

# PREM19

# 74

## INDUSTRIAL POLICY

(Employee stock  
ownership plans)

Confidential Filing

Employee Stock Ownership  
Plans

INDUSTRIAL POLICY

JULY 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>22.8.79</del>							
3.9.79							
PREM 19/74							





*Industrial  
Policy*

10 DOWNING STREET

*From the Private Secretary*

3 September 1979

EMPLOYEE STOCK OWNERSHIP

I enclose a letter from the Prime Minister to Senator Long in Washington about employee stock ownership. I should be grateful if you would arrange for its onward transmission.

I am copying this letter, together with its enclosure, to Peter Stredder (Department of Industry) and Martin Hall (Treasury).

M. O'D. B. ALEXANDER

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R.M.J. Lyne, Esq.,  
Foreign and Commonwealth Office.



10 DOWNING STREET

THE PRIME MINISTER

31 August 1979

Dear Sverdrup,

Thank you for your letter of 31 July and the interesting material you enclosed. Thank you also for your kind comments.

I certainly agree that there are very real benefits to be derived from encouraging wider stock ownership and I think that this applies not only to owning shares in the company in which people work but also to investing in company shares more generally. Like you, I am convinced that by increasing the commitment of employees to the financial wellbeing of their company, and perhaps by making them more aware of problems and requirements of other aspects of the operation of the company, employee share ownership schemes can make a significant contribution to improving productivity and consequently profitability. This can only be to the advantage of all those associated with the company, including the existing shareholders, and clearly if these improvements were to be reflected across the whole of industry the impact on the economy would, I am sure, be substantial.

As you may know, last year the previous Government introduced a fairly limited concession which provided tax relief for certain approved employee share ownership schemes. We have undertaken to

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expand and build on the existing schemes for employee share ownership and we will also be giving the employees of the nationalised concerns an opportunity to purchase shares in their respective companies if these are sold back into private ownership. However, we are not yet clear quite what form our proposals on wider share ownership will take, but your comments and the material you have provided will be very helpful.

Thank you again for taking the trouble to write.

Yours sincerely  
Margaret Thatcher

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Senator Russell B. Long, L.A.



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301  
Switchboard 01-212 7676

PS/ Secretary of State for Industry

24 August 1979

Bryan Cartledge Esq  
Private Secretary to the Prime Minister  
10 Downing Street  
LONDON SW1

Dear Bryan,

EMPLOYEE STOCK OWNERSHIP

You asked for comments on the Prime Minister's response to Senator Long's letter about employee stockownership.

Encouraging wider share (ie stock) ownership, and employee share ownership in particular, is a manifesto commitment, as is an undertaking to enable employees in nationalised industries to buy shares in their companies when these are sold back into private ownership. Therefore, to some extent Senator Long is preaching to the converted. The additional material he enclosed, and which I have now received, gives the details of how it is proposed to encourage employee stock ownership in the United States, how various American companies have applied this idea, and information on various studies on the subject all of which serves to illustrate further the benefits he feels can be derived from such schemes.

We shall certainly examine the material he has provided in the context of the work being, and to be, carried out in this area but I do not think that this need hold up the Prime Minister's reply, or that a more detailed reply later will be necessary. A draft reply is enclosed and copies of this letter have gone to Martin Hall (Treasury) and Stephen Wall (Foreign and Commonwealth Office).

Yours sincerely,  
Pete.

PETER STREDDER  
Private Secretary



DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

Senator Russell B Long IA  
Chairman  
United States Senate Committee on Finance  
Washington DC 20510  
U S A

Thank you for your letter of 31 July and the interesting material you enclosed. Thank you also for your kind comments. ~~I am sorry it has taken a little time to reply but I have only just returned from holiday.~~

I certainly agree that there are very real benefits to be derived from encouraging wider stock ownership and I think that this applies not only to owning shares in the company in which people work but also to investing in company shares more generally. Like you, I am convinced that by increasing the commitment of employees to the financial wellbeing of their company, and perhaps by making them more aware of problems and requirements of other aspects of the operation of the company, employee share ownership schemes can make a significant contribution to improving productivity and consequently profitability. This can only be to the advantage of all those associated with the company, including the existing share holders, and clearly if these improvements were to be reflected across the whole of Industry the impact on the economy would, I am sure, be substantial.

As you may know, last year the previous Government introduced a fairly limited concession which provided tax relief for certain approved employee share ownership schemes. We have undertaken to expand and build on the existing schemes for employee share ownership and we will also be giving the employees of the nationalised concerns an opportunity to purchase shares in their respective companies if these are sold back into private ownership. However, we are not year clear quite what form our proposals on wider share ownership will take, but your comments and the material you have provided will be very helpful.

Thank you again for taking the trouble to write.





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10 DOWNING STREET

From the Private Secretary

22 August 1979

C.F. ?

EMPLOYEE STOCK OWNERSHIP PLANS

I sent you, with my letter of 17 August, a copy of a letter which has been addressed to the Prime Minister by the Chairman of the U.S. Senate Finance Committee, Senator Russell Long, about employee stock ownership plans; and I promised to follow this up in due course with the originals of the enclosures to Senator Long's letter, when the Prime Minister had looked at them.

The Prime Minister has now seen the enclosures as well as the letter and I am sending them to you herewith.

B. G. CARTLEDGE

KRT

Andrew Duguid, Esq.,  
Department of Industry.



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10 DOWNING STREET

PRIME MINISTER

Employee Stock Ownership  
Plans

You may like to see this letter from Senator Long about employee stock ownership plans, together with the enclosures in the attached envelope. I have asked the Department of Industry for advice on an interim response which you might send to the Senator.

*BS.*

*arb*

17 August 1979



10 DOWNING STREET

*From the Private Secretary*

17 August 1979

*Dear Andrew,*

Employee Stock Ownership

I enclose a copy of a letter which has been addressed to the Prime Minister by Senator Russell Long, Chairman of the US Senate Committee on Finance, about employee stock ownership. The letter was accompanied by a number of enclosures which I think will be of interest to the Prime Minister and which I have, therefore, sent up to her in Scotland for holiday reading; they are too voluminous to copy and I will ensure that they are passed on to you when the Prime Minister has seen them.

In the meantime, I should be grateful if consideration could be given to the Prime Minister's response to Senator Long. Your Secretary of State may think it appropriate to recommend to the Prime Minister that she might send the Senator a fairly short interim reply, promising something more substantive when the Ministers and officials concerned have been able to study the material which the Senator has sent her.

I am sending a copy of this letter and enclosure to Martin Hall (HM Treasury) and Stephen Wall (Foreign and Commonwealth Office).

*Yours sincerely,  
Byron Carden.*

A.A. Duguid, Esq.,  
Department of Industry



10 DOWNING STREET

*From the Private Secretary*

17 August 1979

I am writing on the Prime Minister's behalf to thank you for your letter of 31 July, which was received at 10 Downing Street today, about employee stock ownership.

I am bringing your letter and its enclosures to the Prime Minister's immediate attention and a reply will be sent to you as soon as possible.

E. G. CARTLEDGE

Senator Russell B. Long

*Encls. sent to Dept. of Industry*

RUSSELL B. LONG, LA., CHAIRMAN

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## United States Senate

COMMITTEE ON FINANCE  
WASHINGTON, D.C. 20510

July 31, 1979

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MICHAEL STERN, STAFF DIRECTOR  
ROBERT E. LIGHTHIZER, CHIEF MINORITY COUNSEL

The Right Honorable  
Margaret Thatcher, M.P., Prime Minister  
London

Dear Madame Prime Minister:

The stunning victory of the Conservative Party in the past election, and with it your accession to the post of Prime Minister of Great Britain, is one of the most significant events of our time.

If you succeed in your ambition to revitalize Britain's free enterprise system, the entire Western World will be renewed in life and hope. Western civilization will have regained a future.

As an American heir to the great freedoms first expressed in Magna Charta -- the ideals and institutions which you have called "the Legacy of Runnymede" -- I mightily hope and wish that you and your Party will succeed.

As you consider the various economic and social alternatives which are available to Great Britain, the problems which confront you are essentially the same as those which confront the leadership of every industrial democracy; in fact, these problems are as old as the Industrial Revolution which was the miraculous gift of your country.

But with our inability to solve the economic problems arising from industrialization, they have grown ever more complex and insoluble. Now the world has come to realize that nobody's conventional wisdom, either left, center or right, applies to the new condition of our industrial age.

With these thoughts in mind, I am taking the liberty of urging upon you and the members of your Cabinet an

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Margaret Thatcher, M.P., Prime Minister  
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alternative economic idea which I myself advocate and which is carrying greater and greater weight and influence with my colleagues in the United States Congress.

You are surely aware that our respective countries share the dubious distinction of recording the lowest productivity gains of any free world economy during the last decade -- in both cases, a miserable 27 percent. The seriousness of this problem is highlighted when one recognizes that, during the same period, the other Western industrial nations increased productivity at the following rates: Japan, 107%; France, 72%; West Germany, 70%; Italy, 62%; Canada, 43%. Clearly, neither Great Britain nor the United States is increasing productivity at a rate which makes us competitive in foreign trade. One major consequence of lagging or diminishing productivity is the inflation which bedevils us all.

Of course, one thing we need to do is find ways to increase each individual worker's productivity, thereby increasing the volume of goods and services which are competing for the consumers' dollar.

I have long believed that employee ownership of the employer company's stock significantly increases productivity. In July of last year, the Senate Committee on Finance of which I am Chairman, held hearings on Employee Stock Ownership Plans (ESOPs). During these hearings such companies as Sears, Roebuck & Company, and the Dow Chemical Company were unanimous in their opinion that enabling employees to acquire stock ownership in the companies for which they work benefits not only the corporation and its employees, but the economy as a whole.

There was complete agreement that the unified interest which results from employee stock ownership has a definite impact on productivity. Many other companies endorsed the ESOP concept as well, among them American Telephone and Telegraph, General Telephone & Electronics Corporation, Gulf Oil Corporation, Weyerhaeuser Corporation, McDonald's Corporation and Celanese Corporation.

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Margaret Thatcher, M.P., Prime Minister  
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Unfortunately, the U. S. Treasury Department has either objected to, or failed to demonstrate any measurable enthusiasm for, any new tax incentives for employee stock ownership on the grounds of revenue loss. By contrast, I have long suspected that ESOPs, far from being a revenue drain on the Treasury, actually generated positive tax flow.

In an effort to demonstrate the validity of this fact, I have undertaken a survey of one hundred companies with ESOPs to ascertain the effects ESOP has had on Federal taxes paid, employee productivity, sales, profits and employment.

Twenty-two of these ESOP companies have already responded. The findings so far have been tremendous: Since establishing the ESOPs, these companies experienced a 38% increase in productivity per employee, a 67% increase in total sales, a 125% increase in corporate profits, a 30% increase in the number of people employed, and they have paid 112% more in Federal income taxes.

In the economies of both Great Britain and the United States, ownership of productive capital is highly concentrated. You are, of course, familiar with the reports of your own Royal Commission, headed by Lord Diamond, which indicated that in Great Britain the top one percent of people owned around a quarter of total personal wealth. In the United States, all qualitative studies conclude that wealth ownership is almost as concentrated as in England.

You believe as I do, that political freedom is derived from economic freedom. This is the great truth which your Conservative Party exists to defend. But unless we work to build economic independence and more ownership of productive capital into the work forces of our respective nations, we shall not be able to keep within manageable bounds those welfare, social security, unemployment insurance, housing, food and medical subsidies which are required by millions of our citizens. Our people would need less of those subsidies if they were not dependent solely



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on what they can earn from their labor in economies where the bulk of goods and services are in reality produced not by labor but by capital instruments which are owned by only a few people.

As Sweden's Liberal party discovered when it suddenly inherited the full-blown welfare state built by the Social Democrats over 40 years of continuous power, it is very difficult to dismantle a seasoned welfare economy. When, as in Sweden, 42% of the government's total budget went to government employees, alternatives to tax dependency must be found before people will relinquish the subsidies which underwrite their livelihoods. You and I are both advocates of economic freedom. But we must make sure that when we talk about the virtues of capitalism and free enterprise, there are enough capitalists among those listening to help us win elections. If capitalism is to have meaning as a workable, defensible system, it must have meaning to the average British and American worker.

The message, therefore, for today's owners of wealth is that in the future they will find their wealth a great deal more secure if the present trend is reversed -- if the number of capital owners is expanding while the number of welfare clients and government employees shrinks. A worker will support capitalism if it affords him a fair share, but if he owns no property he will tend to favor government ownership. This is the most ancient truth in political economy.

During the past six years, the United States Congress has passed, and Presidents have signed into law, eight legislative initiatives to promote employee stock ownership. Perhaps the most innovative of these initiatives have been the Tax Reduction Act of 1975 (Public Law 94-12) the Tax Reform Act of 1976 (Public Law 94-455) and the Revenue Act of 1978 (Public Law 95-600). These laws connected employee stock ownership plans to the investment tax credit for which every employer is eligible. In essence, they provided that if an employer establishes an employee stock ownership plan, and contributes stock to it, the employer will be eligible for an additional investment tax credit. Several hundred of the largest corporations in the United States have adopted these investment tax credit employee stock ownership plans in response to this legislation. Millions of employees have become stock owners as a result.

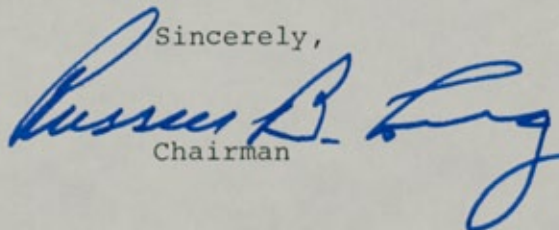
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Margaret Thatcher, M.P., Prime Minister  
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At the same time, I recognize that labor-intensive companies may not have a sufficient capital investment to make such a program attractive; accordingly, I intend to work for enactment of Federal legislation which would provide a tax credit, based upon wages paid to participating employees, for employers who establish and fund such an employee stock ownership plan.

I have taken the liberty of attaching as exhibits to this letter a number of items which I believe you and your Cabinet will find of value. Interest in measures encouraging broadened capital ownership has spread from my own Senate Finance Committee to the Joint Economic Committee of the Congress, the Small Business Committees of the Senate and House, the United States Treasury and other agencies of the Federal Government. For your information, the House and Senate have each passed employee stock ownership legislation dealing with small business this year. At present, these bills (S. 918 and H.R. 4011) are in conference. It is anticipated, however, that they will be passed and sent to the President for signature. Please be assured that I and my staff will be available to assist you in any way possible in this regard. In addition, I will be most interested in following Great Britain's efforts toward broadening Stock Ownership among its working men and women.

With every good wish, I am

Sincerely,

  
Chairman

cc: Sir Nicholas Henderson

END

Filmed at the National  
Archives (TNA) in London

February 2010