



## MICHAEL HESELTINE - SMALL BUSINESS POLICY

Michael finds the policy document perfectly acceptable, but it does not go far enough and is woolly

The point he really wanted to make to you was that tax cuts by themselves will not be enough to stimulate immediate activity in the small business sector. What he proposes is a massive investment incentive.

The principle behind his approach is to allow recovery of tax paid by individuals or companies against certified investment. The three ways in which this would operate would be through recovery of:

- (a) Personal Income Tax
- (b) Tax on Savings Income (paid, if relevant, at the top rate).
- (c) Corporation Tax.

He believes this, and only this, would really stimulate investment. It would be attractive to the individual because he could accumulate capital in a business; and as far as a company is concerned it would have the advantage that only a profitable one would be able to recover back tax - ie. backing success.

He understands that you want to discuss policy in this field with a small group, and he particularly asked that he might be included on it. He is sorry that he will not be at Shadow on Wednesday.

*A dem.*

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## THE SMALL BUSINESSES POLICY DOCUMENT

You will have already received Adrian Hopkinson's useful general brief on this document. As it was prepared in a great hurry, there are a number of broader points which were not included. At the risk of loading you with yet more paper I raise them in this note. Some of them may be particularly pertinent since Geoffrey Howe and I will be absent in America when the document is discussed by Shadow.

The preparation of this document has been a curiously difficult task. I do not think that any of those associated with it is entirely satisfied. Part of the difficulty has been the accident that the desk officer responsible has changed twice in the last year for unavoidable reasons. There is the obvious point that the interests of small businesses spread very widely across a large number of responsibilities covered by Shadow Cabinet members. Those of your colleagues affected by the proposals have had, in my view, more than ample opportunity to comment but have in all honesty been rather lackadaisical about doing so. If they dislike what is in it now, they have only themselves to blame. The Small Business Committee for its part is, naturally, somewhat more parochial in outlook than some Policy Committees I would guess. David Mitchell has certainly tried hard to get them to widen their horizons, but it has not been easy. In some areas the groundwork is quite inadequate - a glaring instance is the absence of proper work about the problems of provision of capital to small firms. Another striking instance of omission is the lessons from the American Small Business Agency (SBA) - a possibility which was raised so interestingly by Emmanuel Kaye in the letter which John Methven forwarded to you recently (I hope to learn a tiny bit more about the SBA when in Washington).

A further difficulty has arisen through simple misunderstandings on the part of David Mitchell and his colleagues about the timetable of the Tax Policy groups and the kinds of commitment which it would be possible to make when they had completed their work. The Small Businesses Committee confidently believed that many clear and firm comments on Capital and Income taxes would be agreed by the early spring and accordingly assumed that their document could be published not long afterwards. Such a timetable was

never realistic, but unfortunately the expectation was allowed to grow, not least in public contacts with the pressure groups concerned. I fear that the Small Businesses Bureau at Central Office may have unwittingly added fuel to the flame.

In reality, comments of the firmness and detail which were sought were quite simply never on. Furthermore, to the extent that they were, it has never been obvious that this consultative document should be the vehicle used for unveiling a mass of new commitments on taxation. To cap it all, the loss of John Nott and the subsequent replacement of David Howell by Peter Hardern as Chairman of the Tax Policy Group has slowed things down.

Regrettably these points are not, I fear, fully appreciated by the Small Businesses activists, not even, perhaps, by David Mitchell himself. There is undoubtedly a feeling that Geoffrey Howe and others have been dragging their feet and trying to emasculate the consultative document whereas in reality everybody has been trying in his own way to do his best.

One other difficulty of policy making in this area which I should mention at this point is the enormous number of people who wish to get in on the act, not always in the most helpful way!

The Small Businesses Bureau and, in a modest way, the CPS stick their oars in from time to time. 'Though their motives are blameless, their interventions do constitute yet another disruption which both slows down the preparation of the document and runs the risk of creating a more confused picture of what is Party policy and who is responsible for it than would, in my view, be desirable in an ideal world.

I turn now to a number of more specific points about the document itself. I think that the concept of the Proprietary Company is going to prove to be very tricky. The plain fact is that no real work has been done on the many things that it could involve beyond some preliminary ideas put forward by John Cope and Joe Hayton of the SBE - and even these two have sharply opposing conceptions. A relatively large amount of detailed analysis of the great mass of legislation which affects companies has to be undertaken at some point and no-one has yet found a way of deploying the substantial and expert intellectual resources this task demands. Furthermore, the whole principle of creating classes of enterprises which an anxious observer might fear would employ people in somewhat primitive nineteenth century conditions is naturally fraught with political dangers. The problems of developing our policy on Rates are clearly reflected in the weak draft on pages 6 and 7. We also run the risk of sailing too close to several winds on the matter of planning controls. For example, the backyard garage idea (now excluded from the document) is immensely attractive, but likely to pose enormous problems if put into practice.

There are also a number of issues where we in all honesty promise reviews or exemptions of new proposals with the intention

of proving that the noisier spokesmen of the Small Businesses Committee are misinformed or bigoted. Instances of this are:

- Assistance to exporters, where it is frankly absurd to expect that ECGD can or should take special action over performance bonds and pre-shipment finance (P15);
- the 8% National Insurance contributions for the self-employed, where the actuarial case for significant reductions is much weaker than it used to be (at the best).

It must also be frankly recognised that with the exception of the points made in the second half of page 19, we are appallingly short of any concrete and well-backed-up suggestions for amendments to the Employment Policy Act - the experience of the CBI in their conversations with larger firms points in just the same direction. At this early stage, employers have an understandable feeling of malaise about this new act, feel muchdeterred by its existence but cannot yet point the finger of suspicion very precisely. On top of that, we have to consider the sheer political provocation in making a flat commitment to repeal even portions of a piece of legislation so dear to the TUC.

I have considerable sympathy with the suggestion at the bottom of page 20 that we should help to catalyse the formation of an umbrella organisation for small business interests. But this is a quite tricky issue, on which you might be well advised to ask David Mitchell to enlarge during a shadow discussion. The Association of Chambers of Commerce believe themselves to be a much neglected element in the nation's representative machinery and to be the only serious voice of the great bulk of responsible smaller businesses. You will remember that Lord Devlin put forward some very important proposals for simplifying and streamlining representation of small businesses a while ago now and that he did not suggest a solution such as the one we appear now to be favouring.

My own bet is that the most effective measures which we can hope to introduce in the financial sphere will be some kind of credit insurance on American lines. We have heard that the Bank of England are studying a scheme on those lines. It would be not in the least surprising that the Government should dangle the possibility of some such initiative before the country and the Liberal Party in the next Queen's speech. Hence, the importance of the very gentle reference to American experience on pages 11 and 12.

The question of design, publication and publicity if we publish this document needs urgent consideration from Mr. Patten and Mr. Maude. It is not only a matter of the mechanics of printing, but also of ensuring that the right people are available in London when the document is launched at a press conference. They will also need to consider their strategy for relating the launch of this document to the as yet somewhat shadowy Green Paper on Capital Taxation to which we are privately but not, I think, publically committed.

*A.N.R.*

c.c. C. Patten  
A. Hopkinson

*+ And larger business orgs. too  
Such as CBI*