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MRS. THATCHER

SMALL BUSINESS CONSULTATIVE DOCUMENT SHADOW ON AUGUST 24TH ALTERNATIVE DRAFT

I must first apologise for the rather tedious procedure of circulating two drafts of this paper. The reason is that, as Adam Ridley has explained in his note to you, the version already circulated is basically that drafted by David Mitchell, incorporating the amendments (mostly minor) that had reached us by Friday afternoon. It was not possible to incorporate into it the amendments proposed by David Howell, which were designed to present the document as recommendations by the policy group and the Small Business Bureau to the Party rather than a policy statement by the Party.

This alternative draft follows the lines David Howell suggested, and includes his amendments. It also takes account of a number of other changes that have been proposed, the main one being a change of order. We have had a number of suggestions that, since the proposals on the self-employed and their social security contributions and benefits are rather tentative (perhaps more so now that Mr. Jenkin's amendments have been made) they should be placed towards the end rather than at the beginning of the document. David Mitchell did not make this change, after it had been suggested at the Shadow Cabinet meeting on 27th July, because he felt the existing sequence, starting with the self-employed and going on to small businesses, was logical and should be retained.

Lord Hailsham has urged that we should give greater prominence to the VAT proposals. So this draft now leads off with the section on finance and taxation.

Additions that have been made include references to the advantages of working in a small firm (page 2); to the Conservative Government's fulfilment of all the major Bolton recommendations; and to the damage done to small firms by Labour tax changes. A number of drafting amendments have been made to bring the paper into line with the main economic policy document.

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Apart from specific amendments, we have received the following comments:

1. Mr. Whitelaw said that he was not thrilled by the document. He felt that it probably made the best of a bad job.

2. Mr. Patrick Jenkin felt that the commitment to allow higher tax free contributions by the self-employed to private pension funds was too sweeping and specific. We should say simply that we would introduce greater flexibility into the arrangements. (This amendment has been made in the draft).

3. Mr. Nott preferred the previous draft, discussed on 27th July, if it is necessary to publish at all. He felt that the present document might make our position with small businesses more difficult, not less. We should not make commitments here on changes to National Insurance contributions. We appeared to be proposing to increase Whitehall interference in local planning matters with more obligations on local authorities. Commitments to introduce legislation on rates - payment by instalments and mixed hereditaments - were undesirable. The document was not an appropriate vehicle for putting forward proposals for setting aside funds for investment free of Corporation Tax: the implications were considerable, and it might be taken to be a commitment. He doubted whether a CoSIRA-type consultancy service was necessary.

4. Mr. Rossi has only just seen the document on his return from China. His immediate comment on the reference to planning controls was that it was now recognised in planning circles that the concept of and the ban on the non-conforming user had been carried much too far in the past, and that as a result city centres had been denuded of small firms. We needed to move away from the rigidity of that approach.

5. Mr. Sparrow felt that the paragraph on self-employed and National Insurance contributions raised expectations only to disappoint them. The reference to the obligation on local authorities to make planning provision for small businesses was unclear: the reader would have no idea what the effect would be. He did not believe that there was a case for providing depreciation at replacement cost for tax purposes. We should note that ability to put money aside free of Corporation Tax was a subsidy - condemned elsewhere in the document. Guaranteeing loans is also a form of subsidy. We were in danger of appearing inconsistent when in one paragraph we proposed guarantees and tax relief for investment and in another we spoke of safeguarding small firms from subsidised competition.

He doubted whether small firms needed help in presenting their case for long term loans, suggested in the reference to CoSIRA consultancy service in rural areas. He agreed with the aim of switching from direct to indirect tax, but thought it was a little out of context here.

The references to preventing nationalised industries from competing unfairly, while admirable in principle, raised serious questions as to how we would do it, unless a very hard policy of hiving off were imposed.

The paragraph on reviewing, and if necessary changing the present employment protection regulations was extremely important, and of far broader significance than this present document.

On the proposal to consult with a new body representing small firms and the self-employed, he had hoped that we would look for fewer lobbies to consult rather than encourage the establishment of more.

"The Right Approach to the Economy"

The only comment we have received was from Sir Keith Joseph. He warmly approved of the draft, with the exception of pages 12-16 on a Policy for Earnings. He is preparing a revised version of this section.

Anne

ANNE BULLOCH

23rd August, 1977

c.c. Mr. Maude
Mr. Patten