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SECRETARY OF STATE
FOR INDUSTRY'S OFFICE

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TO M. Mountfield	COPIES TO	My ref:
FOR ADVICE (AND DRAFT REPLY IF APPROPRIATE)	Mins Sec M. Lippitt Miss Mueller M. Bonham Carter M. Warne Mr Learning Mr Burns Mr Lightman Mr L Lightman Mr Battusky M. Steel Mr Kendall	Your ref:
PLEASE BY: 4-7-79 4-7-79		27 June 1979

See text

We discussed the problems of stimulating the creation of small businesses during our recent meeting on regional policy and I agreed to set out my views for colleagues.

In order to keep the paper brief and without the benefit of a research machine let me first state a number of beliefs.

- a. The small industrial sector is smaller in Britain than in other equivalent economies.
- b. It is this sector that we need to encourage most enthusiastically because it earns greater returns in productivity and output quicker than elsewhere and because as it has been more frustrated in Britain than other sectors as a result of high personal taxation it is the most fertile ground.
- c. Its small scale makes it versatile and responsive in a way that larger industry may not be particularly as large industry has been able to develop more easily over recent years.

For as long as I can remember Governments have used either public sector or consumer expenditure to stimulate the economy. It has not been a happy experience and the conclusion of it for whatever reason left our industry in a parlous state.

I want to operate at one area of the economy where only in a very few exceptional cases have the Government sought to act - Winners.

If we ask ourselves who are the people - a crucial point of emphasis! - who are most likely to get a climate of wealth creation underway they have to be those people who have proved that they can make profits or earn large incomes. Not all these people can achieve what we want but there will be very few people outside this crude definition who can.

Broadly our strategy accepts this analysis. That is why we increase the real disposable income of those people and create a climate of incentives. At this point the car is pointing in the right direction and the engine is switched on.

But the driver has to put his foot on the accelerator and he has to choose which road to take.

Best economic forecasts are at the moment sober if not gloomy. The habit of innovation, entrepreneurial activity, risk is not well ingrained. We have become used to institutional thought.

And after the weary years the driver might decide to coast along the comfortable lanes of higher personal consumption rather than head off for the bumpy road of exhausting, risky innovation.

We have little time. We need to demonstrate success and results in a country that half expects governments to fail. And we need to enthuse everyone we can to change and articulate change.

Hence my proposals. We put to the winners an offer they can't refuse. We define the winners as those who have paid tax or would have paid tax if their capital allowances hadn't exhausted their liability. We offer a rebate of tax, Income Tax, Corporation Tax, Investment Income Surcharge to anyone who can show that he is undertaking defined investment this year over and above last year. Define the investment to pick up a wide range of industrial activity, accept that some people will get a grant for expenditure that they would have undertaken anyway, accept an accountant's certificate - with sanctions - to cut the red tape and choose an arbitrary figure for total rebate (personal £5000, companies geared to last year's investment plus say 10%) and fix a ceiling of £150m. Make it clear that only expenditure incurred by April 1980 counts.

The suggestion for this paper arose out of a discussion on regional policy. So make the rebates double in assisted areas. The public expenditure cost should come from economics in existing industrial support which is in my view far less effective than a scheme such as I suggest.

What is there to lose?

I am copying this to the Chancellor of the Exchequer, to Members of E(EA), the Secretary of State for Northern Ireland; and to Sir John Hunt. There is, of course, to be a discussion of regional policy at E(EA) tomorrow.

yes
MHE

MICHAEL HESELTINE

The Rt Hon Sir Keith Joseph MP