

*at Mr Inquid*

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Secretary of State for Industry

24 January 1980

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
London SW1P 3HE

*Dear Geoffrey,*

**SMALL FIRMS AND NEW ENTERPRISE**

Thank you for your letter of 21 January, and for setting out the difficulties which have led you to the view that introduction of the start-up scheme for tax relief for equity investment in new small companies, which received strong support from our colleagues in E Committee, should be postponed until next year. I am grateful for your offer that your officials should explain the technicalities to David Mitchell, and he would like to take this offer up in due course.

I have to say, however, that I do not think this meets the imperatives of the situation. We face a series of measures, on public expenditure and other aspects of our central economic policy, whose impact - however essential - will be seen as negative, contractionary and unemployment-creating. Politically as well as economically, we have an over-riding need to show we believe in enterprise. We need a dramatic and imaginative gesture, and we need it now, not some time next year. Your "convincing enterprise package" consists primarily of a scheme for relief of losses, better pension provision for the self-employed, ending the apportionment of trading income of close companies, and something on "nothings". These technical measures are useful and worthwhile, but as an "enterprise package" I frankly do not see them calling forth the imaginative response we badly need.

The start-up scheme, on the other hand, is - for all its shortcomings - a striking and imaginative measure. It would halve the equity capital an intending entrepreneur would need to find to set up in business, and thus double his rate of return, or make it possible for him to avoid the under-capitalisation which is the primary cause of early failure. I do not at all accept your view that "it is drawn so narrowly as to be indefensible". Nor did our colleagues on the E Committee who gave it clear and strong support. I am quite sure that, given the right political priority, the scheme could be got into good enough shape to be announced in the Budget

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Statement. The cost - £100m a year - is manageable.

I therefore propose, if the Prime Minister agrees, to bring the issue again before the E Committee at the earliest opportunity. I am sending copies of this letter to the Prime Minister and all members of the E Committee and to Sir Robert Armstrong.

Yours,

Kew