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## United States Senate

COMMITTEE ON FINANCE  
WASHINGTON, D.C. 20510

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

July 31, 1979

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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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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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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.

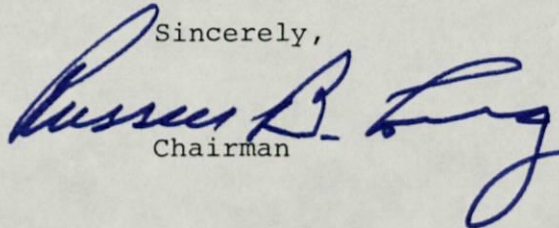
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At the same time, I recognize that labor-intensive companies may not have a sufficient capital investment to make such a program attractive; accordingly, I intend to work for enactment of Federal legislation which would provide a tax credit, based 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