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THE VANISHING SMALL-CAP IPO: A SYSTEMS DIAGNOSIS BEYOND REGULATORY BURDEN

The decline of the small-cap IPO market in the United States is often attributed to the rising regulatory burden of being public. This article — the first in a three-part series — argues that such explanations, while correct, are incomplete and that the decline reflects broader structural forces beyond regulatory burden. Drawing on empirical evidence, it shows that the IPO decline is overwhelmingly a small-company phenomenon and that regulatory costs, while real and regressive, explain only part of the trend. The second part, forthcoming in a subsequent issue, evaluates the SEC's recent proposing releases and advances a broader regulatory reform framework addressing the economics of public-company status. The third part examines the market structure and systemic forces that continue to constrain the small-cap public market beyond disclosure reform alone.

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INTRODUCTION

A familiar account of the decline in small-cap IPO activity emphasizes the increasing regulatory burden associated with public-company status. Regulation became more complex. Compliance costs increased. Companies remained private longer. Congress responded through the Jumpstart Our Business Startups Act (the “JOBS Act”),¹ which introduced accommodations

designed to improve the economics of going public for emerging companies. Yet the broader pattern of decline persisted.

That account captures an important dimension of the problem, but it does not fully explain the structural decline in the number and vitality of small public companies in the United States. In public policy, incomplete diagnoses can produce reforms that address one dimension of a problem while leaving broader structural drivers substantially unchanged.

¹ Jumpstart Our Business Startups Act, Pub. L. No. 112-106, 126 Stat. 306 (2012).

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