions, codes, and disclosure requirements to suit the purposes of each special interest. The OECD (Organization for Economic Cooperation and Development) comprising the U.S. and 23 other industrialized nations, is probably in the vanguard. Its proposed guidelines are expected to be voted upon by the member countries next month. The kind of published financial data they want may not seem earthshaking to us in view of existing U.S. practice, but I can tell you their relatively modest disclosure proposals have created considerable controversy and debate over the past year among the OECD members and their advisory groups.

It is also obvious that demands in other quarters are increasing for information on multinational companies. Some demands are for much more detailed data than proposed by the OECD. Within the past few weeks, for example, legislation has been introduced in Congress that calls for the reporting by U.S. companies to the federal government of operating results and other data. Although the requirements are similar to the type of information contemplated by the OECD, unfortunately the legislation would require such data to be provided separately "by each foreign affiliate, by country and by activity." In addition to the substantial cost burden, the questionable utility of such details, and the concern over risks of exposing sensitive information to competitors, there are other difficulties inherent in the mass of information proposed for disclosure under this kind of legislation. To start with, it may not be possible for the multinational to obtain the necessary detailed data on some foreign "affiliates" since they are defined on the basis of 10 percent or more ownership. (U.S. accounting requirements for recognition of affiliated company earnings in the financial statements of the enterprise start generally at the 20 percent ownership level.)

A pervasive problem also relates to the many differences in accounting and taxation principles from country to country. In many foreign countries, financial reporting closely follows taxation rules. It frequently is not useful to compare statutory financial filings of a company in one country with filings of another company in a different country. No valid comparison can be made due to variations, for example, in allowable depreciation methods, inventory valuation and other valuation reserves, and write-offs. Additional confusion, suspicion and criticism may result from attempting to compare results of local operations as measured by the enterprise's accounting policies with the results measured on a statutory basis. Nor would separate financial statements of the many subsidiaries and affiliates prepared on the enterprise's accounting basis necessarily provide clearcut resolution of the problem. There are usually significant consolidation adjustments that would require arbitrary allocation as well as the most fundamental question of all—do financial statements in local currency amounts, or after translation for the parent company's consolidation, provide the more useful presentation?

In any event, I believe that those parties clamoring for special multinational reporting should be adequately served by the substantial amount of information presented in annual reports to shareholders and to the SEC. These reports would include some reasonable geographical grouping of operating results and other key data such as proposed in the FASB draft on segment reporting and in the OECD guidelines. There should also be more widespread publication in local language of a company's annual report within those countries where significant operations or interests are involved. I believe the extensive financial information on a U.S. company presently available is not generally appreciated in the U.S., let alone in other countries.

The European Economic Community has recognized the problem of diverse accounting among its member states. Its current proposals are intended to aid the standardizing of financial statement content and disclosure for reports by companies operating in the EEC. The U.N. is also active. It has established a Research and Information Center to collect, analyze and present information concerning businesses operating internationally. The developments in this program should be followed closely.

Inequities in the Regulatory Process

The OECD and EEC proposals have been based on an elaborate process of exposure and study, including acceptance of the views of outsider advisors. I think the FASB also can take credit for its study and deliberation process followed—even if we don't always like the answers produced. Most times in this country, however, the federal regulatory process is quite narrowly based and dictatorial. In fact, some wide-reaching requirements may often result from advocacy by a single member of a regulatory body, or even by a single person on the staff. It is true that administrative proceedings require a public exposure and comment period, but if one were to view the SEC in recent times, for example, it is questionable how effective this exposure period has been for private sector interests. Within the last few weeks, for instance, the Commission has announced its new requirements for disclosure of replacement cost data as supplemental information to financial statements. Companies will soon need to incur substantial costs to develop the information on a new and completely different accounting basis in addition to that regularly applied.

Much can be said in highly inflationary periods to support an accounting model that reveals the impact on operations and investment from inflation as contrasted with displaying solely the effects of historical amounts. There is no question the accounting profession here and elsewhere in the world is in tune with this general objective. Its methodology and implementation requires resolution. In my view, however, the SEC's recent action is precipitous and unjustified. Many comments received in the exposure process urged the need for a coordinated program of study and experimentation for such radically new concepts in order to preserve some degree of comparability among companies. Substantive comments were furnished to the SEC by many demonstrating the incompleteness of its requirements to reflect properly inflation effects on the enterprise. (By way of contrast, the FASB in its inflation accounting study has been able to enlist a large number of major companies for testing out the proposed concepts.)

Concerns and criticisms have also been voiced in the United Kingdom over the Sandilands committee recommendation for adoption of current cost accounting. At least two years will be available there for study and experimentation before any requirement might be imposed. Because of the SEC's crash program, I think we may have missed a great opportunity to join all the issues on an international accounting basis. It would seem the U.K. situation and the emerging Netherlands disclosure could have offered real possibilities for broadscale resolution. Instead we are faced with the probability of new conflicts and differences among national groups and accounting requirements, not to mention the additional burden placed on those companies which must comply with the differing requirements of more than one jurisdiction.

A great deal more could be said of the regulatory impositions on reporting companies. The principal point, however, is that the agency or the government must find a better way of assessing need for and the benefits to the public of their proposed programs. Applying intuition and motivation of a few regulatory officials has resulted in piling disclosure upon disclosure. As Professor Stegler says in his "The Citizen and The State": "Each year the appropriations of each regulatory body grow about 8% on average: 1% for population, 5% for prices and 2% for growing evil. The momentum of events is awesome." You also may have noted the finding of two Stanford University professors in a recent study. They say we have now reached the milestone of having over one-half of the U.S. work force engaged in some form of information gathering and processing.

It may be that those agencies primarily concerned with the financial reporting process should maintain advisory committees, with representatives drawn from the private sector, in order to help achieve a balanced and objective viewpoint in the development of new proposals as well as subsequent periodic review of existing regulations. There needs to be greater involvement of those parties being affected by the regulatory requirements. Agencies tend to follow the concept of "let the private sector prove our proposal is wrong" rather than the agency's shouldering the burden of proof that a proposal is really needed and can be cost/benefit justified. Then, of course, under the agency's approach of "prove us wrong," it is less than fair that the agency acts alone as judge and jury in reviewing the evidence submitted by the private sector.

Moreover, after a regulation is issued, new interpretations by the agency creep in resulting in further unjustified requirements. The comprehensive study of the entire corporate disclosure system recently announced by the SEC may be an encouraging sign. While its objectives may be more broadly based, I hope the study might also stimulate a challenging look at Regulation S-X and other rules which have not had a good sifting out of trivia in years—for example, the endless details of stock option information and the SEC's antiquated policy for separate parent statements in addition to the consolidated statements. Let there be a truly objective assessment of how much disclosure is needed by the "average prudent investor," short of drowning in confusion from overly technical material and alternative presentations of financial details.

Role of the Private Sector

It is equally essential that the private sector continue to take an ever-diligent role in constructively evaluating and articulating its views as to the usefulness and practicality of new proposals. This contribution cannot be effectively made by mere protest. The role of business and other groups in the development of financial reporting must recognize the differing views and needs of the various parties at interest. Response to proposals needs to be supported by hard evidence which in many cases can only be achieved by actual experimentation and display of the reasonableness or the impracticability of the proposal.

It often will be advisable to communicate these views to members of government apart from a particular agency that may be involved, and also to the financial and business community at large. It will take a highly organized and skilled approach to maintain the financial reporting process on a basis providing reasonable benefits to *all* segments of the community.

Conclusion

Evidence and commentary point to serious concerns with the availability of capital for desired investment goals in the next decade. A leading investment banker, for example, has estimated that to arrest deterioration in the quality of corporate credit, for some years there will have to be a net increase in equity financing of more than $20 billion annually. This compares with half or less than that amount achieved in the past two years.

The significance of accounting policy and disclosure should not be underestimated. The current interest in multinational operations underscores the lack of understanding concerning the differences and limitations in accounting principles and financial reporting. Indeed, more apparent than ever is the need for international standards of accounting and a better balanced program for government's regulatory process.

Finally, the reassessment of U.S. tax policies is critical to an effective program for stimulating capital formation and equity financing. As Secretary Simon stated in his presentation to the Joint Economic Committee of Congress:

> First and foremost we must have a much greater understanding on the part of the public on the basic concepts of capital. Capital is the cornerstone of increased productivity, of higher real wages, of greater job opportunities, of a strong competitive position internationally, and of holding down the rate of inflation.