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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

PRIORITY STRATEGY PROPOSALS

Memorandum by the Chancellor of the Exchequer

At the Committee's meeting on 24 July, it was agreed that the strategy proposals put forward by Ministers should be considered in the first place by a Ministerial Steering Group (MISC 14) under my chairmanship. This group has now met twice to consider reports from officials on the 'priority' proposals, as identified in Mr. Hoskyn's paper E(79)28. The 4 areas of the priority proposals were (A) Encourage the Wealth Creators, (B) Cut the Red Tape, (C) Restore the Right to Work, (D) Let the Market Economy Serve the People.

2. A brief summary of the state of play on each of the proposals as at mid-September is contained in the Annex to this note. This shows that on some proposals appropriate action has already been taken and no further specific action seems necessary. For others the action proposed seems adequate and can be endorsed. The main aim of this note is to draw attention to issues, within each of the four main areas into which Mr. Hoskyns classified Ministers' proposals where we think either that further work should be commissioned, or that specific Ministerial instructions or decisions are required at

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this stage. We have also considered the timing of possible future Government initiatives arising from these proposals, and make some suggestions at the end of this note. We shall be making a further report in November about the non-priority items - those put forward by Ministers but not selected for this first batch.

PRIORITY STRATEGY INITIATIVES

Section A. "Encourage the wealth creators"

The 9 proposals under this heading were -

Corporate taxation

- 1. Review of Corporate Taxation System.

Personal taxation and differentials

- 2. Widening differentials in net earnings through direct taxation system.
- 3. Reducing poverty trap.
- 4. Reducing the bias against investment in productive assets.

Entrepreneurship, small businesses

- 5. Technical tax changes to benefit small firms.
- 6. Tax relief for individuals investing in small firms' equity.
- 7. Tax rebates to be paid to businesses achieving levels of investment higher than that made in the previous year.
- 8. 10 year tax holiday for new firms.
- 9. Equity guarantee scheme (to encourage provision of risk capital for small firms).

Comments on Section A

Item 1. Corporate tax is already under review. The important issues are treatment of stocks, capital allowances and the impact of inflation. This is an area where we must avoid change for change's sake. Industry attaches a high premium to stability. But the scope for worthwhile change for legislation in the 1980 Finance Bill (or later) will be considered.

Item 2. On personal tax we have of course already announced our objective of further reducing direct taxation. The scope for this

in the coming year can only be reviewed in the overall Budgetary context. The current prospects are that there will be relatively little room for manoeuvre.

Item 3. Incentives for the lower paid are also critically affected by Budgetary action (on tax thresholds and the lower rate band in particular). Work is also in hand in other areas which affect incentives both for those in work to improve their position and for those out of work to seek employment (including work on the taxation of short-term benefits, and on stricter operation of benefit rules). But given the number of different measures under different Departments which can affect the position, both for those in work and those out of work, we recommend that the relevant issues should be reviewed by an inter-Departmental group under Treasury chairmanship. We recommend that this group should co-ordinate such work as is already in hand, and should undertake further work, to consider in particular how the combined effects of various developments are likely to affect the position; whether and how the various measures could be better co-ordinated; and whether there are particular measures which might alleviate the position. We suggest that this group should report back to MISC 14 as soon as possible.

Item 4. We recommend that the official working group which is examining fiscal and other biases against investment in productive assets, should produce an interim report by early 1980 on any items which might be appropriate for legislation in the 1980 Finance Bill. The report should cover the possibility of incentives to investment which would be limited in time so as to encourage early take-up.

Items 5-8. On small firms we think it important to sustain the impetus of policies to encourage them. These firms offer the best chance of new employment opportunities and innovatory investment. Reviews are in hand of further technical tax changes to benefit small firms (item 5) and of the scope for fiscal incentives for investment in them (item 6). Some of these measures are expensive, and schemes which are to avoid serious abuse are likely to be complicated. A balance has to be struck between special measures for small firms and general tax reductions and simplification. But we recommend

that these reports should be brought forward as quickly as possible during this autumn so that an early (pre-Budget) announcement of measures to assist small firms can be considered by Ministers. On the proposal for an equity guarantee scheme, we think it may be preferable for the present to pursue alternative approaches which might encourage institutional investment in small firms without involving Government subsidies. The Secretary of State for Industry is considering whether to seek informal discussions with financial institutions to explore what they might do. Some work has already been done on the two other proposals (items 7 and 8) to encourage more investment and to promote small firms. These are both wide-ranging measures which could involve considerable cost and a good many difficulties have been identified by officials. We have however asked for further reports from officials before reaching any final view on these options, and we recommend that these reports should be brought forward at the same time as the reports on items 5 and 6.

Section B. "Cut the red tape"

The proposals under this heading were -

De-regulate industry

10. Review of regional policy.
11. Review of planning procedures.
12. Review of environmental controls.
13. Review of building regulations.
14. Review of health and safety regulations.
15. Enterprise Zones.
16. Eliminating undue burdens on small firms.

Free-up housing and land

17. Reform of housing policy to ease labour mobility.
18. Review of land taxation.
19. Review of Land Commission.
20. Public sector land holdings.

Comments on Section B

Item 10. The Government's review of regional policy has recently been completed.

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Item 11. We have received the first part of a CPRS report on planning procedures, and we generally welcome its proposals. We have asked the official steering group (MISC 15) to consider the CPRS report and to make recommendations to Ministers.

Items 12-14. We have noted that the second part of the CPRS report on planning delays will be looking at the effects of environmental controls (item 12) and we look forward to receiving that report in due course. We are generally satisfied with the progress of the review of building regulations (item 13) but we are concerned that existing policies on health and safety controls (item 14) pay insufficient regard to the compliance costs to industry. The implementation of these policies is largely in the hands of the Health and Safety Executive. We consider that a review of this subject is desirable, and that to be effective it should look not only at the detailed implementation of health and safety controls, but also at the constitution of the responsible bodies - the Health and Safety Commission and Executive. We recommend that the CPRS should be invited to undertake such a review, in consultation with the Departments of Employment and Industry and through them with the CBI. The review of Quangos will be considering whether the work of the Health and Safety Commission needs to be done by a Quango or indeed at all. We recommend that, for reasons of urgency, the CPRS review should not wait for the outcome of the Quango review, but that to avoid duplication it should make a working assumption that the work of the Health and Safety Commission will need to be continued under a Quango of some sort.

Item 14A. In another area of controls, we have asked officials to consider whether the present system of goods vehicle licensing might be modified. At present, different practices adopted in different regions are said to impose heavy costs on companies operating in several regions.

Item 15. Enterprise Zones. I minuted the Prime Minister on 21 September 1979 about the Group's proposals on this subject, with copies to other members of E Committee and other interested Ministers.

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Item 16. The Secretary of State for Industry will shortly bring various proposals for eliminating undue burdens on small firms before E(EA).

Items 17-20. Changes already proposed in the Housing Bills (e.g. shorthold tenure, right to sub-let and to take in lodgers, right to buy), and measures on land supply approved for the Local Government Planning and Land Bill, should go a long way to ease housing constraints on labour mobility (item 17). The Development Land Tax has been modified and other aspects of land taxation will be considered as part of the wider review of capital taxation (items 18 and 19). Proposals for public sector land disposal (item 20) including a register of unused public sector land have been agreed in principle, subject to public consultation, and power would be taken in the Local Government Planning and Land Bill.

Section C. "Restore the right to work"

The proposals under this heading were -

Consider restrictive practices, closed shop, ACAS, EPA

- 21. Tackling restrictive labour practices.
- 22. Closed shop legislation and ACAS as supply constraints.
- 23. Review of Employment Protection Act.

Comments on Section C

On items 22 and 23, closed shops etc. and Employment Protection Act, we consider that action already in hand (including proposals which the Secretary of State for Employment is making separately in E(79)43 and 44) represents substantial progress. On restrictive practices (item 21) we recognise the sensitivity of the problems, but consider that a further review of the pros and cons of different approaches to the reduction of such practices is required. We have therefore asked the CPRS, in consultation with the Departments concerned, to carry out such a review.

Section D. "Let the market economy serve the people"

The proposals under this heading were -

Competition policy

24. Competition policy.

Reduce public sector monopolies

25. Reduce the monopoly power of nationalised industries.
26. Increase private sector competition in the supply of public sector services.

Involve workers in their firm's success

27. Employee profit sharing.
28. Greater employee participation.

Comments on Section D

Item 24. A start has been made with the existing Competition Bill, and a second Bill is planned for the 1980-81 Session. But the strength and effectiveness of competition policy depends very much on how statutory powers are actually used. We will need to ensure that convincing nationalised industry references are made to the Monopolies and Mergers Commission when the new Bill becomes law. We will also all need to give full weight to competition when controversial cases come forward for decision on MMC recommendations, and should look for ways of strengthening competition when deciding other matters.

Item 25. With the exception of the Post Office (possible relaxation of telecommunications monopoly and reports on the postal monopoly) and buses (Transport Bill proposals to change road service licensing system), Departments have not come forward with any firm proposals to modify the monopoly position of their nationalised industries. We have asked for further work to be done at official level, and the Secretary of State for Industry will consider the matter further in his informal group of Ministers dealing with nationalised industry questions. We consider it important that, in reporting to Ministers collectively, officials should put forward all the possibilities they have considered, even if the proposals do not have the support of the sponsoring Department.

Item 26. There is similar institutional resistance to the transfer of public sector functions to outside contractors. We have asked for officials to do more work on this. Work relating to local government services will be co-ordinated by officials of the Department of the Environment, and the CPRS have agreed to co-ordinate work on the rest of the public sector (other than the nationalised industries which are dealt with in the preceding paragraph), reporting for this purpose to the Secretary of State for the Environment, who will report back to MISC 14 on the whole range of possibilities in due course.

Items 27 and 28. A report on employee profit sharing (item 27) is to be made in time to consider legislation in the 1980 Finance Bill, and the Secretary of State for Employment is putting forward proposals on employee participation (item 28) in E(79)40 for consideration by E Committee on 27 September.

4. TIMING OF NEW INITIATIVES

Looking at these 28 items as a whole, we have given some thought to the order in which new proposals relevant to, or emerging from, the work involved might be brought forward so as to ensure a steady stream of Government initiatives.

a. My minute to the Prime Minister seeks authority to make an announcement on Enterprise Zones at the forthcoming Party Conference.

b. A number of proposals are contained in Bills which are due to appear in the autumn for discussion during the coming Session, i.e. the Housing Bills, Local Government Planning and Land Bill, Competition Bill, Transport Bill and Employment Bill.

c. We hope that it will be possible to announce a further initiative on small firms during the autumn. A suitable package might include one or two selected fiscal measures to help small firms or to encourage investment in them, and

some proposals to reduce undue burdens on them. But the choice between announcing a package and announcing different measures in different contexts depends on what measures can be agreed in time.

d. In the late autumn we may be able to propose further improvements in the planning system, in the light of consideration of the CPRS report, and we may also be in a position to put forward ideas on employee participation.

e. The 1980 spring Budget and the associated Finance Bill will be the occasion for making whatever progress is then possible with our main fiscal objectives. It might include changes in corporate tax, further fiscal measures to help small firms, measures to encourage employee profit-sharing, changes in capital taxation (including taxation of land), and possible measures to encourage savings and investment in productive assets.

f. By next summer, we should be able to announce the scope of a second Competition Bill for the 1980-81 Session, and we shall have the results of the current review of building regulations.

g. Progress on some other items - restrictive labour practices, health and safety controls, nationalised industry monopolies, contracting-out of public sector functions - and the timing of any initiatives will depend on the outcome of the further work we have recommended or put in hand.

If this rough timetable can be kept to we believe that it will provide a satisfactory sequence of Government proposals and initiatives. But it will be important to ensure that impetus is maintained and progress regularly reviewed.

CONCLUSIONS

5. We are on the whole encouraged by the volume of work in progress on the 4 priority areas identified by E Committee, but we believe we have identified a number of areas where a more positive approach is needed. We therefore invite our colleagues to -

1. Take note of the work in progress, as described in the annex to this report.

2. Endorse MISC 14's decisions to commission further work by officials on the following subjects -

- a. Planning procedures (item 11)
- b. Goods vehicle licensing (item 14A)
- c. Different approaches to reducing restrictive labour practices (item 21)
- d. Reducing nationalised industry monopolies (item 25)
- e. Contracting-out of public sector services (item 26)

3. Agree that officials should be asked to produce interim reports on the following subjects -

- f. Biases against investment in productive assets, by early 1980 (item 4)
- g. Technical tax changes to benefit small firms, fiscal incentives for investment in small firms, tax rebates to encourage investment and tax holidays for new firms, during the autumn (items 5-8)

4. Decide

- h. whether an inter-Departmental group of officials should be set up under Treasury chairmanship to review the various issues affecting incentives for the lower paid described at item 3 above. We recommend that it should.

- i. whether the CPRS should examine the implementation of policies concerning health and safety at work and, if so, whether their examination should extend to the institutional framework within which the policies are applied. (We recommend in favour of an examination by the CPRS, including the institutional framework, as described at item 14 above).
5. Endorse the target timetable set out in paragraph 4 above.

H.M. Treasury

24 September 1979

(G.H.)

Summary of current state of play on priority items

1. Review of Corporate Taxation System

A review is in hand (initially by Treasury and Inland Revenue, but bringing in DOI, DOT and CPRS), concentrating on the treatment of stocks, capital allowances and the impact of inflation, with a view to considering the scope for worthwhile change in 1980 (or later) Finance Bills. (6.5)*

2. Widening differentials in net earnings through direct taxation system

The scope for further changes will be reviewed in the context of the Budget. (2.1)

3. Reducing the Poverty Trap

It is necessary to distinguish two groups - those who are out of work and those who are in work in receipt of relatively low pay and means tested benefits. Problems of incentives can arise for both groups. Budgetary action on the thresholds and lower rate band is relevant. The taxation of short term benefits is being considered urgently by Revenue, DHSS and DE. DE and DHSS have plans to encourage unemployed to return to work (help in finding jobs and stricter operation of benefit rules).

4. Reducing the bias against investment in productive assets

A review is in hand by a Treasury-chaired working group (including Revenue, Bank of England, DOI, DOT and CPRS; and by invitation other departments concerned with specific issues). The group is to concentrate immediately on issues relevant to 'accelerator' proposals (e.g. encouragement of personal equity investment and employee share ownership). (9.1)

*The figures in brackets refer to the system of classification first used in the Annex to the CPRS paper E(79)24.

5. Technical tax changes to benefit small firms

A review by a Treasury-chaired fiscal group (including Revenue, Customs and other departments as appropriate) is looking at a number of proposals, including relaxation of rules for relief for retirement annuity contracts for the self-employed, carry back of early trading losses against shareholders' previous income, ending apportionment of trading income of close companies, extension of VAT relief for bad debts, and simplifications in VAT for small traders. (10.2)

6. Tax relief for individuals investing in small firms' equity

A review by Treasury-chaired fiscal group (including Revenue, and other departments including DOI, DOT and CPRS - as appropriate) is considering various approaches including income tax relief for direct equity investment in small firms (including a possible link with increased actual investment in physical assets), loss relief for shareholders, income tax relief for capital losses, a lower rate of capital gains tax and interest relief on proprietor's loans. (10.3)

7. Tax rebates to be paid to businesses achieving levels of investment higher than that made in the previous year

This proposal, originally put forward by the Secretary of State for the Environment, is being further reviewed by a Treasury-chaired fiscal group (including Revenue, DOI, DOT, DOE). (6.3(i))

8. Ten-year tax holiday for new firms

The proposal is being considered by a fiscal group consisting of the Treasury, Revenue, DOI and DOT. In the context of enterprise zones, officials have recommended against tax holidays, but somewhat different considerations apply to this wider proposal which needs further study. (6.3(ii))

9. Equity Guarantee Scheme

A draft consultative document for an experimental scheme has been prepared by DOI but the Secretary of State for Industry is now considering possible alternative approaches. (6.3(iv))

10. Review of regional policy

A review of regional policy has recently been completed and there seems no need for a further major review. (6.6)

11. Review of planning procedures

ODP's have been abolished, and IDC's are to be abolished in Intermediate Areas. The planning system is being examined for way in which firms could be helped, e.g. increased levels of exemption from need to seek permission for extensions. Other measures designed to reduce delays are in hand, including some which will be the subject of legislation this session. The CPRS have completed the first part of their report on procedural delays. (7.1)

12. Review of environmental controls

A preliminary review by officials suggests that there is no significant scope or pressure for a relaxation of existing pollution control measures. Constraints on water authorities' expenditure are likely to reduce the rate of improvement for amenity purposes. Particular attention should however be given to the impact of new environmental proposals on industry. The second part of the CPRS report on planning delays will be looking at the effects of environmental controls. (7.2(i))

13. Review of building regulations

A review by a DOE-chaired interdepartmental group (to include DE(HSE), DEn, HO, WO, SDD, NI, DHSS, DOI, DOT and Treasury) is to examine how the present regulations might be recast, and will also consider the possible role of insurers, with a view to legislation (if appropriate) within a year. (7.2(ii))

14. Review of health and safety regulations

Any change in the duties of the HSE would require amendment to the 1974 Act. Moreover most of the health and safety regulations are particular to certain industries or processes; there are no short cuts to making a general review of them. The 1974 Act devolves statutory responsibility to the HSE (with representation from both

sides of industry). There are opportunities for Government to influence the pace and direction of the Commission's work. It is possible that the CBI might play a more positive role. (7.2(iii))

14A. Goods vehicle licensing

Not in the original list but added during the Group's work. Officials have been asked to review in part.

15. Enterprise Zones

The Chancellor of the Exchequer minuted the Prime Minister on 21 September. (10.7)

16. Eliminating undue burdens on small firms

Work by officials has identified the principal burdens complained of by small firms under three headings: (a) the demands of new legislation, specifically the burdens of comprehension and of implementation; (b) the demand for information; and (c) the unpaid tax collector. Their report describes the action that Government has taken, is taking or is contemplating taking to remove or alleviate such burdens. Various new suggestions have been put forward by officials, and detailed proposals are to be put by the Secretary of State for Industry to E(EA). (10.1)

17. Reform of housing policy to ease labour mobility

Changes proposed in the Housing Bills (e.g. shorthold tenure, right to sub-let and take in lodgers, right to buy), the changes already made in structure and rate of DLT, and measures on land supply approved for Local Government Planning and Land Bill are all relevant. DOE officials are now trying to devise a formula which would be acceptable to local authorities and lead to local housing authorities treating someone with a job or offer of a job in their area in the same way as they treat a resident in allocating housing. In addition the Secretary of State for the Environment is considering removing rent control from some categories of new building. (Stamp duty is to be reviewed by Treasury-chaired fiscal group, including Revenue and DOE). (5.2)

18. Review of land taxation

Development Land Tax changes have already been made. Other aspects of land taxation are to be considered as part of the wider review of capital taxation (by Treasury and Revenue, other departments to be consulted as appropriate). (11.1)

19. Review of Land Commission

The Land Commission was abolished in 1970. The repeal of Community Land Act in hand. (11.2)

20. Public sector land holdings

Proposals have been agreed by E(DL), now subject to public consultation with a view to inclusion in Local Government Planning and Land Bill. The Secretary of State for the Environment has consulted colleagues separately about the proposed consultation document on a Register of such holdings. The reduction of DLT, abolition of prior offer conditions for crown lands and buildings, the abolition of the Community Land scheme, and Urban Development Corporations (if these go ahead) will all help. (11.4)

21. Tackling restrictive labour practices

This is a sensitive area. A note by Department of Employment suggests that exposure of specific restrictive labour practices through enquiries may well do more harm than good. It suggests that the best way of proceeding is to use the NEDO Sector Working Parties. If it were decided to go further, the note argues that existing powers under s.79 of the Fair Trading Act should be used rather than that any new body should be set up. (3.2)

22. Closed shop legislation and ACAS as supply constraints

Proposals have already been put to the unions and the Secretary of State for Employment will be reporting to E Committee on 27 September. (3.4)

23. Review of the Employment Protection Act

Some proposals have already been put to the unions (on picketing, closed shop and union secret ballots) and qualifying periods for unfair dismissal and notification of redundancy have been reduced. A wider review (including recognition and ACAS' terms of reference) is in hand. It is proposed to publish working papers later in the autumn with a view to proposals being developed (after consultation) for legislation. (4.1)

24. Competition Policy

A start has been made with the existing Competition Bill. Further measures (on merger and monopoly controls, criteria for determining public interest, changes in restrictive practices legislation and investigation of restrictive practices) are to be put to Ministers by DOT, after inter-departmental discussions, with a view to second Competition Bill at start of 1980/81 Session. (8.1)

25. Monopoly power of nationalised industries

The main areas so far identified for action are the post office, (Ministers are considering relaxation of telecommunications monopoly, and reports from DOI and Post Office on postal monopoly have been requested by end-year), and National Bus Company (changes in road service licensing system to be included in Transport Bill). DEN is considering relaxation of the limit of number of employees in privately operated coal mines and the involvement of private enterprise with the NCB in its larger projects, relaxation of constraints on private electricity generation, and the possibility of reducing British Gas dominance. The Monopolies Commission is looking at BGC's near monopoly of appliance retailing and customer servicing. (13.1)

26. Private sector competition to supply Public Sector services

The local Government Planning and Land Bill is to include provisions to test cost-effectiveness of local authority direct labour organisations. Further work is in hand in DOE on scope for transfer to private sector of some local authority functions, water service activities and PSA design work. 913.2)

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27. Employee profit sharing

A review by Treasury-chaired group, including Revenue, DOI, DOT, Transport, DE, DEn, should report in time to consider legislation in 1980 Finance Bill. (2.6)

28. Greater Employee participation

Proposals are being put to E Committee on 27 September by the Secretary of State for Employment. (3.7)

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