

FROM SIR LEO FLIATZKY

MR WHITMORE

Proposal for a National Investment Trust
to promote wider property ownership

1. I was asked by the Secretary of State for Industry, Sir Keith Joseph, to examine alternative ideas for promoting a wider ownership of property and to report to the Prime Minister, the Chancellor of the Exchequer and Sir Keith Joseph.

2. I enclose a report setting out the results of this examination so far. Its findings and the issues which it poses are summarised below.

3. Of the alternatives considered, the one which emerges as the more promising is the proposal for a North Sea Stock, administered by a National Oil Trust, on which annual dividends would be paid out of the royalties and tax revenue from North Sea oil. This proposal was put forward a couple of years ago in a paper by Mr Sam Brittan and Mr Barry Riley.

4. Unlike their paper, my report envisages that only a part of North Sea revenue would be allocated for this scheme. Nevertheless, if the scheme is to be credible as a general extension of property ownership, and if the massive administrative effort involved is to be worth while, a judgment has to be made on the minimum amounts to be distributed. The report puts a figure of £50 a head each year at 1980 prices on the minimum dividend, for which about £2,000 million a year would be needed. (If one were thinking in terms of a lump sum, something like £500 a head would be needed to be credible as a distribution of property). Special advisers concur in this judgment.

Prime Minister 1.
 This is a preliminary report from Sir L. Fliatzky, seeking ministerial guidance before he takes his work further.

Should we encourage the three Ministers who have copies to comment to you in writing, with a view to a discussion about the time the House rises?

MAJ 12/1/61

NT

has read out

5. A drawback of the original Brittan-Riley proposal is that the North Sea Stock would diminish in value each year, instead of increasing, because its capital value would be the discounted value of the dividends over the future life of the stock, which would itself become shorter each year. As it stands, therefore, this scheme would not make a lasting contribution to wider property ownership.

6. In an attempt to overcome this drawback the report develops a variant of the scheme under the heading of a National Investment Trust. Under this variant, instead of simply drawing their dividends each year, stockholders would have the option of keeping their holdings in a tax-free interest-bearing account with the Trust. The principal features of this scheme are summarised in paragraph 32 of the report. It would give each citizen a savings account, at no cost to himself, which could go on earning interest even after the dividends from North Sea revenue had come to an end.

7. The other alternative examined is a scheme modelled on the British Columbia Resources Investment Corporation (BCRIC) in which residents of British Columbia were given free shares. The report does not find BCRIC itself (which is in some respects a sort of miniature National Enterprise Board) a particularly useful model for promoting property ownership, but it discusses variants more suited to this objective. This type of scheme would involve creating an institution in which shares in the energy industries would be vested and which would distribute the revenue from those industries as dividends.

8. However, even if the nationalised gas and electricity industries, as well as BNOG, were reconstituted as companies for this purpose, the resulting revenue, in conjunction with the dividends from the publicly owned shares in BP, is estimated to amount to perhaps £1 billion a year at 1980 prices - that is, about half the amount judged to be required for the scheme. Although this is a rather speculative estimate, there is no doubt that a National Investment Trust financed out of North Sea revenue would have a more adequate and assured source of funds, and it would not raise similar issues concerning the reorganisation and control of the energy industries.

9. It would, however, be possible to graft some features of a "British Columbia" type of scheme on to the scheme for a National Investment Trust by giving the Trust additional income (eg from BP and BNOG) for investments in the energy industries which would produce revenue later on. These possible supplementary features of the National Investment Trust are discussed in paragraphs 33 and 36 of the report.

10. The Trust would require both a headquarters with a computer system and the use of some decentralised organisation for dealing with applications for stock certificates and verifying the identity and eligibility of applicants. The electoral registration system comes closest to providing a set of records covering every citizen and an administrative machinery which could be adapted for the purposes of this scheme, subject to legislation and the co-operation of the local authorities, including those who might not be sympathetic towards the scheme. But it would be necessary to consider a narrower definition of citizenship and stricter residential qualifications than are accepted for electoral purposes.

11. It is difficult at this stage to assess the staff numbers which would be needed, but the local authorities would need some thousands of extra staff to launch the scheme, and the Trust headquarters would probably need a good many thousand staff on a continuing basis. Illustrative figures are given in the discussion of this aspect of the scheme in paragraphs 58 - 67 of the report.

12. From the date of announcing a decision on the scheme the report estimates that 3 - 4 years or more would be needed to get it into operation, so that 1984 might be the earliest year in which substantial dividend payments could take place. Ministers therefore have to judge now what the situation is likely to be in 1984 and what relative priority this scheme should command at that date as compared with reducing taxation and/or the PSBR or relaxing the austerity in the public services. Even if it is judged that the period of austerity will have come to an end by then, a decision to go ahead with the scheme immediately would entail a build-up of the administrative arrangements at a time when there is still likely to be great stringency in staff expenditure generally.



13. The report therefore concludes by posing a number of questions on the basis of which Ministers could move towards a decision in favour either of a commitment to the scheme or its rejection or possibly some more non-committal course. I was asked to report by September so that a decision could be taken in advance of the Queen's Speech, but I am making an earlier submission because it seems desirable to get Ministerial reactions at this stage before deciding what further work should be done.

14. I doubt whether any amount of further work would lead to a substantially different general appraisal. If it is decided, on the basis of this appraisal, to take the work a stage further, it will be desirable to get comments on the report from, eg, the Home Office and the DHSS on the possible use of the electoral registration system rather than the social security system, from Inland Revenue and the Bank of England on the taxation and monetary aspects, and so on, though wider consultation will make it harder to maintain the present degree of confidentiality in handling the subject. The Prime Minister may in any case wish to consider whether to put other colleagues in the picture about this piece of work.

15. I expect to be in the United States and Canada during the week beginning 21 July, but otherwise I can be available in the period ahead. While I am away Mr O'Shea of the Department of Industry, who has been helping me with the work, can take delivery of any queries. (He is on 212 6106).

16. I am sending copies of the report and this covering minute to the Private Secretaries to the Chancellor of the Exchequer, the Secretary of State for Industry and the Secretary of State for Energy. I am also sending copies of the report without the covering minute to the officials and special advisers shown in the attached list.

A. P.

LEO PLIATZKY
17 July 1980



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