

Prime Minister ①

17 November 1982  
Policy Unit

Agree that

Ferdy pursues with the  
Treasury?

Yes

PRIME MINISTER

WIDER SHARE OWNERSHIP

MLs 17/11

The Treasury (in the person of Nick Ridley) has reacted in a very negative spirit to the suggestion, put by Charles Bellairs to Ian Gow, that we ought to look at a Loi Monory type scheme if we are serious about promoting wider share ownership.

I would like to fire off the attached broadside. It is surely important that we should work up some practical proposals for the next Parliament. And I feel that, unless we put something in the Manifesto, it is one of those subjects that is liable to be shelved for all eternity. After 30 years of campaigning for wider share ownership, there are still only 2 million individual shareholders.

Alan tells me that earlier discussions with the Treasury came to nothing. Would you like me to pursue the possibilities with the Treasury?

fm

Yes please

mt

FERDINAND MOUNT



STIMULATING PERSONAL INVESTMENT IN EQUITIES

1. The Treasury's first objection to a proposal on the lines of the French Loi Monory is that they doubt "how far it would stimulate new investment, as opposed to investment which would happen anyway".
2. But this is not the sole, or even the crucial, aim of a Monory-type scheme. Those aims include:
  - (a) to increase the number of individual shareholders;
  - (b) to increase the proportion of equity shares held by individuals as opposed to corporate institutions;
  - (c) to increase the proportion of individual wealth which is held in wealth-producing assets rather than in bricks and mortar or in loans to the Government; as well as
  - (d) to add to the total volume of savings.

Thus it would be perfectly possible for a Monory-type scheme to satisfy (a), (b) and (c) within the same overall volume of savings.

We want people to own capital, not institutions. We would not doubt be delighted if the new scheme added to total investment - although we could not guarantee it - but that would be icing on the cake.

3. The Treasury is also dubious about introducing another distortion into the fiscal system when the purpose of this Conservative Government is to reduce such distortions. But we must be realistic. Those other distortions - in favour of house purchase and life assurance premiums - are not going to disappear overnight, if ever.

As a result, what the system now says to people is in effect: "We shall help you to buy a house or take out life assurance, but we shall actively discourage you from buying shares on your own account". Thus the system reinforces the Left-wing caricature of the Stock Exchange as an immoral casino and thus reinforces too the anti-enterprise culture.



This bias is a hangover from the days when trustees were legally barred from investing in equities. The United States and now France have understood how vital it is for a healthy economy to eliminate the bias.

4. Of course it would be practically impossible to try to confine relief to investment which would not otherwise have taken place. Other countries don't try to. And nor should we.

And nor should we become obsessive about closing loopholes and deterring "washing" operations. Simplicity and low administrative costs ought to be the aim.

5. There remains only the "deadweight" question - the cost to the Revenue of subsidising existing shareholders. Even this has merits as well as the considerable demerit of revenue foregone.

In effect, to the better-off such a subsidy is equivalent to a reduction in the investment income surcharge - which we all would like to see abolished. But it is much more politically acceptable because it would apply equally to the small saver as well.

6. We might have to start small - with an annual limit in the region of the £500 Monory limit rather than the £1,000 instanced by the Treasury. Even that would build up to a useful little nest-egg within a decade.

But the point is one of principle: that the tax system should begin to treat as rough equals savings for investment in industry and savings for house purchase and for funding the Government's debts. As the Chairman of the Investment Trust Association reasonably argues: "fiscal neutrality is not too much to ask of a Government whose stated policy is the encouragement of free enterprise and the reward of individual initiative".

7. If the Monory scheme is thought to be too wide-ranging, then there are two alternative candidates which might be easier to police:

- (i) Self-administered pension schemes. The individual sets up his own scheme, using a standard trust deed, appointing a professional trustee, allocating an agreed proportion of his



income to be invested as he sees fit. This would be a question of adapting to employees the model currently open to controlling directors of companies.

- (ii) Premium relief for individual investment in unit funds. The individual buys units in funds managed by insurance companies or investment management groups and obtains a certificate to show the tax inspectors. He would be free to switch his investments, but not to withdraw the cash and spend it.

8. No doubt plenty of variations on these ideas could be considered. But unless we do something to correct the bias in the tax system, wider share ownership will remain a pious hope, the pension funds will grow still fatter and more slothful, and the popular distrust of capitalism will persist.

9. I suggest that:

- (i) a dramatic scheme for encouraging individual investment in industry ought to be a prime candidate for the Manifesto; and
- (ii) the Treasury should prepare a list of options.

FERDINAND MOUNT

fm



MR. MOUNT

Ind. Pol.

The Prime Minister agrees that you should pursue with the Treasury the possibilities set out in your recent note about wider share ownership.

SCHOLAR

18 November, 1982.